19-Jan-2024

PPG Industries, Inc. (PPG)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Elliot and I'll be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter PPG Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. [Operator instructions]

Thank you. I'd now like to turn the conference over to Jonathan Edwards, Director of Investor Relations. Please go ahead, sir.

Jonathan Edwards

Director-Investor Relations, PPG Industries, Inc.

Thank you, Elliot, and good morning, everyone. This is Jonathan Edwards. We appreciate your continued interest in PPG and welcome you to our fourth quarter 2023 financial results conference call. Joining me on the call from PPG are Tim Knavish, Chairman and Chief Executive Officer; Vince Morales, Senior Vice President and Chief Financial Officer; and John Bruno, Vice President of Finance. Our comments relate to the financial information released after US equity markets closed on Thursday, January 18, 2024. 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 opening comments Tim will make shortly. Following management's perspective of the company's results, we will move to a Q&A session.

Both the prepared commentary and discussion during this 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. The presentation also contains certain non-GAAP financial measures. 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.

And now let me introduce PPG Chairman and CEO, Tim Knavish.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Thank you, Jonathan, and congratulations on your new role. And good morning, everyone. Welcome to our fourth quarter and full year 2023 earnings call. I'd like to start by providing a few highlights on our fourth quarter and full year 2023 financial performance, and then I will move to our outlook. In fourth quarter, the PPG team delivered strong financial results, including record fourth quarter sales of $4.4 billion and adjusted earnings per diluted share of $1.53. This is our fourth consecutive quarter of delivering record sales as we continue to benefit from organic sales growth. Our fourth quarter adjusted EPS was 25% higher year-over-year, driven by aggregated segment margin improvement of 260 basis points compared to the fourth quarter of 2022 as we continue to be laser-focused on driving margin improvement.

Our results reflect our continuing growth trends and strong execution in several of our leading and technology-advantaged businesses, which culminated in record fourth quarter sales in the aerospace, automotive OEM, and

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automotive refinish businesses with strong performance in the protective and marine and PPG Mexico architectural coatings businesses. Our year-over-year sales volume trend improved compared to recent quarters, decreasing less than 1% year-over-year. We continue to experience lower global industrial production along with soft US and European architectural demand, especially for DIY-related products. Notable for us during the quarter was China, where, despite a lethargic general economy, we achieved high single-digit percentage volume growth, reflecting our strong mix of businesses in the country.

In addition, we delivered flat year-over-year volumes in Europe as we see economic stabilization in the region, albeit at lower absolute demand levels. Our selling prices were about 2% higher with both segments delivering positive price led by the Performance Coatings segment. We expect total company selling prices to remain modestly positive in the first quarter of 2024 as new selling price increases have been implemented in several of our businesses. We also benefited from further normalization of our operations as we experienced stabilization of both upstream and downstream supply chains and order patterns. From a supply perspective, the vast majority of our suppliers have more than sufficient capacity heading into 2024. We started the year laser-focused on margin recovery, and the fourth quarter marked our fifth consecutive quarter of year-over-year operating segment margin improvement.

And as I mentioned, fourth quarter aggregate segment operating margins increased 260 basis points year-over-year and full year increased 310 basis points. We also achieved our second key priority for the year by delivering excellent cash generation of nearly $900 million during the fourth quarter, which was up over $300 million on a year-over-year basis, leading to record full year cash generation of over $2.4 billion. We significantly reduced working capital by a total of about $600 million on a sequential quarterly basis. This includes the benefit from a partial reduction of our inventory levels. However, we still ended the year with higher inventory levels from historical perspective primarily in raw materials and will continue to reduce inventory in the first half of 2024. The strong cash generated drove a reduction in net interest expense by about $20 million compared to the fourth quarter of 2022, as we repaid some high variable cost debt during the quarter.

Additionally, we repurchased $100 million of stock in the fourth quarter, which essentially offset dilution. Now, a few comments on the full year 2023. As we communicated at the beginning of 2023, my priorities included margin recovery, strong cash generation, and further strengthening of our capabilities to support our customers' productivity and sustainability needs, which will result in higher PPG organic growth. And coming into 2023, we had a high degree of conviction that our global business portfolio would prove resilient while anticipating a challenging economic environment, and these clearly played out during the year. For the full year, I'm proud of our team's execution against our strategic objectives, as it resulted in delivery of record sales, record adjusted EPS, and record operating cash flow. And our sales performance was led by continued selling price execution to offset significant multiyear cost inflation.

Our year-over-year earnings growth was driven by these improved selling prices, coupled with moderating input costs and cost structure reductions stemming from our cost management and restructuring initiatives. This resulted in improved margins in both segments. Our businesses delivered innovative and value-added products and solutions to our customers, and this enabled several of our businesses to set all-time annual sales records, including our aerospace, auto OEM and automotive refinish, architectural Mexico, and the protective and marine coatings businesses. Our enterprise growth initiatives delivered about $150 million of incremental sales in the first year, including strong growth from selling our innovative products for electric vehicles, as well as our share gains in powder coatings. In automotive refinish, customer adoption of our industry-leading digital tools accelerated, yielding nearly 2,000 net body shop wins.

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These digital tools include our LINQ services and Moonwalk mixing machines, both of which are best-in-class and are focused on improving body shop productivity. In Mexico, we further advanced cross-selling of our valued products, including protective coatings and certain light industrial coatings, through the best-in-class distribution network of nearly 5,200 concessionaire locations. Finally, our strong focus on the customer drove share gains across several businesses, including expansion of our architectural coatings products at Walmart. Strategically, we conducted an ongoing review of both our product and business portfolios leading to the divestiture of several noncore assets, including our European and Australian Traffic Solution (sic) [Solutions] (00:09:25) businesses, along with the recently announced strategic alternatives review of the silicas product business.

[ph] A variety of cases (00:09:33), we also simplified and improved our product offering, allowing us to reduce complexity and drive down working capital. Finally, these actions plus strong balance sheet management resulted in record full year 2023 cash generation of $2.4 billion. So, overall, we achieved excellent financial results in 2023 and are anticipating improving from this higher base in 2024. We remain confident that we will deliver positive sales volume in 2024, including benefits from China, India, and Mexico. We've delivered share gains in several businesses, including auto refinish, packaging, and the protective and marine coatings businesses. We'll also execute on our more than $250 million order backlog in aerospace, drive further growth in our well-positioned businesses in Mexico, and further expand the benefits of our key growth initiatives, including powder coatings, electric vehicle products, and digital solutions.

We will drive further improvement of our operating margins aided by the sales volume growth leverage and our initiatives to drive manufacturing productivity following several years of supply chain and other disruptions. Lastly, we entered 2024 with a strong balance sheet, which provides us with the flexibility for further shareholder value creation going forward, including funding organic growth initiatives, appropriate acquisitions, debt repayment, and share repurchases. Now, I'll comment on our first quarter outlook. We expect to deliver sequential adjusted EPS growth from $1.53 per share in Q4 2023 to a range of $1.80 to $1.87 per share in Q1 of 2024, an increase of 20% at the midpoint of the range. We anticipate global industrial production to remain soft, and our year-over-year sales volume performance will be unfavorably impacted by the approximate $40 million nonrecurring Walmart customer load-in that occurred in the first quarter of 2023.

Also, the timing of the Easter holiday will shift some sales into the second quarter. Despite these difficult year-over-year comparison items, we expect our first quarter sales volume will be flat overall, aided by positive sales volume growth in our aerospace, protective and marine, and packaging coatings businesses. We project solid growth in our auto OEM business in Asia Pacific, where we expect to drive solid volume growth in China, led by our strong positioning with the electric vehicle OEM producers. Additionally, we expect to deliver organic sales growth through our best-in-class Mexico distribution platform. We anticipate overall company selling prices to remain positive as some modest declines in our Industrial reporting segment related to a small portion of customer-based index contracts will be more than offset by targeted selling price increases in our Performance Coatings segment.

First quarter comparisons also include declines in certain transitory European and energy-related pricing indices that were put in place during the period of extremely high energy prices in the region. These particular price declines are offset by lower purchased energy costs for our facility. The net selling price increases, along with various productivity initiatives, will serve to offset somewhat higher expected wage inflation in 2024, especially in emerging regions. With regard to commodity raw materials, supply remains ample and we will continue to realize benefits from moderating input costs, including further recognition of savings stemming from working down our higher inventories as we progress through 2024. We will diligently manage our costs and expect to deliver manufacturing and productivity gains, supported by a more stable supply chain and customer order patterns.

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We anticipate more moderate year-over-year earnings growth in the first quarter associated with some of the transitory items I mentioned earlier. However, we are confident that we will deliver our commitment for full year earnings growth of around 10% at our forecast guidance midpoint. Finally, I want to thank our more than 50,000 employees for making it happen by delivering excellent 2023 financial results and positioning the company for growth and value creation in 2024 and beyond for the benefit of all stakeholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator instructions] First question comes from David Begleiter with Deutsche Bank. Your line is open. Please go ahead.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Tim or Vince, do you expect total company pricing to be up in 2024? And I presume that if it is, it's positive performance down in Industrial. Within Performance, are you seeing pressure from big box retailers to lower your paint price?

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Hey, good morning, Dave. Thanks for the question. We will have positive company price for full year 2024. Again, to your point, largely from Performance Coatings and more targeted beyond that. As far as big box pricing, most of the big box pricing is contractual, and so I wouldn't say that you'll see significant movement in that pricing throughout the year.

Operator: Our next question comes from John McNulty with BMO. Your line is open. Please go ahead.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah, thanks for taking my question. So, maybe a little bit more color on the raw material front. Can you speak to, kind of relative to what you reported in the fourth quarter, how much lower are raw materials that you're buying right now because it does look like things are held up a little bit because of FIFO and also some of your destocking? Is it just the mid-single-digit dip that you guided to for 1Q or is there more to it than that? And how should we be thinking about that?

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

A

Yeah, John, this is Vince. If you look throughout all of last year, we continued to accrue larger benefits from the moderation of raw materials. We will remind everybody raw material costs are still higher on a multi-year basis by a significant amount. And as Tim mentioned, most of our suppliers have more than ample capacity and it's certainly a focus for them to pick up more volume. We expect some incrementally better invoice benefits from raw materials and then that'll eventually flow through our P&L as we go through the year. But year-over-year, we expect some incrementally beneficial invoice pricing.

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Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. And I would just add – this is Tim, John. Thanks for the question. I would just add that fundamentally, upstream of us, it's still a pretty long environment. No issues on our end from availability and I think that's a good indicator for us as we move through the year as well.

Operator: Our next question comes from Ghansham Panjabi with Baird. Your line is open. Please go ahead.

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

Q

Thanks, operator. Good morning, everybody. Tim, I want to go back to the question that was asked earlier about pricing. As you kind of zoom out a bit, price for PPG as a whole has been up over 20% since 2021, and a lot of that is just the enormity of the raw material cycle and so on and so forth which seems to have changed significantly. Your confidence on pricing holding or being up in 2024 and maybe even beyond that, is that based partly on the mix change in the portfolio with aerospace and so on and so forth? Or is there something unique about the industry structure now that's going to allow you to hold on to the enormity of these price increases with raw materials doing what they're doing?

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Hey, good morning, Ghansham. It's not a mix issue for us, Ghansham. It's more – first of all, I'm very pleased with how we've continued to hold price even just closing out fourth quarter with another 2% increment. Again, we'll be positive in Q1. The confidence level is more because of a couple of things. One, to Vince's point earlier, raws are still quite elevated. We're talking about coming off of extremely high peaks, but they're still quite elevated from, say, 2019. So, we don't see what I would characterize as massive deflation by any means, and the confidence level as we move through the year – I'll talk Performance Coatings. As you know well, we get price almost irrespective there of the raw material environment because of the unique value proposition that we deliver in performance where we're such a small part of the cost structure of our customers from a pure paint standpoint.

But the value-add outside of the can that we deliver is such a big, significant impact on their cost structure, so that's a very different model there. And on the Industrial side where maybe it is more proportionate to raw material increases or decreases, we just don't see the long supply dynamic upstream of us changing dramatically as we move through the year when you think about, for example, China just not having a V-shaped rebound, and China is a big consumer of raws. So, we expect a more moderate environment as we move through 2024.

Operator: Our next question comes from Duffy Fischer with Goldman Sachs. Your line is open. Please go ahead.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Good morning, guys. Two questions. First is cash flow as a percent of EBITDA. If you hit the midpoint of your guide this year, EBITDA should be up about $250 million. Should we expect a commensurate move in cash flow would be one? And then two, in the auto OE business, you guided to down low single digits. Coming into Q4, you did mid-single digits up; again, guiding down in Q1. Is that just conservatism because when you look at the auto numbers, it seems like auto OE should be better than that unless there's some pricing in there. So, can you just talk about what you're seeing in auto OE for Q1 price versus volume?

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Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Hey, Duffy, this is Tim. I'll do the auto one and I'll let Vince do the cash versus EBITDA one. Auto had a really good year for us last year and we are well-positioned for what we view as a multi-year recovery, so I personally continue to be bullish on auto as we look into the full year 2024. When you look at our Q1 and we went from up mid-single digits in Q4 and we're projecting low single digits down in Q1, a lot of that, if you go back to last year, we were a strong double-digit up in Q1 of 2023. And also, yeah, there is some – as I mentioned in my opening remarks, we do have some of our index pricing rolling back and that has some impact. But I would not – personally, I'm not overconcerned about auto volumes as we move through the year. I think total builds were [ph] 89-point-something million (00:22:40) last year. I believe there's some incremental upside to that as we move through 2024.

Our share position is good, our China auto position is really good. And as you know, out of the 90 million new builds, about 30 million will come out of China. So, overall, feeling good about auto. There's a little bit of a year-over-year comp soft point and a little bit of index pricing rolling off in Q1.

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

A

Just to add. As we talked several times, Duffy, on auto, acceleration in China helps us from an EV perspective as well, so we have more content on traditional EV than we do on an ICE. So, that's a buffer for us and PPG in particular. To your cash flow question, yeah, I think the short answer is typically EBITDA would certainly serve as a proxy for cash flow, plus or minus. We have the last couple years – expanded answer is we have the last couple years had working capital movement that has either helped or hurt the cash flow on a transitory basis. We do have, as Tim alluded to in his opening comments, probably a couple hundred million dollars of excess raw materials in inventory. We're going to work that down in 2024 so that'll have a cash flow implication for us in a positive manner. But I think generally, what you're saying, EBITDA and cash flow should be the – the movement should be consistent.

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. And Duffy, this is Tim. I'm going to come back with one additional – Vince mentioned the EV situation. And we all see the headlines on EVs, but that's largely US and Europe right now. And as you know, two-thirds of the world's EVs are made in China, and that content number, if you look at the average PPG content across the EV space for 2023, was up by 20%. So, our content per EV built was up by 20% in 2023. So, that bodes well for us as well.

Operator: Our next question comes from Stephen Byrne with Bank of America Merrill Lynch. Your line is open. Please go ahead.

Stephen Byrne
Analyst, BofA Securities, Inc.

Q

Yeah, thank you. Tim, you've been involved in this partnership with Home Depot for a long time. I'm curious to hear your view whether it's going better or worse than what you had expected? And any potential for an inflection in that relationship in 2024? And if you don't mind, can you just comment on SG&A for 2024? It seemed to really jump in the fourth quarter. Were there some unusuals in there like with your strategic actions? Any comments on that? How should we forecast that going forward?

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Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Hey, good morning, Steve. The quick answer on your second question is there were some unusuals, and Vince will take that. But your first one, the Home Depot relationship and progress on the pro program is going as expected. Quite frankly, the challenge that we have is that as it's growing off relatively small denominator, as you know, it's still being offset by the challenges on the DIY side. DIY is still – the Home Depot and the Glidden brand and Olympic brands are still a critical part of our DIY omnichannel strategy going forward. And unfortunately, the negatives there from a volume standpoint are offsetting the good progress that we have on our pro omnichannel between the Home Depot and our own network. If I look at – just to give some perspective, so Q4, despite the challenges out there, we were up low single digits on our pro omnichannel. And our sell-out with the Home Depot was one of our better quarters yet.

So, we're making progress there. But our DIY omnichannel, which includes not only what we do with the Home Depot, but also our big partner in the Midwest, our DIY remain down. So, that's the issue there, but the momentum continues to grow. As I've said many times, we are building a business model for the future that's brick-and-mortar light. And it's a marathon, not a sprint, and we continue to tick off miles on the marathon. So, good progress.

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

A

Yeah, Steve, on the overhead, I'm going to just look at the whole year, as there's always movement between quarters within a year. But on a full year basis, our overhead was up about $380 million. About a third of that is directly correlated to the increase in sales, whether it be volume, price, or FX. So, on a percentage basis, if you just do the percent comparison, you get about a third of that directly related to our sales movement. Another third of that on a year-over-year basis. And then Tim alluded to this in his opening remarks, we did have a higher shareholder-based and performance-based compensation. And the reminder of that, in the prior year we had much lower compensation. So, kind of a doubling effect on a year-over-year basis.

And the final third, roughly $100 million or so is inflation, and the remainder of that would be growth initiatives for some of the key programs we won throughout the year and including our Comex growth, et cetera.

Operator: Our next question comes from John Roberts with Mizuho. Your line is open. Please go ahead.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Morning. Is your China strength primarily China for China, or is it the strong exports of cars that we're seeing out of China?

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah, hey, John. It's both. But I mean, the vast majority of the vehicles that we paint in China stay in China. The exciting part on the export side is the largest producer of EVs now in the world, a Chinese producer, is beginning to export. So, that'll just be incremental upside. But the vast majority of the cars that we paint in China stay in China.

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

A

Yeah. And, John, I think for our book of business, again, 2023, especially the beginning part of 2023, was a tougher year. We're starting to see Industrial and some of our other businesses kind of turned the corner in the fourth quarter and now heading into 2024.

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

One more job from John Bruno. Outside of auto OEM, very high percentage of the coatings we sell in China are for products that stay in China.

Operator: Our next question comes from Josh Spector with UBS. Your line is open. Please go ahead.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yes, hi. Thanks. So, I wanted to follow up on Industrial pricing. So, when you're talking about down modestly for the first quarter year-on-year, maybe it's 50, 100 basis points. I guess, in the frame of that, does that – is it stabilized at that level through the year or do you expect it to decline? So, kind of separating the energy giveback from maybe some of the index pricing. And I guess when you look at this longer term then, what does this mean for margin potential for the Industrial segment? Are we looking at more normal incrementals from here to price raw still play into that? Or what are the factors that maybe move the margins up from the current level beyond this year? Thanks.

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

A

Yeah, Josh, let me start, and I'll let Tim add some color here. But we did – I just want to remind people – and again, we talked about this in opening comments and our prepared remarks we released last evening. Just a reminder, Q1 last year in Europe, that was exceedingly high. Energy costs, natural gas costs were $30 to $40 per MMBtu, depending on the day. Most companies, PPG included, invoked surcharges to pass those through that. We're lapping that in Q1 of this year. That is a third to half of our price decline in the first quarter in the Industrial Coatings segment. And the remainder is organic based on the indices that Tim was talking about. And, Tim, you have some color here so?

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. I think the question about margin expansion beyond what Vince described in pricing is the volume leverage will be significant on the Industrial segment, because that's the segment that really got hit the hardest during COVID and COVID recovery. And so, we've still got significant margin upside driven by volume leverage. The other side, if you go back to our CEO Day in May in New York, we pointed to about $150 million to $200 million of manufacturing productivity gains that we had line of sight to in the coming years; really, not just to get back to where we were pre-COVID, but also as we modernize, automate, digitize our operations. So, those will really be the two levers that get us to the next horizon on margin largely across the Industrial segment, but somewhat also in the Performance Coatings side.

Operator: Our next question comes from Kevin McCarthy with VRP. Your line is open. Please go ahead.

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Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Thanks, and good morning, everyone. Tim, would you elaborate on your volume outlook that's embedded in your 2024 guide? Would you expect volumes to be flat or up a little bit? Part of the reason I ask is we've seen many chemical companies suffer from volumes that are trending well-below real GDP. And so, as you look across your portfolio and survey and forecast, do you think we'll see convergence in 2024? Or are there pockets of residual destocking or other headwinds that might make that more ambitious?

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah, hey, Kevin. So, first of all, we're going to have positive volume in 2024 for the year. I would – our sales, we said, are going to be up low single digits. We might have to start putting a fourth letter there, because I think the – I'm sorry, the volume will be a little higher on the low single-digit side, and the price will be a little lower on the low single-digit side. But we have volume momentum for really five quarters now, minus 3%, minus 2%, a little lighter minus 2%. Our fourth quarter, we rounded it up to minus 1%. It was actually less than minus 1%. We're looking at a 0% for Q1, and that includes the impact of the Walmart load-in. It includes the shift of Easter from one quarter to the next. So, we have momentum on volume, some of it, just because of the diversity of our portfolio and where we participate.

But some of it because of the growth initiatives that we've worked on throughout 2023, where we've picked up share that will start to kick in this year. I think about our packaging coatings business, our Industrial Coatings business, our refinish coatings business. So, it's really – the positivity on volume is 1%. Even though they've had negative numbers in front of them for much of 2023, we do have volume momentum. We see it flipping in early 2024. And it's a combination of strength of our portfolio positioning and execution on our growth initiatives.

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

A

And just a couple of other items of note, Kevin. We expect Europe to stabilize, which really reflects a lack of a destocking. We experienced a destocking, especially in the first half of 2023, and that's – we feel that's run its course. So, stabilization of Europe, which has been a negative for us. And again, China on the 2023 first half basis was light. So, again, as that normalizes, the pandemic effect of that, hopefully, is behind us and as that normalizes, provides us with some uplift. And we are – we do have this backlog that Tim alluded to in the opening remarks in aerospace. So, we continue to produce more products at our manufacturing sites, and we expect that to continue to grow throughout the year to work down that backlog, which is more than half a year backlog for us.

Operator: Our next question comes from Michael Leithead with Barclays. Your line is open. Please go ahead.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning, guys. I wanted to ask around cash deployment. Your net leverage ended the year towards the lower end of where it's historically been. I guess, three very brief questions. One, can you just remind us roughly what target leverage you intend to maintain? Two, how does the M&A market look today, say, relative to returning more cash to shareholders this year? And then third, I think you're guiding to $15 million of interest in 1Q, but about $95 million for the year. So, why does that step up so much? I'm assuming that takes into consideration of more cash deployment. Could you just help clarify that? Thank you.

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Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Hey, Mike, it's Tim. I'll start. Target, we don't write a target in pen, because it changes with time, depending on where we are in the execution of our strategy. We're doing some portfolio things. You've seen some announcements in that regard. And where we are on our strength of our balance sheet, very strong right now, but it would be different as the environment changes. M&A, it was a little quiet there for some time. We're seeing some things come across our desk now. Nothing huge in the pipeline, but we're seeing some assets come across, and we're evaluating those. Overall, on the strength of the balance sheet and deployment, consistent with what I said throughout last year, number one, we're going to focus on continuing to generate strong cash. That gives us a great deal of flexibility. I'm very proud of what the team did in 2023.

Just to be very clear, we will not let cash sit on the balance sheet. We'll do what we need to do from dividends. We've got some good organic growth investments that we'll invest in. Love to do some shareholder value accretive acquisitions. And if that doesn't come along, then we'll return cash by buying shares. We did some in Q4 for the first time in a long time. And if we've got excess cash sitting on the balance sheet, you can be assured that that's what we'll do. Now, Q1, we're sitting with a lot of cash right now, but we typically consume significant cash in Q1. And so, we'll be a little cautious here in Q1 so that we don't get back into paying high interest cost debt, which we just got out of. But beyond that, you should expect us to not let the cash sit there.

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

A

Yeah. Let me just add. This is Vince. Just want to reemphasize the key comment Tim said, we prefer a strong balance sheet due to the optionality it gives us on many fronts. We feel, where we are today, we don't need to let cash grow. We will consume cash through April. That's our traditional seasonality of our businesses. So, the $1.5 billion that sits on the balance sheet, we will consume through April. That allows us to not enter the debt markets as significantly as we normally would for commercial paper. At this time of the year, we're typically adding commercial paper throughout – from now through the end of April. So, that's why our interest cost in Q1 will be lower, because we're going to use the cash on hand to fund that seasonal inventory build. That cash will then – we typically generate strong cash in the back half of the year, which will deplete our interest income. And then, as we generate that strong cash in the back half of the year, we'll look at other uses.

Operator: Our next question comes from Jeff Zekauskas with JPMorgan. Your line is open. Please go ahead.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. I was wondering whether you could comment on the direction of titanium dioxide prices. Secondly, you make a fuss over the difference between – or you make a fuss over your LIFO inventories. So, if you would value things on LIFO instead of FIFO, what might the difference have been at the end of the year? And then finally, in your accounts payable and accrued liabilities line, your year-over-year increase that is a benefit was about $380 million. And sequentially, maybe it was $250 million. Now, you guys don't disaggregate accounts payable from accrued liabilities. Can you explain what's going on there, in that many, many companies had much lower accounts payable this year, and it seems to have really worked in the other direction for you?

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

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Hi, Jeff, it's Tim. I'll take the titanium dioxide question and, Vince, you can take the more finance-related questions there. TiO2, we see very good availability. We see a long supply chain upstream of us. It's still quite long, and so we're seeing some modestly lower pricing on TiO2 than what we would have seen last year. It's not down as much as some other parts of our basket, but it's definitely down from where we were last year, Jeff. And on TiO2, in addition to pricing, I do have to mention that a key part of our strategy is to continue the research work that we do to reduce our titanium dioxide content in our formulas every year without sacrificing any performance, and our team has done a great job there. We're down about 1% per formula over the last several years and we achieved that again in 2023.

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

A

Yeah. Jeff, on the balance sheet questions, I'm not going to be able to calculate the FIFO/LIFO impact on the fly here. Again, just a reminder, everybody, we're at 75% or so FIFO. The difference between, again, the invoiced cost and what we're realizing on the income statement for raw material moderation, that is tens of millions of dollars if we move that to a FIFO, but I can't calculate it precisely. As it relates to payables, for us, we had a couple items in the fourth quarter. Our tax provisioning is about $100 million higher. We ended the year on a weekend, two-day weekend, so our accounts payable is higher because of that. There's natural FX in that number on a year-over-year basis. And we had, as you saw, an environmental special for about $30 million where we accrued $30 million for future environmental spending. And we talked about the compensation increase in the fourth quarter, so those are the big elements in our payables on a year-over-year basis.

Operator: Our next question comes from Vincent Andrews with Morgan Stanley. Your line is open. Please go ahead.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. A few quick ones from me. In the first quarter, I get the timing shift of Easter, but February also has an extra day this year. So, does that not offset the Easter impact? And then also on TiO2, how much Chinese TiO2 are you guys buying these days and how much of it's in Europe? And have you changed any purchasing patterns as a function of the EU's investigation into Chinese imports? And then lastly, the pro architectural business has been holding up an awful lot better than DIY [indiscernible] (00:45:16). We're, fortunately, far enough away from COVID now that I think we should be able to have a conversation about what's driving the DIY weakness other than just a pull-forward of volumes and what's keeping the pro business so high or so strong because it just seems like there's a disconnect between sort of pro demand being there but DIY being so weak. So, if you could help with those three things, I'd appreciate it.

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Okay, Vincent, this is Tim. On the Q1, yeah, I'd say correct, there is an extra day in February. I think the negativity of Easter impacts that more significantly, the one day because particularly some parts of the world, Europe, vacations before, some vacations after other parts of the world. We do have – Easter time is typically a good month for us in Mexico, and so it's more significant than the one day, but you are correct. Also on Q1 though, we have – in addition to the Easter impact, you do have that customer load-in that we mentioned and the energy pricing issue that Vince mentioned earlier.

On the pro DIY, first of all, DIY remains down. And yes, some of it – I don't know if we could put a time stamp exactly on it, but some of it you could call it post-COVID hangover as people did a lot of pull-forward. I think now

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it's more of general inflation and general consumer spending and confidence on remodeling at home. And some of it is existing home resale, too, where sellers, DIY sellers will paint their house, DIY buyers will paint their house, so I do think some of it is related to what's happening with existing home sales as well. But I do think it's some combination of that and just overall inflation and how it's hitting the average consumers' pocket book and the decisions that they're having to make. And the pro side does remain strong. We do see some areas of weakness, again, in things like existing home resale; some of that's done by pros as well.

But we see strength in – commercial strength in maintenance and I think that's why it's holding up well. And that's not only a US phenomenon; that's a phenomenon that we see in Europe as well.

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

And TiO2...

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.
A

Europe, I'm sorry, I missed that element. Yeah, the TiO2 Europe, we're watching this process very closely. A couple of things. We have not dramatically shifted. We do buy a good bit from the Chinese TiO2 suppliers. They're an important part of our supply portfolio and we're watching this process in Europe. We think, number one, it'll be a very lengthy process. Number two, we have – we're constantly working on the diversity of our supply base in TiO2 and the flexibility of that supply base, and we've made significant improvements there on where else we can use the various TiO2 from different parts of the world, including China. And again, we continue our longer-term initiative of reducing our dependence solely on TiO2 by removing it from our formulations without sacrificing performance, so those three things I would point to.

Again, we're watching it very closely and we'll adapt. And I'm confident that between the upstream supply being in a long situation and the diversification work that we've done, we'll do what we need to run our business.

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

And just to expand on that diversification capability, we continue to add slurry capabilities around the world which allows us to mix different TiO2 suppliers' products. And efficiency, we're at a multi-year 6%, 7% of efficiency in TiO2 the last four, five years and we have very active projects continuing to become more efficient. Some of those could be recognizable in terms of our – the breadth of our buy.

Operator: Our next question comes from Frank Mitsch with Fermium Research. Your line is open. Please go ahead.

Frank J. Mitsch
Analyst, Fermium Research LLC
Q

Good morning and congrats on the new role, Jonathan. I wanted to come back to the volume questions. Tim, it sounded from your answer that flattish in Q1 basically but you would expect as we progress through the year Q2 we'd probably see positive volumes. It sounded like that. I'm wondering if you could clarify that. And Vince, when you mentioned Europe stabilizing, which is obviously a positive sign, but if I think about math of Europe deteriorating in the earlier parts of 2023, if it's stabilizing at these low levels it might suggest that 2024, the net would be negative in terms of volume. So, I was wondering if you could speak to that. And also, any sort of

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comments you have with respect to – I know you indicated that China, you anticipate positive volumes there, particularly with the weak comps. But what you're expecting in the Americas as well would be fantastic.

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Okay. Hey, Frank, I'll start. It's Tim. I think your interpretation of my volume comments are spot on. Positive volume for the year, flattish in Q1, and then you should see an uptick soon thereafter. So, I do think that's spot on. I know you asked Vince the Europe question. I'm going to give a quick lead in on Europe. Despite the very benign 2023 volume environment in Europe, we had a record year of earnings in 2023 in Europe. So, yes, it does impact the top line, but our team has really executed well and we had all-time record earnings. And also, it's not all of our businesses in Europe. We have – aero is very strong in Europe. Auto had a better-than-expected year in Europe. And frankly, we do expect that to continue. It's really mostly around the deco market, particularly the retail deco market in Europe that saw negative volume.

And PMC, PMC had a great European year with – particularly driven by both protective and marine aftermarket. So, I'd give that lead into Europe and hand it over to Vince.

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

A

Yeah. When we say Europe, stabilizing in Europe – Europe stabilizing in volumes for 2024, we're looking at it quarter-over-quarter, Frank. And I know, as you know, we're a very seasonal business there in our deco, our architectural coatings business. So, each quarter, we expect that stabilization respective to the last prior year quarter. So, again, on a full year basis, we expect that to be flat, reflecting that year-over-year comp quarter-by-quarter. Again, our view of China is a bit different, I think, than what most markets are seeing. We always have to remind folks, we do not have a large architectural presence in China. One of the heaviest unfavorable items in China is the construction and housing market, very little exposure for us. Again, we're turning the corner on Industrial. Auto is growing. Our refinish business is returning in China, because of higher miles driven. And aerospace is starting to come back. So, our mix of businesses in China helps us.

And again, the fact that we don't have that architectural content. And the architectural industry draws a lot of raw materials as well. So, the fact that that's down is supportive of our earnings in China.

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

And the last part of your question, what are we seeing in the US relative to volume, we've got the PMC business, mostly on the P side, the protective side, doing well in the US, driven a lot by energy spending and infrastructure. Traffic with infrastructure spending will be stronger this year. Refinish doing very well. And auto, the US SAAR is holding up very well. I know inventories have ticked up a bit, but they're still only at about 40 days. So, those would be on the – and of course, aero, we're selling everything we can make. So, those would be on the positive side of the US ledger. The negative side, again, we've said DIY multiple times. We do expect at least the first half of this year to be soft there. The only upside there might be that we do believe destocking in that space is behind us. And then finally, I would say general industrial coatings driven by just industrial activity, and this could be all kinds of widgets that get painted.

That's still a bit soft in the US. So, that's a bit of a positive and negative ledger here at home, Frank.

Operator: Our next question comes from Aleksey Yefremov with KeyCorp. Your line is open. Please go ahead.

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Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. Good morning, everyone. Could you just provide an update on your strategic efforts to broaden the product lines with Comex? Where are you versus your goals? What are your plans for 2024? And maybe broader, any update on other strategic organic growth initiatives that you talked about last year?

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah, sure, Aleksey. So, in PPG Comex in Mexico, we said in May, one of our key initiatives was to continue our robust performance and growth in the deco space, and the team did that, another record year, double-digit sales up on the year, but also to introduce other parts of our portfolio to that strong concessionaire network. And we've done that. Protective coatings were up, let's call it, very high single digits. Again, adding that fourth letter, but traffic sales were up double-digit. And I just returned – we just had all of our concessionaires together this past weekend, and I was down there meeting with them. And they're very bullish on their ability to sell not only deco, but these protective traffic, powder, light industrial coatings.

So, we're off and running. We just literally on – I believe it was Monday of this week – introduced powder brands and refinish brands that are specific and dedicated and exclusive to the concessionaire network, and that got a very good reception. Your other question on the initiatives that we kicked off last year as part of our enterprise growth strategy, I'd say, very pleased with the first year of execution of that enterprise growth strategy. As we said in the opening remarks, those initiatives, just in the first year, generated about $150 million of incremental sales. And some of those initiatives are longer-term initiatives than others and still in development. So, between powder, films, the Mexico opportunity that we just talked about, EVs up 20% content per vehicle, they're all up and running and I'm very pleased with the progress that we have seen so far.

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

A

And if I could just add a little broader commentary. We talked in May about being bullish on the Mexico economy. I think that has come through in spades for us in the region. We continue to see reshoring of industrial activity into Mexico. We'll support that with our Industrial Coatings. We'll support that certainly with our Comex brand. In addition, one of the things we haven't – Tim alluded to it on the opening comments, but we haven't talked about in the Q&A is, second economy for us that's well outpacing most other regional economies is India. And we've got good position in India as well, and that's supported by, I'll call it, reshoring into India or shoring into India that is just starting.

Operator: Our next question comes from Laurent Favre with BNP Paribas. Your line is open. Please go ahead.

Laurent Favre
Analyst, Exane BNP Paribas

Q

Yes, good morning. In the presentation, in the list of watch outs, you've mentioned the Red Sea situation. And Tim, I was wondering if you could talk about, I guess, how you're looking at the risks there in terms of ability to source, impacts on costs. Have you seen anything on that side yet? Then on the flip side, on the positive or potential positive, if there's such a thing, could it be a reason for bit of a restocking along the chain in your customers? Or is it just not big enough of a deal right now? Thank you.

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Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.
A

Yeah. Hey, Laurent. It's really not been anything near material to us to this point. First of all, from our direct products, paint and coatings don't do very well shipping around the world. We're mostly local for local. So, minimal impact on our direct products. Our suppliers, we have – our suppliers have plenty of capacity. There's plenty of inventory upstream of us. And our suppliers are seeing some delays, but they're accounting for that in their production planning and in their logistics planning. So, we're not expecting any impact to us there, to the financial impact. We've seen a few, minor, small surcharges being implemented, but frankly, to this point, pretty insignificant. So, the piece that we're watching, and the reason we listed it on that part of our slide, was we're not certain of the impact on customers, particularly if you think about European auto OEMs, where they've got sourcing from around the world.

And if they're missing any critical parts, it may impact production scheduling. We have seen none of that so far. But that's really the piece we're watching, more of our customer impact than on any internal impact. To your restocking, maybe – I doubt that we'll see any significant inventory build of paints and coatings as a result of this. I think it'll be more a movement of inventories upstream of us and how our suppliers deal with their own logistics planning. But again, the fact that they're pretty long right now, we're not expecting any issues.

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

And Laurent, just to put numbers to it. Typically, the average delay to not going through the Red Sea is about 10 to 12 days. So, certainly, we could plan for that on our raw material purchases.

John A. Bruno
Vice President-Finance, PPG Industries, Inc.
A

And Laurent, one more from me. We have nothing in the guide for the first quarter for this area.

Operator: Our next question comes from Patrick Cunningham with Citigroup. Your line is open. Please go ahead.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Good morning. Just on auto refinish. It seems like there's maybe some normalization there. So, I guess my first question is, what's causing lower collision claims in the US? Is there anything structural you can point to, like balance of total vehicles trending upwards? And how should we think about the outlook for refinish for the full year by region?

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.
A

Yeah, I'll take this one. Refinish had a good year, had a record quarter, and that was off of tough comps. Yeah, claims still down in US, still down versus 2019. But we're able to achieve our results even at that level. And what I'll tell you is body shop activity is up and strong. And the only thing – most of our body shop customers have backlogs, driven mostly by labor availability. So, even though claims are down and we watch that closely, we're still performing. I would also add, largely because of our digital tools, we had a really good share gain year, and even the revenue that we get from those digital tools was up more than 100% year-over-year. So, we feel good about that moving into this year. We've got a good order book as we sit here today. So, yes, we are watching

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claims and miles driven. The only thing I can hypothesize is that the type of driving is maybe a bit different. Most downtowns and cities are still not as crowded as they used to be.

We see more claims coming from suburbia than we used to. But overall, we feel positive about this business moving into the year. I'm confident in our best-in-class productivity, value proposition. We're winning shops. So, I would say we expect to have another really strong year out of our refinish business.

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

A

Yeah. And then regionally, we expect the US and Europe to hang around zero, plus or minus, for the year. As we said earlier, we expect China to grow as we see kind of a reopening on a full year basis there. So, that's the regional aspects. And just again, to hit on Tim's comment about our digital tools, these are tools we think are best-in-class. We have body shop productivity focus on those tools. And those are a subscription model for us that didn't exist three or four years ago.

Operator: Our next question comes from Michael Sison with Wells Fargo. Your line is open. Please go ahead.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Good morning. I guess just one question, Tim. When you think about achieving the 10% EPS growth at the midpoint, can you sort of break down sort of the key drivers? I know you talked about volume growth quite a bit. Is that low single digits, kind of half, a little bit more? Maybe how much is deflation and anything else that sort of gets you to that 10%? Thank you.

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Hey, Mike. I guess we'll both have a little bit of extra time this weekend, so we won't be glued to the TV screen based on last week's results. So, wish you the best for that. We'll have some – it's a number of things. We'll certainly have positive price, as I mentioned earlier. We will have higher low single digits on volume, which will bring not only the benefit of margin dropping, but we will get better leverage out of our manufacturing assets by finally starting to get positive volume. We'll have manufacturing productivity that will be a piece of that. We do expect – even though it's a bit early to say what will happen on raws in the second half of the year, we do expect price net inflation to continue to be a good guide for us. And beyond that, I just answered some of the enterprise growth initiatives that we talked about.

Those things will start to – some of them have already started kicking in with that $150 million that I mentioned, but we'll see continued momentum on those enterprise growth initiatives. Additionally, we got cash deployment. We haven't talked about that – we certainly didn't talk about it as we were rebuilding last year and paying down debt, but that will be another piece of the equation that wasn't there last year.

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

A

Yeah. And Mike, just I think it's important, a midpoint of 10%, our operating results are going to be better than that. We do have some tax headwinds like most companies will have as some of the tax rates around the world move up, so we guided to a higher year-over-year tax rate. So, operating results above 10% modestly offset by this higher tax rate.

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Operator: Our next question comes from Laurence Alexander with Jefferies. Your line is open. Please go ahead.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Good morning. This is Dan Rizzo on for Laurence. Thank you for squeezing me in. Obviously, the focus is on China for a good reason, but I was just wondering what India is in terms of sales versus China and if there's any time in the coming years where India will be kind of competing in terms of importance versus China.

John A. Bruno
Vice President-Finance, PPG Industries, Inc.

A

Hey, Dan, this is John Bruno. I can take this. Most people know India has been one of the best economies in the world in 2023. We have a really good position there. We have a JV with Asian Paints. Our sales growth was circa 10% in 2023 and we expect continued good growth in 2024.

Timothy M. Knavish
Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Our partnership with Asian Paints in India is fantastic and continues to perform very well and across the same segments that we're really strong in the rest of the world which are doing well over there, automotive OEM, automotive refinish, industrial coatings, protective coatings. So, that partnership is really world-class and helps us take our global technology advantage solutions to someone and partner with someone that's best-in-class within India. And so, it's a really good story for us, not only in 2023 but going forward.

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

A

And again, going forward, as I alluded to earlier, again, there's a multitude of industries that are establishing or expanding their footprint in India, electronics, automotive, some aerospace. So, again, a multitude of global industries that are expanding their footprint.

Operator: Our next question comes from Arun Viswanathan with RBC. Your line is open. Please go ahead.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. Congrats on the strong results in 2023. So, just a question on the guidance. So, if I look at the sales guidance, looks like you are hoping to get to low single-digit organic growth in 2024. Just wanted to confirm that that would be also including low single-digit volumes. And if so, how do you see that kind of playing out cadence-wise through the quarters if you're guiding to flat volumes for Q1? Do you get to maybe 2% to 3% in Q2 and then mid-single digits in the back half? And similarly, on the earnings growth bridge, your guidance kind of implies 1% growth EPS in Q1, so that would kind of require low double digits in Q2 through Q4, maybe something in the order of 13%.

Is that the right way to think about it, that really some of these one-time items in Q1 holds back your growth and you get more into the low single digits to mid-single digits on sales Q2 to Q4 and maybe low double digits to mid-teens Q2 to Q4 on EPS growth? Thanks.

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

A

I think the math you have, Arun, is definitely accurate. We talked a lot on the call already about factors that affect Q1, some comparable factors last year, et cetera. Again, we're a seasonal business. For us, Q2 and Q3 are very large quarters for our deco architectural businesses. They're very large, even larger for our traffic businesses. So, again, we'll see a pickup in those businesses seasonally, but we're also expecting some different volume tenor than we had last year in those businesses. Tim went through, I think, a laundry list of items earlier that included the leverage on those higher volumes. We also would expect improved manufacturing that we've been working on, and we alluded to in our May CEO update that manufacturing should grow throughout the year. So, again, I definitely agree that Q1 on a year-over-year basis up modestly, but the back half of the year we expect to grow in terms of size.

Operator: Our next question comes from Aron Ceccarelli with Berenberg. Your line is open. Please go ahead.

Aron Ceccarelli
Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Thanks and good morning. I would like to go back to the topic of raw materials cost for a second. Your guidance has been improving throughout 2023. You were guiding down high single-digit in Q3 to Q4. When I look at Q1 2023, your raw materials cost were still slightly inflationary, so why are you guiding just for mid-single-digit decline now? What has changed, if anything because when I look at gross margin, it expanded 450 basis points year-over-year in Q4? It looks to me this is accelerating, so what is driving this mid-single-digit guidance for Q1, please? Thank you.

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

A

I think as we alluded to earlier, we do expect sequential improvement in the moderation of raw materials Q4 to Q1. The mix of business for us as we build inventories and – we deplete inventories in Q4, we're building inventories in Q1, so that has a factor. But again, for the full year, we still expect moderation, further moderation of raw materials for the full year 2024 versus 2023.

Operator: Our final question today comes from Jaideep Pandya with On Field Investment Research. Your line is open. Please go ahead.

Jaideep Pandya
Analyst, On Field Investment Research LLP

Q

Thanks. Maybe it's not relevant, but given how low volumes are across the value chain, could you tell us like what is the spare capacity you have? I'm basically asking this question because a lot of investors are wondering is there margin growth left in the coatings sector beyond 2024. And given that it looks like in 2025, 2026 growth will come from volume, just wondering what is the spare capacity you have in the system these days. That's my first question. Second question is really around raw materials. Do you expect to buy in sync with your volume growth this year or would you still destock? And therefore, if your volume growth is, let's say, up 2%, we shouldn't really expect raw material purchasing to be up 2%, should be maybe 0%? And the last question really is on marine protective. You alluded to fire fighting protective. Now, one of your competitors is very strong in that area.

So, have you launched new products and, therefore, gaining share from that competitor or is it that the market is just doing very well? Thanks a lot.

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Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Okay. Let me take those on, Jaideep, it's Tim. First of all, capacity, we got plenty of capacity. We have capacity. Volumes are still down significantly versus 2019 and, yeah, we haven't taken capacity out since 2019. And frankly, I would say our industry peers and certainly our suppliers, there's capacity. So, yes, you're exactly right; you should expect that as volume comes up, certainly we will get leverage from that volume which will drop as margin improvement. Second question, raw materials and inventories, we do still have probably a few days higher DOI than we would like to have, $100 million, $150 million more raw material inventory than we would like to have. So, yeah, we will be buying raw materials in Q1 as we get ready for the peak paint season, and some of them are more seasonal businesses, but maybe a little bit less than what links directly to demand because of that excess that we're sitting on today.

And finally, on marine and protective, the quick answer is yes. We have launched some new products, new technologies recently in the fire protection area that are quite strong and being well received by the market. For hydrocarbon fire protection is a product called PITT-CHAR NX, which has been very well received. And on the cellulosic fire protection side, a product called STEELGUARD 651, which is also being very well received. So, those new technologies are delivering share gain for us. But separate from fire protection, we've got really a fantastic product on the marine dry dock side that's very sustainable, very fuel efficient, and drives – it's really getting really good market receptivity and we've got a lot of share gains that will be – we'll reap the benefits of those share gains in 2024 and beyond, and that's a product called SIGMAGLIDE. So, it is technology-driven in those spaces.

Operator: There are no further questions at this time. I'll now turn the call back over to Jonathan Edwards.

Jonathan Edwards

Director-Investor Relations, PPG Industries, Inc.

Thank you, Elliot. Well done today. We appreciate your interest and confidence in PPG, and 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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