PPG Second Quarter 2023 Financial Results

Earnings Brief – July 20, 2023

These prepared remarks should be read in conjunction with PPG's earnings press release and related presentation that were posted on PPG's website (investor.ppg.com) on July 20, 2023. In addition, these detailed remarks supplement the commentary that the company will make on its second quarter 2023 earnings conference call on July 21, 2023.

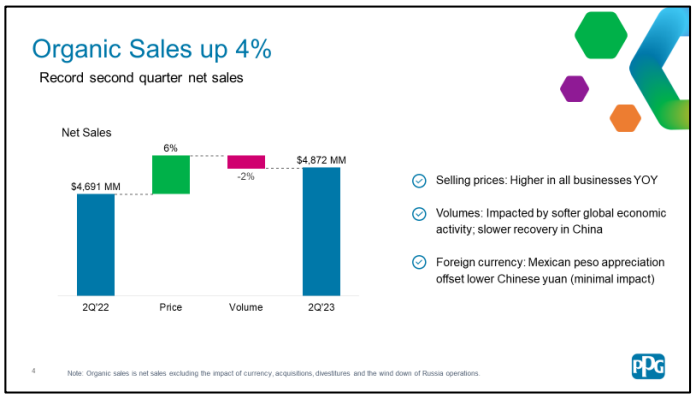


Second Quarter Financial Highlights

In the second quarter 2023, PPG achieved quarterly record net sales of $4.9 billion, an increase of 4% over the prior year. Selling price realization in the quarter more than offset lower sales volumes, which were unfavorably impacted by lower absolute levels of demand in Europe stemming from geopolitical issues, lower demand for do-it-yourself (DIY) architectural coatings in most regions and softening global industrial production. Raw materials and logistics availability continued to improve during the quarter and are comparable to pre-pandemic conditions.

Second quarter 2023 reported earnings per diluted share from continuing operations (EPS) was $2.06, compared to $1.86 in the prior-year quarter. Adjusted EPS was $2.25, compared to $1.81 in the second quarter 2022. Aggregate segment margins were 330 basis points higher than the prior-year second quarter, driven by strong selling price realization and moderating raw material costs. In the second quarter 2023, the realized cost of raw materials was lower by a mid-single-digit percentage, compared to 2022, but the raw material costs remained significantly above the second quarter 2020. The financial benefits from lower input costs have been prolonged due to more than 80% of the company's inventory being accounted for on a first-in, first-out method and higher than historical levels of inventory. Realized raw material costs are expected to decrease by a mid to high single-digit in the third quarter compared to the same period in 2022. While certain costs have moderated, the company continues to incur higher wage inflation, which is anticipated to remain elevated for the next several quarters.

During the second quarter, acquisition-related synergies and restructuring actions from previously announced programs delivered about $15 million of incremental structural cost savings. Additionally, the company's reported and adjusted effective tax rates were both about 23%.



PPG Second Quarter Net Sales

Second quarter net sales of $4.9 billion included organic sales[(a)] growth of more than 4% compared to the prior year. Overall company sales volumes decreased by about 2% versus the prior-year second quarter, reflecting softer global industrial demand.

Aggregate selling price increases of nearly 6% year over year were driven by higher prices in all businesses, including incremental 2023 selling price increases that were implemented primarily in the first quarter in the Performance Coatings segment. On an aggregate basis, foreign currency translation was similar to the prior-year second quarter, as the appreciation of the Mexican peso was offset by depreciation of the Chinese yuan. For the third quarter 2023, on an aggregate basis, foreign currency translation is expected to be favorable to the prior-year third quarter by about $80 million.

U.S. and Canada

Organic sales were higher by a low single-digit percentage in the U.S. and Canada compared to the prior year with growth from the aerospace, automotive original equipment manufacturer (OEM), and automotive refinish coatings businesses. These gains were partially offset by softer demand in the industrial and specialty coatings businesses.

Europe, Middle East and Africa (EMEA)

Organic sales in the EMEA region were higher by a low single-digit percentage on a year-over-year basis, driven mostly by the aerospace and automotive OEM coatings businesses. These gains were partially offset by lower organic sales in the architectural and industrial coatings businesses. Overall industrial activity in the region was soft compared to the prior-year second quarter and overall demand conditions continue to be impacted by weak consumer confidence. Sales were also negatively impacted during the quarter due to various disruptions in France, primarily related to protest activities. Despite these challenges, the region delivered record earnings for the second consecutive quarter driven by higher selling prices and strong cost management. The economic slowdown in Europe is expected to stabilize with demand conditions in the third quarter 2023 forecasted to be similar to the third quarter 2022. The company will continue to execute cost actions in response to the lower economic activity in the region.

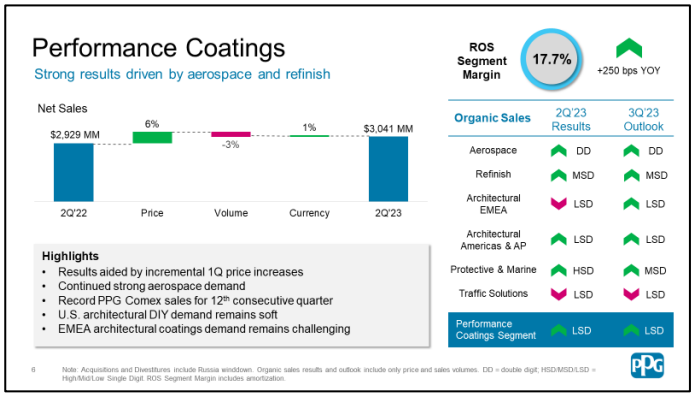
Asia-Pacific

Organic sales in the Asia-Pacific region increased by a high single-digit percentage year over year, led by strong sales in the automotive OEM coatings business. Year-over-year net sales improvement for the region reflects the soft demand activity which occurred in the second quarter 2022 due to broad supply disruptions related to the pandemic. In China, economic conditions improved modestly over the first quarter but were below the company's expectations. Organic sales activity in the rest of Asia was mixed by country, including continued strong year-over-year organic sales growth in India. Third quarter organic sales are anticipated to be higher by a low single-digit percentage year over year, with modest sequential improvement in economic activity in China. It is expected that overall demand in the region will continue to moderately improve as the year progresses.

Latin America

Organic sales in Latin America were higher than the second quarter 2022 by a mid-single-digit percentage. Sales volumes improved each month as the quarter progressed. PPG Comex achieved another record quarter of sales and earnings. In addition, the automotive OEM and refinish coatings businesses delivered strong year-over-year organic sales growth. Economic activity in Mexico is expected to remain better than most other countries, and overall demand conditions in the region during the third quarter are anticipated to be similar to those experienced in the second quarter.

Outlook
Looking ahead, demand is expected to vary by region and business in the third quarter and global industrial production is forecast to remain subdued. The company estimates that overall organic sales in the third quarter will be up a low single-digit percentage compared to the third quarter 2022.



Performance Coatings

Second quarter 2023 net sales for the Performance Coatings segment were $3.0 billion, up 4% versus the prior year. Selling prices increased by 6% year over year and were aided by incremental price increases which were implemented in the first quarter 2023. Segment sales volumes were down 3% compared to the second quarter 2022. During the quarter, foreign currency translation favorably impacted sales by nearly 1% driven by the appreciation of the Mexican peso. The level of digital sales in the global architectural coatings business continued to increase and represented more than 9% of global architectural net sales, representing a strong improvement over the second quarter 2022.

Segment income was $537 million, an increase of 20% versus the prior year primarily due to higher selling prices and moderating raw material costs, which more than offset the impact of lower sales volumes. Additionally, restructuring cost savings were achieved from previously announced programs. Segment operating margin improved by 250 basis points year over year.

Aerospace coatings
Second quarter sales of aerospace coatings were an all-time record driven by sales volumes that increased by a low teen-percentage versus the second quarter 2022. This strong growth is despite global air travel remaining about 10% below pre-pandemic levels and international travel remaining down about 15%. Demand remained strong in all major product categories throughout the quarter. Global aftermarket restocking of PPG products continued as the airline industry expanded the number of international flights. Demand for PPG's technologically-advantaged aerospace products is strong and is expected to remain high in subsequent quarters due to continued demand recovery. Customer order backlogs remained elevated and consistent with the previous quarter, totaling more than $200 million, which is expected to benefit sales volumes in future quarters.

Automotive refinish coatings
Organic sales for automotive refinish coatings were higher year over year by a mid-single-digit percentage, led by selling price increases in all regions. In Europe, sales volumes were negatively impacted by cautious ordering trends by distributors, who in general, are carrying less overall inventory. In the U.S., sales volumes increased and were similar to pre-pandemic levels despite insurance claim activity being modestly lower than the prior-year second quarter and industry demand remaining about 10% below pre-pandemic levels. Backlogs in the U.S. have normalized closer to historical levels as supply chain conditions improved. In China, demand for PPG refinish products improved on a sequential basis. In the second quarter the company continued to win new body shops, driven by the company's ability to provide up to a 15% productivity improvement compared to competitors over the full repair process cycle time. This also includes good progress with new Moonwalk installations, supporting further customer wins. The company expects third quarter global net sales to be lower on a sequential basis driven by normal seasonal patterns in Europe.

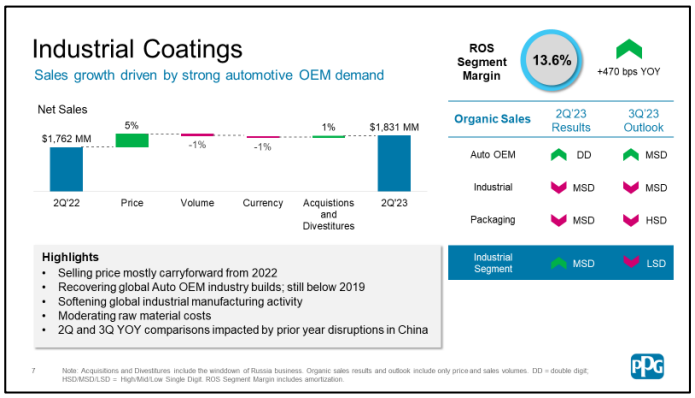
Architectural coatings – EMEA
Organic sales for architectural coatings – EMEA decreased a low single-digit percentage year over year, with higher selling prices not fully offsetting lower sales volumes. The year-over-year sales volume decline continues to reflect the decrease in demand for architectural coatings products in many countries, primarily due to lower consumer confidence and demand weakness stemming from the war in Ukraine. In France, national strikes and protests disrupted customer demand. In the third quarter 2023, organic sales are expected to increase by a low single-digit percentage compared to the prior year, with sales volumes getting closer to prior-year levels. Also, normal seasonal historical trends are expected to result in sequential lower sales in the third quarter.

Architectural coatings - Americas and Asia Pacific
Organic sales for architectural coatings - Americas and Asia Pacific increased by a low single-digit percentage compared to the prior-year second quarter. Positive organic growth at PPG Comex was partially offset by lower demand for DIY products in the U.S. and Canada. In the U.S, professional contractor (PRO) channel demand remained solid, with PRO net sales up a mid-single-digit percentage supported by solid same store sales and PRO initiatives at The Home Depot® compared to the prior-year second quarter, offset by continued soft demand for DIY products. In Mexico, PPG Comex achieved record sales in a slower seasonal quarter, despite a smaller benefit in the quarter due to the timing of the annual Easter paint campaign which mostly occurred in the first quarter this year. The record net sales were supported by the addition of 90 new concessionaire locations since the second quarter 2022. In the third quarter 2023, organic sales are expected to be up a low single-digit percentage, as higher pricing will be offset by slowing U.S. residential repainting, and lower year-over-year DIY demand.

Protective and marine coatings
Organic sales for protective and marine coatings increased by a high single-digit percentage compared with the prior-year second quarter. Higher sales were driven by both strong selling price realization and higher sales volumes in most regions. In the EMEA region, sales volumes were higher due to solid aftermarket marine coatings demand. In the U.S., demand improved for PPG protective coatings products. Sales volumes in China were higher mainly due to significant pandemic disruptions that resulted in lower volumes during the prior-year quarter. Overall sales pipelines for protective and marine coatings remain solid, with positive impacts expected in the second half of 2023, including some modest benefits from U.S. infrastructure spending. Third quarter organic sales are expected to be up a mid-single-digit percentage compared to the third quarter 2022.

Traffic solutions
Second quarter organic sales for the traffic solutions business decreased by a low single-digit percentage compared to the same quarter last year. In the U.S., the business prioritized higher margin business, resulting in lower sales volumes than were originally anticipated. Outside the U.S., demand was lower than expected. In the third quarter 2023, organic sales are expected to decrease by a low single-digit percentage compared to the same quarter last year. The business continues to generate strong operating cash flow and is well positioned to benefit from increasing investments in U.S. infrastructure.

Outlook
Looking ahead, demand conditions in Europe are stabilizing at lower levels than before the start of the war in Ukraine. Raw material and transportation availability are normalizing closer to pre-pandemic levels. As a result, aggregate organic sales are anticipated to increase by a low single-digit percentage compared to the third quarter 2022.



Industrial Coatings

Second quarter net sales for the Industrial Coatings segment were $1.8 billion. Net sales increased 4% compared to the same quarter last year as higher selling prices across all businesses were partially offset by lower sales volumes. Most of the selling price gains were carryforward of pricing implemented in 2022 that will reach their anniversary in the second half of the year.

Segment income of $250 million was up 60% year over year mainly due to higher selling prices and moderating raw material inflation, partially offset by lower sales volumes. Segment margins improved by 470 basis points compared to the second quarter 2022 as the company continues to target returning to historical margin profiles in each business.

Automotive OEM coatings

Global automotive OEM coatings year-over-year organic sales were up a mid-teen percentage due to strong year-over-year sales volume growth. In Western Europe, for the second consecutive quarter, retail sales and industry build rates were strong compared to a weak prior-year base. Industry consultants are projecting 2023 full-year European sales to increase by nearly 10%, and PPG remains well-positioned in the region. In China, automotive retail sales were sharply higher compared to the second quarter 2022, partially due to lower demand as a result of pandemic-related disruptions in the prior-year quarter. In the U.S., retail sales were higher than originally forecasted due to solid consumer demand and replenishment of certain fleet vehicles during the quarter. Global builds forecast for 2023 is still well below pre-pandemic levels and the disruptions over the past three years have created a supply deficit for new automobiles that is estimated to be about 40 million units. This should enable growth for the next few years. Looking ahead, solid demand is anticipated to continue in the third quarter, albeit with comparisons to a strong prior-year third quarter of sales activity in China.

Industrial coatings

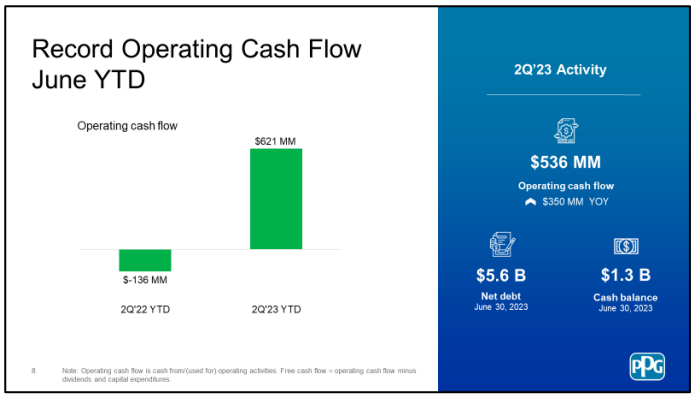
Second quarter industrial coatings organic sales were down a mid-single-digit percentage compared to the prior year. Strong selling price increases partially offset lower sales volumes. Sales volumes were, lower in all regions, driven by decelerating global industrial production and slower recovery in China than originally expected. Demand in most categories was below prior-year levels, with the most pronounced weaknesses in coil, wood, and general finishes. For powder products, the business continues to produce strong year-over-year sales growth. In the third quarter 2023, organic sales are expected to be lower by a mid-single-digit percentage compared to the third quarter 2022 as slower industrial activity is expected to continue in most regions.

Packaging coatings

Organic sales in packaging coatings decreased by a mid-single-digit percentage in the second quarter versus the prior year due to lower demand in all regions. Selling price increases were more than offset by lower sales volumes in all regions driven by broad demand weakness. On a year-over-year basis, global demand in the metal packaged food and beverage subsegment was lower, while demand for personal-care products was higher. Third quarter 2023 organic sales are expected to decline a high single-digit percentage compared to the prior-year third quarter, including uneven demand by geographical region and subsegment.

Outlook

Looking ahead, global industrial production is expected to remain at lower levels in the third quarter, with modest sequential improvement in China. Aggregate organic sales are anticipated to be down a low single-digit percentage compared to the third quarter 2022. While automotive industry build rates and retail activity is expected to continue to be solid, other industrial production end-use markets are expected to be soft, including industrial coatings, packaging coatings, and the specialty coatings and materials businesses. Positive selling price increases are expected to continue; although, some of the pricing gains realized in 2022 will begin to reach their anniversary in the third quarter.

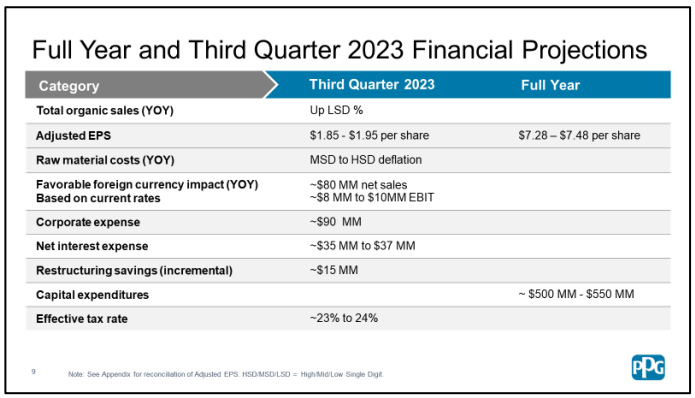


Balance Sheet, Cash and Other

Cash and short-term investments totaled nearly $1.3 billion and net debt totaled $5.6 billion at the end of the second quarter, which is about $500 million lower than the prior-year second quarter. Operating cash flow was more than $500 million in the second quarter 2023, improving about $360 million on a year-over-year basis, including benefits from higher earnings and favorable changes in working capital.

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

- Capital expenditures were approximately $120 million in the quarter and about $240 million year to date. The company expects full-year 2023 capital spending will be about $500 million to $550 million in support of future organic growth opportunities.
- Dividends paid were $146 million in the quarter. PPG has paid uninterrupted annual dividends since 1899. The company recently announced a 5% increase, declaring a quarterly dividend of 65 cents per share, which marks the company's 500th consecutive dividend payment.
- During the quarter, the company repaid $200 million of the 2021 term-loan debt leaving $800 million remaining balance on this term loan. Also, the company entered into a new euro denominated €500 million term loan with a three-year maturity.


Full Year and Third Quarter 2023 Financial Projections

Category	Third Quarter 2023	Full Year
Total organic sales (YOY)	Up LSD %	
Adjusted EPS	$1.85 - $1.95 per share	$7.28 – $7.48 per share
Raw material costs (YOY)	MSD to HSD deflation	
Favorable foreign currency impact (YOY) Based on current rates	~$80 MM net sales ~$8 MM to $10MM EBIT	
Corporate expense	~$90 MM	
Net interest expense	~$35 MM to $37 MM	
Restructuring savings (incremental)	~$15 MM	
Capital expenditures		~ $500 MM - $550 MM
Effective tax rate	~23% to 24%	

Note: See Appendix for reconciliation of Adjusted EPS. HSD/MSD/LSD = High/Mid/Low Single Digit

Third Quarter and Full-Year 2023 Financial Assumptions

The company detailed financial assumptions for the third quarter and full-year 2023 in its accompanying presentation materials based on information that is currently known. A few of the assumptions are highlighted below.

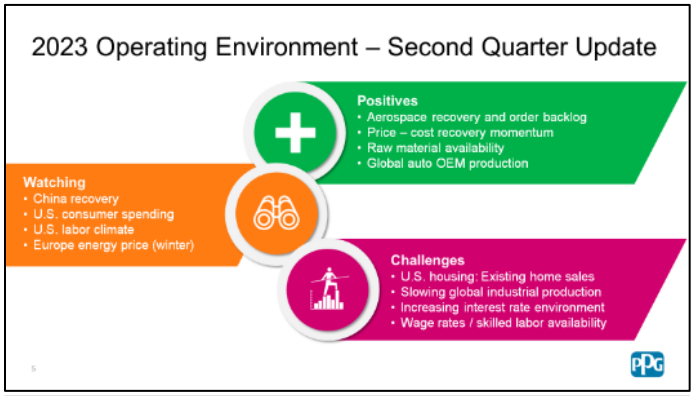
- Third quarter aggregate organic sales are expected to increase by a low single-digit percentage compared to the third quarter 2022
- Third quarter corporate expenses of about $90 million; higher than prior year primarily due to increased performance-based incentive compensation and pension costs (non-cash)
- Third quarter net interest expense of $35 million to $37 million
- Third quarter effective tax rate of 23% to 24%
- Third quarter adjusted earnings per diluted share of $1.85 to $1.95
- Full-year adjusted earnings per diluted share of $7.28 to $7.48

The effective tax rate for third quarter 2023 is expected to be between 23% and 24%, higher than third quarter 2022 primarily due to nonrecurring discrete tax items in the prior year. This higher effective tax rate is expected to have an unfavorable year-over-year impact on adjusted third quarter 2023 EPS of approximately $0.07 to $0.09.

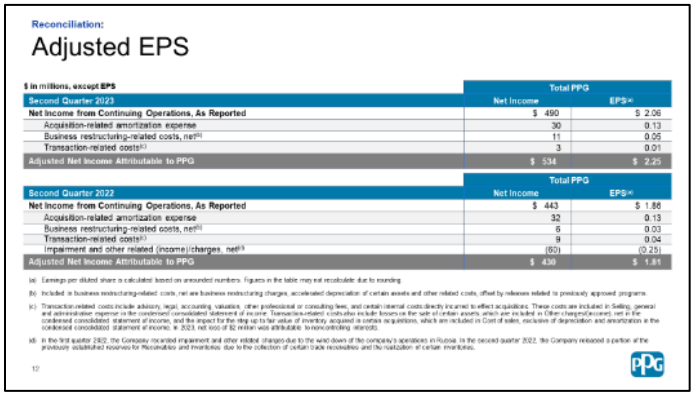
The quarterly and full-year adjusted EPS figures exclude amortization expense, previously approved and communicated business restructuring, a non-cash pension settlement charge, transaction-related costs and the benefit from an insurance recovery in the first quarter 2023. Additional information related to 2023 financial projections may be found in the detailed commentary and associated presentation slides related to the second quarter financial information which are posted on the company's investor relations website.

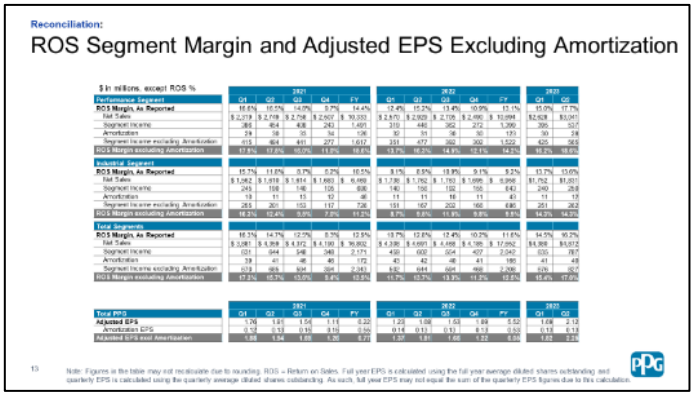
The company excludes intangible asset amortization related to completed acquisitions from its reporting of adjusted earnings per share. The appendix of the earnings presentation includes a table with historical reconciliations of adjusted earnings per share excluding amortization expense. The company is not able to provide a reconciliation of third-quarter or full-year 2023 expected adjusted earnings per diluted share to the most directly comparable GAAP financial measure without unreasonable effort because certain items that impact such measure are uncertain or cannot be reasonably predicted at this time.

(a) Organic sales are defined as: net sales, excluding the impact of currency, acquisitions, divestitures and the Russia wind down.









Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the company. This earnings brief contains forward-looking statements that reflect the company's current views with respect to future events and financial performance. You can identify forward-looking statements by the fact that they do not relate strictly to current or historic facts. Forward-looking statements are identified by the use of the words "aim," "target," "believe," "expect," "anticipate," "intend," "estimate," "project," "outlook," "forecast" and other expressions

that indicate future events and trends. Any forward-looking statement speaks only as of the date on which such statement is made, and the company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. Also, note the following cautionary statements:

Many factors could cause actual results to differ materially from the company's forward-looking statements. Such factors include statements related to the expected effects on our business of COVID-19, global economic conditions, geopolitical issues in Europe, increasing price and product competition by our competitors, fluctuations in cost and availability of raw materials, energy, labor and logistics, the ability to achieve selling price increases, the ability to recover margins, customer inventory and production levels, the ability to maintain favorable supplier relationships and arrangements, the timing of realization of anticipated cost savings from restructuring and other initiatives, the ability to identify additional cost savings opportunities, the timing and expected benefits of our acquisitions, difficulties in integrating acquired businesses and achieving expected synergies therefrom, economic and political conditions in international markets, the ability to penetrate existing, developing and emerging foreign and domestic markets, foreign exchange rates and fluctuations in such rates, fluctuations in tax rates, the impact of future legislation, the impact of environmental regulations, unexpected business disruptions, the unpredictability of existing and possible future litigation, including asbestos litigation, and governmental investigations. However, it is not possible to predict or identify all such factors. Consequently, while the list of factors presented here and in our 2022 Annual Report on Form 10-K, no such list should be considered to be a complete statement of all potential risks and uncertainties. Unlisted factors may present significant additional obstacles to the realization of forward-looking statements. Consequences of material differences in results compared with those anticipated in the forward-looking statements could include, among other things, lower sales or earnings, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on PPG's consolidated financial condition, results of operations or liquidity.

All of this information speaks only as of July 20, 2023 and any distribution of this earnings brief after that date is not intended and will not be construed as updating or confirming such information. PPG undertakes no obligation to update any forward-looking statement, except as otherwise required by applicable law.