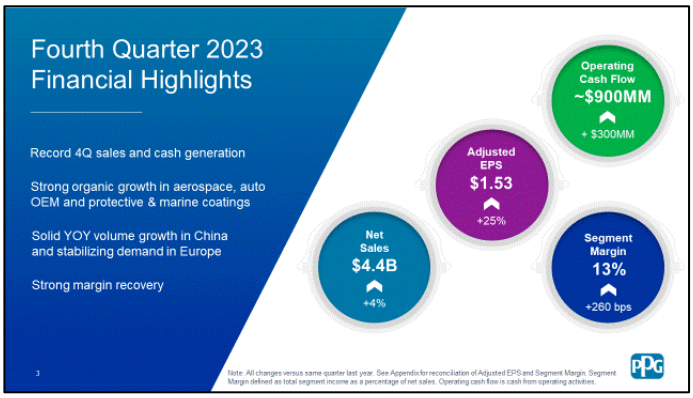
PPG Fourth Quarter 2023 Financial Results

Earnings Brief – January 18, 2024

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 January 18, 2024. In addition, these detailed remarks supplement the commentary that the company makes on its fourth quarter and full-year 2023 earnings conference call on January 19, 2024.



Fourth Quarter 2023 Financial Highlights

PPG achieved record fourth quarter net sales of $4.4 billion, an increase of 4% over the prior year. Results were driven by PPG's broad and diverse business portfolio as the company benefitted from volume growth in China and demand stabilization in Europe, despite continued soft global industrial production. The strong financial performance was also bolstered by record fourth quarter net sales in the aerospace, automotive refinish and automotive original equipment manufacturer (OEM) coatings businesses and strong organic growth in the protective and marine coatings business.

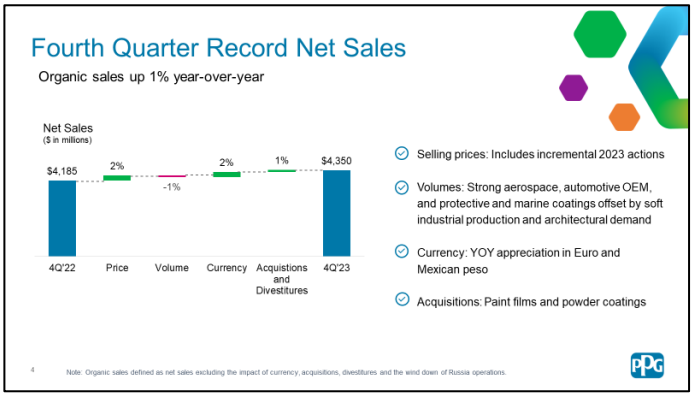
Reported earnings per diluted share from continuing operations (EPS) was $0.38, compared to $1.01 in the prior-year fourth quarter. Adjusted EPS was $1.53, up 25% compared to $1.22 in the fourth quarter 2022. PPG's combined operating segments delivered 30% earnings growth resulting in aggregate segment margins that were 260 basis points higher than the prior-year fourth quarter. This marks the fifth consecutive quarter of year-over-year margin improvement. Key drivers of the improvement were continued selling price realization, moderating raw material costs and improved operating performance. These were partially offset by higher selling, general and administrative (SG&A) costs due to certain growth-related investments, higher shareholder return-based and performance-driven compensation, non-cash pension costs and wage inflation.

In the fourth quarter, the realized cost of raw materials was lower by a high single-digit percentage, versus 2022, but remains above historical levels despite the availability of raw materials and logistics being comparable to pre-pandemic conditions. A portion of the benefits realized from lower input costs have a delayed impact on the income statement as more than 80% of the company's inventory is accounted for using the first-in, first-out method. In addition, the company currently has lower raw material purchases due to higher than historical inventory levels. This will result in further input cost deflation realization in 2024, with deflation of a mid-single-digit percentage expected in the first quarter of 2024. The company expects to incur annual wage inflation in 2024 and will employ productivity gains as an offset.

During the fourth quarter, restructuring actions from previously announced programs delivered about $13 million of incremental structural cost savings, totaling more than $60 million for the full-year 2023, which is in-line with the target communicated at the beginning of the year. The company's fourth quarter reported and adjusted effective tax rates were 46% and 22%, respectively. The reported rate was impacted by a fourth quarter non-cash goodwill impairment charge for which there was not a tax benefit.

The non-cash goodwill impairment charge was recognized for the Traffic Solutions business as a result of its annual goodwill impairment test. The fair value of the Traffic Solutions business decreased, primarily due to an increase in the weighted average cost of capital (discount rate) assumption reflecting the current interest rate environment. In addition, the fair value was impacted by a decline in the

reporting unit's long-term cash generation forecast due to the highly inflationary environment in Argentina and the fourth quarter 2023 divestitures of its European and Australian businesses. Absent the year-over-year change in discount rates, there would not have been an impairment of goodwill.



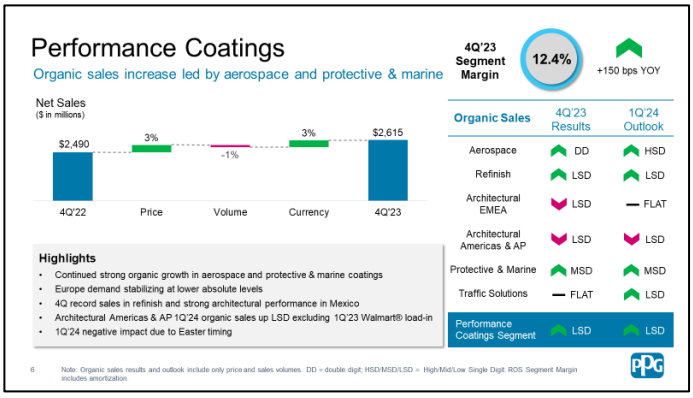
Fourth Quarter Net Sales

Fourth quarter net sales of $4.4 billion included 1% organic sales[(a)] growth over the prior-year fourth quarter. Aggregate selling price increases of 2% year over year were driven by higher prices in most businesses. Overall company sales volumes declined 1% versus the prior-year fourth quarter, as strength in the automotive OEM coatings, aerospace coatings and protective and marine coatings businesses were more than offset by the impact of softer global industrial and architectural demand.

On an aggregate basis, net sales increased 2% due to favorable foreign currency translation compared to the prior-year fourth quarter, mostly due to the appreciation of the Euro and Mexican peso.

Outlook

In the first quarter, demand is expected to vary by region and business, and global industrial production is anticipated to remain at low levels. We expect that our business portfolio will deliver volume growth in 2024 with progressive improvement through the year. The company estimates that overall organic sales in the first quarter will be in the range of plus or minus a low single-digit percentage compared to the first quarter 2023. This includes the impact of an earlier Easter holiday that will shift sales into the second quarter and a large architectural coatings customer share gain which resulted in a first quarter 2023 inventory load-in of $40 million that will not recur.



Performance Coatings Segment

Fourth quarter 2023 net sales for the Performance Coatings segment were $2.6 billion, up 5% versus the prior year. Selling prices increased by 3% year over year, sales volume declined 1% and foreign currency translation favorably impacted sales by 3%. Digital sales for the global architectural business continued to grow year over year, representing approximately 9% of the business' net sales for the full-year 2023.

Segment income was $325 million, an increase of 19% versus the prior year, primarily due to higher selling prices and moderating raw material costs. Segment operating margin improved by 150 basis points year over year.

Aerospace coatings

Aerospace coatings net sales were a record for a fourth quarter with organic sales increasing by a mid-teen percentage compared to the fourth quarter 2022, led by higher price and sales volume. This strong growth is despite global domestic air travel remaining about 5% below pre-pandemic levels and international air travel remaining down about 8%. Demand for PPG's technologically advantaged products remained strong as customer order backlogs increased further, ending the quarter at more than $250 million. Recovery of demand is expected to continue in 2024, and the company expects organic sales growth to increase by a high single-digit percentage in the first quarter compared to the prior year.

Automotive refinish coatings
Fourth quarter organic sales for automotive refinish coatings increased a low single-digit percentage year over year. Price gains in all regions and sales volume growth in Europe and Asia Pacific were partially offset by lower sales volumes in the U.S. primarily due to a strong comparable period in the fourth quarter 2022 when organic sales were up a double-digit percentage. In the U.S., body shop activity moderated somewhat from high activity levels reflecting lower collision claims and normalization of repair backlogs. In Europe, sales volumes were solidly above the prior year for the second consecutive quarter. In China, demand for refinish products is slowly recovering and expected to continue to improve in the coming quarters. In the fourth quarter, the company continued to win new body shops and grow its LINQ™ services subscriptions. Additionally, nearly 560 Moonwalk™ installations during the year are further supporting customer productivity and related share gain. The company expects first quarter global net sales to increase by a low single-digit percentage compared to the first quarter 2023.

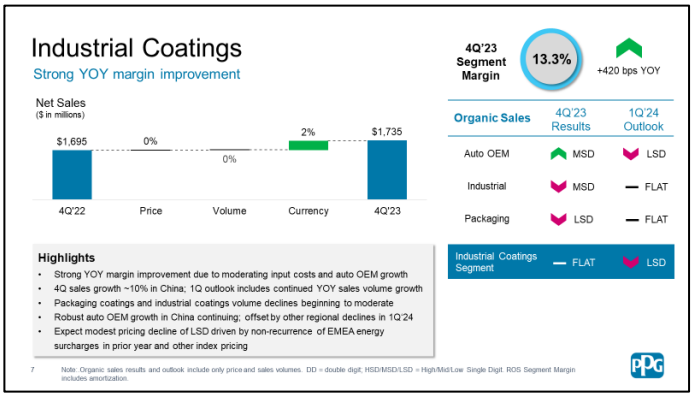
Architectural coatings – Europe, Middle East, and Africa (EMEA)
Fourth quarter organic sales for architectural coatings – EMEA declined a low single-digit percentage year over year, with higher selling prices more than offset by lower sales volumes. Regional demand remained uneven by country, and positive sales trends occurred in some countries, including Italy, Romania and Poland. In the first quarter 2024, organic sales are expected to be flat compared to the first quarter 2023, despite the headwind from the earlier timing of the Easter holiday, that will defer some sales activity to the second quarter.

Architectural coatings – Americas and Asia Pacific
Organic sales for architectural coatings – Americas and Asia Pacific declined a low single-digit percentage compared to the prior-year fourth quarter driven by lower demand for do-it-yourself (DIY) products. Growth initiatives through our partnership with The Home Depot® drove higher professional contractor net sales, which were more than offset by moderating declines in DIY. The business also continued to benefit from higher year-over-year sales to Walmart®, reflecting that customer win at the beginning of 2023. In Mexico, sales remained robust as the business continued to benefit from an expanded concessionaire network with a net increase of 25 locations in the fourth quarter. In the first quarter 2024, organic sales are expected to decrease by a low single-digit percentage driven by the timing of the Easter holiday and specific to PPG, lower year over year sales volumes compared to an elevated first quarter 2023, which included a $40 million Walmart® load-in. Excluding the customer load-in impact, organic sales are anticipated to increase by a low single-digit percentage compared to the first quarter 2023.

Protective and marine coatings
Organic sales for protective and marine coatings increased by a mid-single-digit percentage compared with the prior-year fourth quarter driven by higher sales volumes. The fourth quarter was the third consecutive quarter with positive year-over-year sales volume growth driven by higher demand in both the EMEA region and the U.S. In the EMEA region, sales volumes were higher mostly due to marine demand for our sustainably advantaged products as well as protective products such as fireproofing coatings. In the U.S., sales volumes were higher driven by customer wins in infrastructure and high-performance protective products. While sales volumes in the Asia-Pacific region remain muted, the overall sales pipeline remains very solid and demand for the company's protective coatings products is expected to continue to improve as global infrastructure activity progresses. The business is monitoring disruptions of sea vessel activity in the Red Sea which could impact aftermarket-related marine sales later in 2024. First quarter organic sales are expected to increase by a mid-single-digit percentage compared to the first quarter 2023.

Traffic solutions
Fourth quarter organic sales for the traffic solutions business were similar to the prior year. Improved demand in the U.S. primarily due to moderately warmer temperatures was offset by a challenging environment in South America. The U.S. delivered high single-digit percentage volume growth in the fourth quarter. During the fourth quarter 2023, the business divested its operations in Australia and Europe, which will lower 2024 sales by approximately $50 million, but improve profitability. Seasonally, first quarter and fourth quarter sales in the traffic solutions business are typically more than 50% lower than second quarter and third quarter due to the difficulty of applying traffic markings in colder temperatures. First quarter organic sales are expected to increase by a low single-digit percentage compared to the first quarter 2023, and the business is well positioned to benefit from increased U.S. infrastructure spending.

Segment Outlook
Looking ahead, demand in Mexico is expected to remain robust, and we are experiencing continued strength in aerospace and protective and marine coatings. We expect to realize continued benefits from moderating input costs, and several businesses have implemented targeted, incremental price increases. In architectural coatings, comparisons to the first quarter 2023 will be impacted by the timing of Easter and non-recurrence of the 2023 Walmart® load-in. Aggregate organic sales are anticipated to be up a low single-digit percentage compared to the first quarter 2023.



Industrial Coatings Segment
Fourth quarter net sales for the Industrial Coatings segment were $1.7 billion, up 2% versus the prior year. Organic sales were generally consistent with prior year as strength in the automotive OEM coatings business was offset by soft global industrial production. Sales benefited from favorable foreign currency translation in both Europe and Latin America.

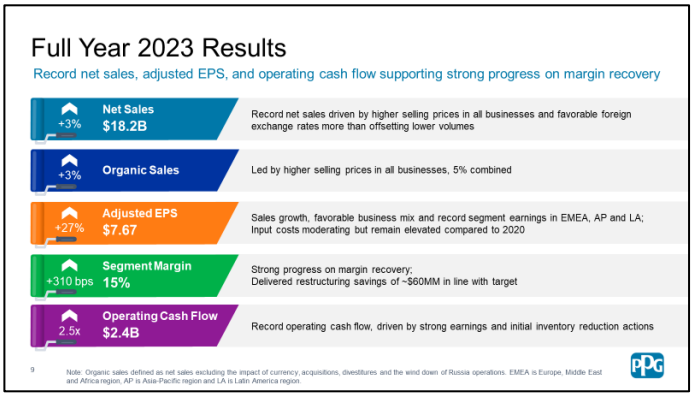
Segment income of $230 million was up 48% year over year, mainly due to moderating input costs and improving manufacturing costs. Segment margins improved by 420 basis points compared to the fourth quarter 2022, as the company continues to focus on restoring historical margin profiles in each business.

Automotive OEM coatings
Global automotive OEM coatings net sales were a record for a fourth quarter with organic sales up a mid-single-digit percentage driven by higher sales volumes and pricing compared to fourth quarter 2022. Sales volumes increased mostly in the Asia-Pacific and Latin America regions. In the U.S., the United Automobile Workers labor actions had a minor unfavorable impact on the company's fourth quarter financial results. In Western Europe, automotive retail sales and industry build rates were strong compared to a weak prior-year base. In China, automotive retail sales activity continued to be solid, along with exports, which have grown about 65% year to date. PPG is well positioned in China with a growing share, and we continue to increase product content in a rapidly growing electric vehicle market. Global auto OEM industry builds are expected to increase by a low single-digit percentage for the 2024 calendar year as aging fleets in the U.S. and Europe, a continued global supply deficit of new automobiles and potentially lower interest rates are expected to aid year-over-year growth. First quarter organic sales are expected to decrease by a low single-digit percentage compared to the prior year with robust growth in the Asia-Pacific region more than offset by declines in other regions.

Industrial coatings
Fourth quarter industrial coatings organic sales were down a mid-single-digit percentage compared to the prior year. Overall, global industrial production remained sluggish resulting in sales volumes in the U.S. and the Latin America region declining more than other regions. Sales in most product categories were below prior-year levels, with the most pronounced weaknesses in heavy duty equipment, truck and general finishes. Demand in China has improved slightly, with positive year-over-year sales volume growth in the fourth quarter and further recovery expected in 2024. In the first quarter 2024, organic sales for the business are expected to be relatively flat versus prior year.

Packaging coatings
Organic sales in packaging coatings decreased by a low single-digit percentage in the fourth quarter versus the prior year due to lower sales volumes and prices. Industry-wide destocking is mostly complete in the beverage category and nearly complete for the food category. Moderation of destocking activity and recent customer wins as a result of PPG's preferred technologies are expected to improve year-over-year comparisons over the next few quarters. First quarter 2024 organic sales are expected to be similar to the prior-year first quarter.

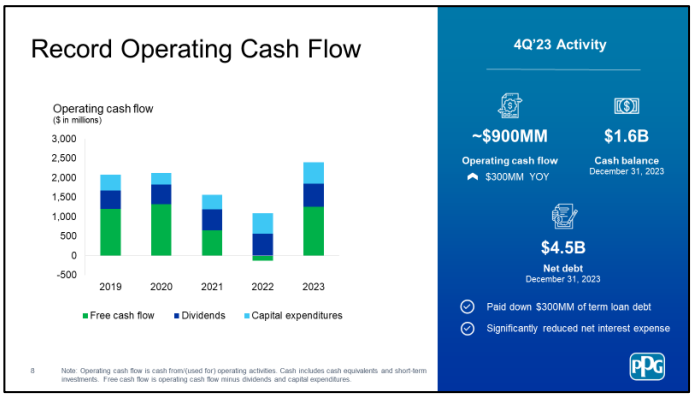
Segment Outlook
Looking ahead, global industrial production is expected to remain at a low level in the first quarter. Aggregate organic sales are anticipated to decrease by a low single-digit percentage compared to the first quarter 2023. Automotive industry build rates are expected to be flat to slightly lower in most regions, except in Asia Pacific where solid growth is anticipated. Additionally, packaging coatings is expected to have positive sales volume growth compared to the prior-year first quarter. In the fourth quarter, the pricing gains negotiated in 2022 reached their anniversary, and price decreases are anticipated in 2024 due to index pricing with certain customers within the segment and reflecting the elimination of certain transitory energy-based surcharges in Europe from early 2023.



Full-Year 2023 Results

PPG achieved annual records for net sales, adjusted earnings per share and operating cash flow in 2023. Net sales were $18.2 billion, an increase of 3% over the prior year. Results were supported by the breadth and diversity of the business portfolio, as the company benefitted from higher prices in all businesses and favorable foreign currency translation, which offset lower sales volumes. Organic sales increased 3% during the year driven by continued strong growth in our aerospace coatings and automotive OEM coatings businesses. On a regional basis, sales volumes were modestly higher in the Asia-Pacific and Latin America regions, and the EMEA, Asia Pacific, and Latin America regions all delivered record segment earnings for the year. Reported EPS from continuing operations was $5.35, compared to $4.33 in the prior year. Adjusted EPS was $7.67, up 27% compared to $6.05 in 2022. Combined, segment income increased by more than 30%. Aggregate segment margins were 310 basis points higher than the prior year, driven by strong selling price realization and moderating raw material costs, partially offset by higher SG&A costs and lower sales volumes.

During the year, PPG successfully executed on various strategic initiatives to strengthen the company, including key actions to position PPG for higher organic growth. The company also continued its ongoing portfolio review leading to the divestitures of both our European and Australian Traffic Solutions businesses and the recently announced strategic alternatives review of the silicas products business.

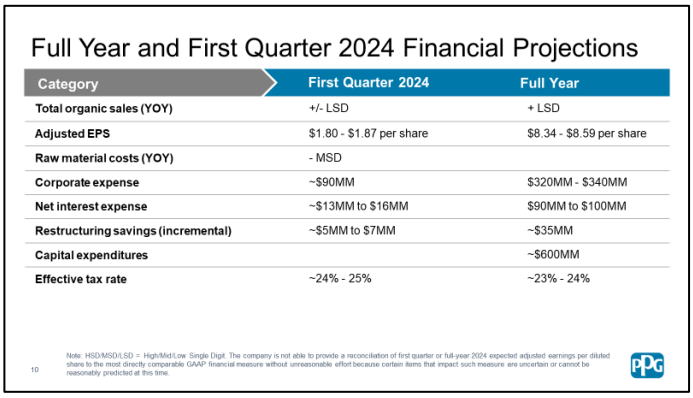


Balance Sheet, Cash and Other

Cash and short-term investments totaled nearly $1.6 billion and net debt totaled $4.5 billion at the end of the fourth quarter, which is about $1.2 billion lower than the same quarter last year. 2023 operating cash flow was a record $2.4 billion, improving by more than $1.4 billion on a year-over-year basis, reflecting the benefits from higher earnings and favorable changes in working capital. While inventory levels have been reduced from a 2022 peak, they remain above normalized levels, and actions are underway to drive a further decline in 2024. The strong cash flow enabled more rapid repayment of debt and generated higher interest income, which significantly reduced net interest expense for the quarter to $13 million, down $20 million versus the prior year.

Approximate uses of cash for the fourth quarter and full-year 2023 were as follows:

- Capital expenditures were $168 million in the quarter and $549 million for the full year.
- Dividends paid were $153 million in the quarter and $598 million for the full year. PPG has paid uninterrupted annual dividends since 1899.
- During the quarter, the company repaid the remaining balance of $300 million of a 2021 term loan.
- In the fourth quarter, the company repurchased $100 million of its stock.



First Quarter and Full-Year 2024 Financial Assumptions

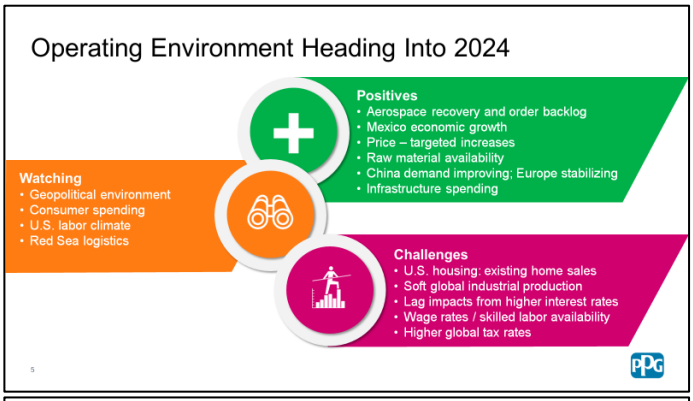
The company detailed financial assumptions for the first quarter and full-year 2024 in its accompanying presentation materials based on information that is currently known. A few of the assumptions are highlighted below.

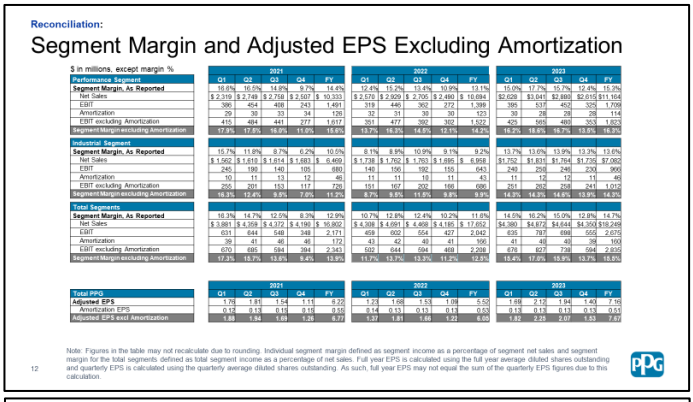
- First quarter aggregate organic sales are expected to be in the range of plus or minus a low single-digit percentage compared to the first quarter 2023; higher by a low single-digit percentage for the full-year 2024
- First quarter corporate expenses of about $90 million; $320 million to $340 million for 2024
- First quarter net interest expense of $13 million to $16 million; $90 million to $100 million for 2024
- First quarter adjusted earnings per diluted share of $1.80 to $1.87; $8.34 to $8.59 for 2024
- Full-year capital expenditures of approximately $600 million in support of future organic growth opportunities and as we continue to recover from lower spending during the pandemic
- Full-year 2024 effective tax rate of 23% to 24%, up due to higher tax rates in certain countries and the geographic mix of earnings

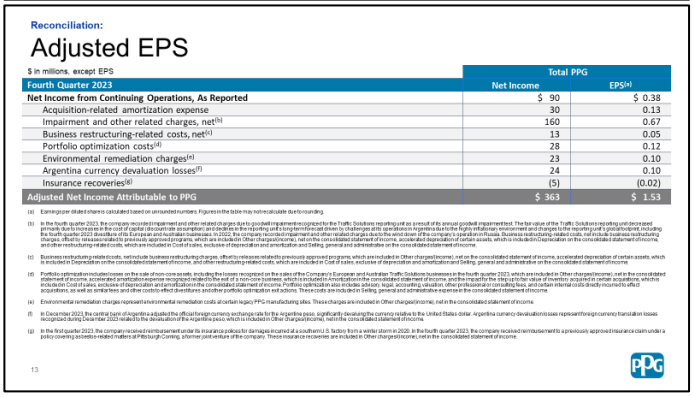
Additional information related to 2024 financial projections may be found in the detailed commentary and associated presentation slides related to the fourth quarter financial information which are posted on the investor section of the company's website.

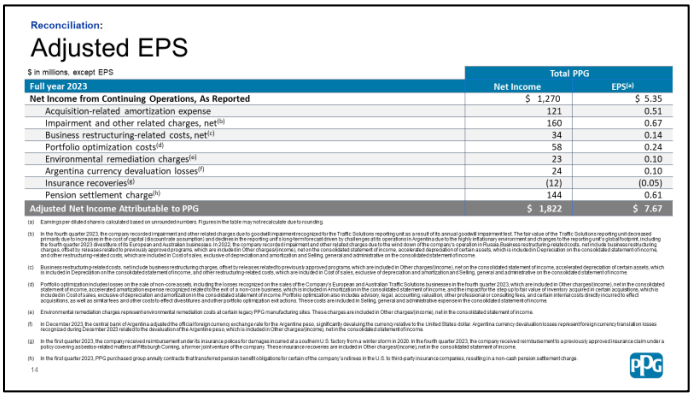
The company is not able to provide a reconciliation of first-quarter or full-year 2024 expected adjusted earnings per diluted share to the most directly comparable GAAP financial measure without unreasonable effort because certain items that impact such measure are uncertain or cannot be reasonably predicted at this time.

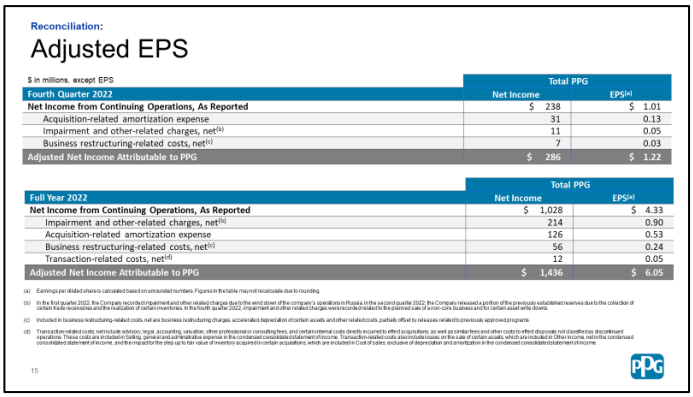
(a) Organic sales are defined as: net sales excluding the impact of currency, acquisitions, divestitures and the wind down of Russia operations.











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 effects on our business of COVID-19, global economic conditions, geopolitical issues, 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 January 18, 2024 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.