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PPG Industries, Inc. (PPG)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

I'll now turn the conference call over to Alex Lopez, Director of Investor Relations. Please go ahead, sir.

Alejandro Lopez

Director-Investor Relations, PPG Industries, Inc.

Thank you, Carlie, and good morning, everyone. This is Alex Lopez. We appreciate your continued interest in PPG and welcome you to our second quarter 2025 earnings conference call. Joining me today from PPG are Tim Knavish, Chairman and Chief Executive Officer; and Vince Morales, Senior Vice President and Chief Financial Officer. Our comments relate to the financial information released after US equity markets closed on Tuesday, July 29, 2025. We have posted detailed commentary and the accompanying presentation slides, which are being shown on this webcast, on the Investor Center of our website, ppg.com. Following management's perspective on 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. The company has provided in the appendix of the presentation materials, which are available on our website, reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures. For additional information, please refer to PPG's filings with the SEC.

Now, let me introduce PPG Chairman and CEO, Tim Knavish.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Thank you, Alex, and welcome, everyone. I'll start by providing a few highlights of our second quarter 2025 financial performance, and then I'll move to our outlook. Our results demonstrate the strength of PPG's global business portfolio in an increasingly dynamic macro environment. We delivered net sales of $4.2 billion, with an increase in organic sales of 2%. Our momentum and organic sales growth was led by our aerospace coatings, protective and marine coatings and packaging coatings businesses. In addition, sales volumes in our Industrial Coatings segment outpaced the industry, reflecting the initial benefits from share gains in our packaging, industrial and automotive OEM businesses. We expect the benefits from these share gains to accelerate in the second half of 2025. Regionally, we delivered organic growth in both the United States and Latin America, with tepid demand in Europe and some softening in Asia.

We delivered a quarterly segment EBITDA margin of 20.3% and our adjusted earnings per diluted share was $2.22. Our balance sheet remains strong, and we are committed to using this balance sheet for shareholder value creation. During the quarter, the company repurchased approximately $150 million of stock, bringing our year-to-date total to $540 million. Additionally, in July, we raised our quarterly dividend per share by 4%, demonstrating

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our confidence and the resiliency of our business and the strength and future growth of our company. Looking at each of our segments in the Global Architectural Coatings segment, positive selling prices in both regions were offset by lower volumes and the impact of a divestiture. In Architectural Coatings EMEA, organic sales growth in the Nordic region and in the United Kingdom were offset by lower demand in Eastern Europe.

While volumes remained lower in the quarter, we saw evidence of improvement in certain countries, albeit inconsistent. In Architectural Coatings Latin America and Asia Pacific, we delivered organic sales growth in Mexico, aided by solid retail sales, while results were impacted by the pause in project-related spending that we discussed in April. It is important to note that while project-related spending was down year-over-year, we did recognize improvement versus the first quarter 2025, and we expect continued improvement of project-related spending to progress during the second half of 2025. Segment EBITDA margin decreased, driven by the business divestiture, lower sales volumes and unfavorable currency translation, partially offset by strong cost control actions. The Performance Coatings segment delivered record net sales and earnings, with a 6% increase in organic sales, driven by both higher selling prices and sales volumes.

Within the segment, aerospace delivered high single-digit percentage organic sales growth with record quarterly sales and earnings. Customer order backlogs were stable at about $300 million, even with growth-related investments that improved our manufacturing output in the quarter. Our unique technology position remains a strong growth engine for PPG. We are investing both OpEx and CapEx in aerospace to deliver continued solid growth well into the future. In automotive refinish, organic sales decreased by a low single-digit percentage versus the prior year. In the US, organic sales were flat, despite lower industry collision claims as we benefited from both share gains and customer order patterns. Organic sales outside the US were down, with modest sales volume declines in Asia and Europe.

In the second quarter, the company grew the number of PPG LINQ subscriptions as well as MoonWalk installations. And I'm proud to say that in July, we are installing our 3,000th MoonWalk, further supporting customer productivity and customer partnerships. We do anticipate lower volumes in the third quarter in refinish due to normalization of the customer order patterns. Protective and marine coatings delivered double-digit percentage organic sales growth, supported by increasing global demand for our technologies and our recent share gains. This was the ninth consecutive quarter with positive year-over-year sales volume growth in this business, and we are continuing to increase our growth-related investments to support the demand for our leading products. Traffic solutions delivered mid-single digit percentage organic growth in the quarter, driven by share gains and strong demand outpacing industry growth rates.

Segment EBITDA was up 8% year-over-year, reflecting the organic sales growth as our various growth investments in this segment are yielding initial benefits. In the Industrial Coatings segment, second quarter sales volumes for the segment were flat, which is an improvement versus recent quarters and demonstrates the initial benefits of our share gains. Selling prices declined 1% due to carryover of certain index-based customer contracts. From a business unit standpoint, our automotive OEM business delivered volume growth in Asia and Latin America, which was offset by lower volumes in the US and Europe, reflecting industry production declines in those regions. In the third quarter, we expect to grow above industry levels, driven by the conversion of already awarded customer share gains.

Our Industrial Coatings business unit sales volumes were flat as share gains were offset by lower demand in Asia Pacific and the United States. Selling prices declined in Industrial Coatings due to lower index-based pricing. Packaging coatings organic sales increased by high single-digit percentage year-over-year, driven by share gains growing significantly above industry rates. We expect additional benefits from customers converting to our technologies due to expanding BPA regulations in Europe. Segment EBITDA margin declined year-over-year due

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to the silica's divestiture as well as lower selling prices, which were partially offset by strong cost control and productivity actions. Looking ahead for this segment, growing benefits from share gains are expected to drive low single-digit [ph] percent (00:09:33) volume growth in the third and fourth quarter. And this, combined with improved manufacturing performance will drive earnings and margin expansion.

Now, let me talk about our balance sheet and cash. During the quarter, we completed about $150 million in share repurchases and paid approximately $150 million in dividends. Year-to-date, we have purchased $540 million in stock and paid approximately $310 million in dividends. We retired €300 million of debt during the quarter, and we have another €600 million of debt maturing in the fourth quarter. Our balance sheet remains strong, which continues to provide us with financial flexibility, and we remain committed to driving shareholder value. Looking ahead, I am genuinely excited about our sales and earnings growth momentum for the second half of the year and beyond. Even though the current macro environment remains highly dynamic, we've proven that our well-positioned portfolio navigates well and performs during periods of uncertainty.

Of course, we're monitoring the tariff situation and we'll react accordingly with pricing actions and/or further self-help actions in order to mitigate any financial impacts. We have not experienced any significant change to our raw material pricing, and we expect low single-digit inflation for the year as our suppliers continue to favor volume over pricing. We expect growing benefits from our aggressive self-help and discretionary cost management programs as we move forward through 2025 and beyond. We see structural strength in our Performance Coatings segment driven by our technology-advantaged products in aerospace and protective and marine which will be partially offset by lower automotive refinish sales volumes in the third quarter driven by customer order patterns. We expect European Architectural Coatings volumes trends to remain tepid and anticipate project-related spending in Mexico to improve as we move through the second half of year. We expect increased momentum in the coming quarters for our Industrial Coatings segment.

While second half automotive OEM industry demand forecasts are below prior year, our share gains are beginning to yield benefits and we expect to outperform the market. We sized our annual share gains in the Industrial segment at $100 million, and we are tracking to that annualized figure. Finally, with the acceleration in volume growth, we anticipate driving high single-digit percentage year-over-year earnings growth for the company in the second half of the year. This will accelerate through both quarters, resulting in a mid-single-digit percentage increase in EPS for the third quarter and a low double-digit percentage increase for the fourth quarter. We are reiterating our full year guidance per share range of $7.75 to $8.05, and we have a clear path to achieve it. In closing, we're benefiting from our sharpened portfolio with technology-differentiated products and services that will deliver growth above industry levels.

Additionally, we are aggressively managing the bottom line, including decisive self-help, and combined with our disciplined capital allocation and strong balance sheet will enable us to deliver sustainable top line and bottom line growth and shareholder value creation. Thank you to our PPG team around the world who make it happen and deliver on our purpose every day, and we appreciate your continued confidence in PPG.

This concludes our prepared remarks. And now, would you please open the line for questions?

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QUESTION AND ANSWER SECTION

Operator: Thank you very much. We'd now like to open the lines for Q&A. [Operator Instructions] Our first question comes from John McNulty from BMO. John, your line is now open. John, just confirming if you can hear us.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Sorry about that. I was muted. So Global Architectural, if we can start with that. The volumes were a bit on the soft side. The margins, obviously, came in a bit worse than that. I guess you gave a little bit of color on that around Europe maybe not being quite as recovering as maybe you had hoped earlier, and Mexico project is still a little bit of a drag. I guess, as you look through the rest of the year, it sounds like Mexico is going to get at least marginally better. What are your thoughts on Europe? Where were things maybe a little bit less robust or recovering than what you thought? And then, I guess how should we think about the margin impact there? It seems like the sales were light but the volume impact really was maybe bigger than what we would've thought. So, I guess how should we be thinking about that?

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

A

Yeah. Thanks for the question, John. Yeah, I'll start with Europe. So, we saw what we thought was the start of momentum at the end of Q1, and we expected that to continue to improve in Q2. And frankly it didn't, largely driven by Eastern Europe. We did see that positive momentum from late Q1 continue into the Nordics, which of course is our legacy Tikkurila business and that's doing well now. We saw positive momentum in UK and Ireland. We saw positive momentum in the Benelux. France, I would say, was okay. But the negative that we weren't expecting at the end of Q1 was Eastern Europe. So with Architectural Europe, we're really expecting combined more of the same. But as that happens, John, we continue to take more and more cost out, and we're positioned well. We track the share very closely and we're confident in our share position and we're gaining share in our larger markets.

So, any little stimulus of any kind will bode very well for us in margin and leverage. Moving on to Mexico, we did see retail recover which was promising. I'll remind you that we were, in Mexico for Architectural, we were actually down in sales in Q1, minus low single digits. We're up in Q2, positive low single digits, so we're starting to see that led by retail. Project work is sequentially improving and we expect that to play out through the rest of the year. Now, in – on the margin side, of course, there's some effect by what I just described on volume. A couple other things that impacted our margin for the Architectural Coatings segment for Q2. First of all, the FX, the imbalance in FX improvement in Europe versus Mexico led to a net negative for us in margin. The Mexico B2B volumes still being down, that's a very good margin business for us.

We had a – you may have seen in the slide, we talked about a supply chain disruption that was an internal disruption in Australia that hit us for the quarter. That's transitory and behind us. And then finally, that divestiture was above segment margin. So, it's a combination of all those things that led to a lower-than-expected margin for the quarter across Architectural, John.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

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Got it. Thanks very much for the color.

Operator: Thank you very much. Our next question comes from David Begleiter from Deutsche Bank. David, your line is now open.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. Tim, on the volume growth, nice job in Q2, should we think about volumes being up maybe 1.5% to 2% in Q3 and 2% in Q4? Is that a good cadence for volume growth you're looking at in the back half of the year?

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

A

Hi, David. Yeah, we're proud, we're proud of what we did in volume for the first half of this year, particularly as we see a bunch of other reports coming out, and we expect that to accelerate in the second half of the year, let's call it, low single digits and moving up that low single-digit ladder, how is that, as we move through the second half of the year. And we feel quite confident on that. And that's why you may hear a little kick in our step this morning is because we finally reached. If you remember back, I think we started this at the end of Q3 last year, talking about share wins that we had, and we are expecting the second half of 2025 to be much better for us and it's here. So, we feel really good about both volume and, frankly, EPS growth as we move through the second half of the year.

Operator: Our next question comes from Michael Sison from Wells Fargo. Michael, your line is now open.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hi, guys. Nice quarter. For Performance Coatings, the only blemish looks like refinish is down. All the other segments had a really nice year-over-year improvement. Just curious on the outlook for refinish for the next couple of quarters for volume as well into 2026. And then how sustainable is the double-digit growth you saw in protective and marine? That seemed to be pretty impressive.

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

A

Thanks, Mike. Refinish, yeah, was down low single digits, but I think we're flat for the year, through the first half of the year. And everybody on the call knows that collision claims have been down high single digits for the first half of the year. So, we're pretty proud of being flat at the midway point. Now, as we move forward, I did say that we're expecting Q3 to be soft because our strength in the first half of the year was driven by share gain and some distributor order patterns, and we expect the share gains to continue, but we do expect swinging of that distributor order pattern for Q3. So, I would expect Q3 to be a bit soft, Q4 to be more normalized. But really, we're not expecting industry recovery of claim rates and body shop work likely until 2026. There's a bunch of factors here on affordability of insurance, people not submitting claims, and a number of other factors that we expect to play out through the remainder of 2025.

And we'll get like a more normalized, like down low single digits on volume and claims, up a couple of points on price as a normalized model, and we expect that to return in 2026.

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

A

Yeah, Mike, this is Vincent. In addition to the core paint volumes Tim is talking about, just a reminder, we do have a subscription model with our Out-of-the-Can, MoonWalk, LINQ ecosystem. So, that's helping us buffer versus the industry claims. So, that subscription model certainly continues to grow, as Tim alluded to in the prepared remarks. So, that's a unique item for PPG that benefits us.

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

A

Yeah. Look, at the end of the day, this is a world-class marquee business for PPG for the midterm, long-term and even today in this challenged claims and body shop activity environment, it's still a marquee and outstanding business for us, and we'll continue to grow in it even more so as things normalize next year. Now, PMC business, nine straight quarters of solid growth, super strong in EMEA and Asia Pacific in particular, not weak in the United States, doing okay here, too. But we see that continuing to do well into the rest of this year and at least through 2026. We've got some really advantage technologies in that business that have really taken hold in the areas of marine aftermarket in the dry dock space, some fire protection and other technologies that we've been launching over the last couple of years. So, we're bullish on that business certainly for the foreseeable future when it comes to PMC.

Operator: Thank you very much. [Operator Instructions] Our next question comes from Duffy Fischer from Goldman Sachs. Duffy, your line is now open.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Good morning, guys. When you comp you versus the others that have released already, you look really good across most everything. One area that seems like others are doing a little bit better is on raw materials where you guys are still seeing inflation and others are kind of calling it flat to down in some instances. So, can you walk through, is that just a different footprint of what you buy? Is it a different footprint geographically? Why is it that your raw materials seem to be a little bit more inflationary than peers?

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

A

Yeah. Thanks, Duffy. Happy to take that question. I would point to two things. Number one is because of the size of our business in Mexico, we buy a lot more there than any of our peers. And the FX impact affects the raw material inflation because a lot of that is purchased in dollars, okay? So, that's one. The second piece, depending on who you're talking about, if you're largely an architectural coatings company, you don't buy a whole bunch of epoxy. And epoxy is one piece of the basket that's actually gone up, and this was pre-April 2, there were some tariffs already put in on epoxy that affected pricing, and we had that built into our guide from the beginning of the year. So, I would say, depending on who you're comparing us to, those would be the two big differentiators.

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

A

And Duffy, on the Mexico situation, similar to other businesses in Latin America, our business is able to price through that inflation. So, it's not as impactful on the bottom line. So, again, if you're comparing us price and raw materials, we feel we're certainly holding our own.

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Operator: Thank you very much. Our next question comes from John Roberts with Mizuho. John, your line is now open.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you. Your buyback activity moderated a bit in the June quarter. What should we be thinking about for the second half? And do you see any M&A competing with buyback?

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

A

Hey, John. On the buybacks, I've been pretty consistent since I took the job, and I hope I've gotten some credibility there that we're not going to let cash build on the balance sheet. I said that when I took over, we repaid some debt and now for seven straight quarters, we've been doing buybacks. There was a bit of step down in Q1 only – I'm sorry, in Q2, only because Q1, we had the divestiture cash. So, that changed the calculus a bit as far as how much we would buy in that quarter. So, that's what drove the step down. We assess it at the end of every month, frankly, and to the extent I don't have a better use of cash to drive shareholder value, you should expect me to continue to behave as I have over the last seven quarters. Now, M&A, the only super-hot one out there is the one we all know about coming out of Germany.

And we're only interested in one piece of that, and that's not consistent with their playbook and how they want to move forward with the transaction. Beyond that, we're looking at very small things as they come along, but nothing material that would affect our cash playbook here on the foreseeable at least short-term horizon, John. You should expect to see the same behavior out of me that you've seen since I took the job.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you.

Operator: Thank you very much. Our next question comes from Kevin McCarthy from Vertical Research Partners. Kevin, your line is now open.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Thank you and good morning. Tim, nice to see greater volume traction building here throughout the year. And listening to your comments, I think share gains are a meaningful part of that. So, I was wondering if you could talk through the Performance segment and maybe help us conceptualize the gains that you've had in packaging and perhaps also protective and marine, I think on the Industrial side, you quantified the gains as $100 million and just trying to level set or benchmark against that figure on the Performance side of the house.

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

A

Sure. Well, the $100 million, I said most of it is automotive OEM, second place would be Industrial Coatings. And as you know, packaging is in Industrial, so packaging would be third place. Packaging specifically, there was some share shift that we knew coming into the year in the US would be in the opposite direction for us because we picked up some temporary business for the – over the last year. So, we had that build in that was known, but we've more than offset that with share gains in Europe and some share gains here with some of our new BPA-NI

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technology. So, the net-net is we've been net winning despite that known share shift that would happen here in the US. On the protective and marine, I mentioned a little bit about it. That is really being driven by a couple of new technologies that we've launched in the last few quarters.

You probably saw one of them at the Investor Day in SIGMAGLIDE, another one – another marine dry dock product called SAILADVANCE, which is copper-free, is starting to take off. We've got some really great fire protection products that we've launched in the last year or so, Kevin. So, that is much more technology-driven and those things are really starting to get some momentum. So, hopefully, that's given you enough insight there.

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

A

And I'll pick up the rest of the Performance side, Kevin. This is Vince. We're well above traffic, US/Canada industry volumes where we're probably 2x what we're seeing in the industry. It's a very strong industry right now as infrastructure continues to take place. No question, in aerospace we're continuing to serve a very hot market. But our performance there, including some of our debottlenecking, is allowing us to outperform that market. And as Tim alluded to earlier, we've outperformed in refinish very clearly, so we talked about that. So, if you look at our Performance segment in Q2, all four of our businesses outgrew their market. And as we said in the prepared remarks, in Q3 we expect in our Industrial segment all three of those businesses to outperform market.

Operator: Thank you very much. Our next question comes from Ghansham Panjabi from Baird. Ghansham, your line is now open.

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

Q

Yeah. Thank you, operator. Good morning, everybody. Just following up on the last question as it relates to the – more specifically the Industrial Coatings segment. Clearly, you're benefiting from market share that's going to build through the back half of the year for basically all three major verticals within that segment. But in terms of base market conditions for Industrial Coatings, how are you thinking about the outlook for the back half of the year relative to your view the last time you reported in the context of still significant uncertainty with tariffs, et cetera?

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

A

Yeah. Thanks, Ghansham. Of course, it's a very uncertain market. It does – that uncertainty probably hits – outside of Mexico, the issues there, it probably hits the Industrial segment the hardest. So, that confidence that you're hearing from us for the second half is entirely share gain-driven. The actual segment demand, and it does change every day as we all know, but the actual segment demand, I would say, is flat to stable in most of our end markets. Some of them being a little bit depressed, of course, like auto builds in US and Europe. Some consumer products in the industrial space coming from Asia that were exported to the US, of course those are a bit depressed. Heavy duty equipment is a bit depressed. But the aggregate, I'd say, is flat to slightly down from an industry standpoint.

But it's our share gains that are already launching, some of them launched and some of them launching as we speak, that give us the confidence across all three businesses.

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

A

Hey, Ghansham. If I could...

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

A

All three businesses, I'm sorry.

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

A

Yeah. If I could just add to that. In most of these businesses we're talking about here, we do not see a stacking of inventory in the chain. So, we're certainly not – we're certainly beholden to the global macro and the tariff discussion, but there's not a big inventory reaction that we would expect either way regardless of what happens with tariffs.

Operator: Thank you very much. Our next question comes from Frank Mitsch from Fermium Research LLC. Frank, your line is now open.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Thank you. Vince, if I could just follow-up on that. I mean, the US GDP numbers came out this morning pretty robust, suggesting that there was some pre-buying. So, perhaps you're not – you suggest you're not seeing much in the way of inventories of your customers. But can you talk about the order patterns that you saw throughout the second quarter and what you're seeing so far here in the third quarter from your customers that may be anomalous or perhaps not? And then also, what – the FX impact on 2Q, what was that and what are your expectations for 2025? Thank you.

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

A

Yeah, Frank. As we look, again, the most sensitive segment for us as it relates to the global macro in near-term is that Industrial segment. We did – obviously, in early April, we talked about this on our April call, we did see some customer concerns around the tariffs. As we progress through the quarter, we saw a normal order pattern return. We wouldn't see – it wasn't jagged, et cetera. I think most people absorb psychologically the impact of the tariffs and we move forward. And again, no significant changes throughout the quarter in order patterns. Tim talked about it earlier, a little softer in Europe than we wanted; some softening in Asia, again, to be expected. But beyond that, no significant impacts. On a currency basis, we were negative, Frank, in Q1. On a translation basis, that reverted to much less negative in Q2. We expect the back half of the year to offset what happened in Q1.

On a year-to-date basis, we're closer to zero. But as we exited the quarter on volumes, we didn't see any pull-forward into Q2.

Operator: Thank you very much. Our next question comes from James Hooper from Bernstein. James, your line is now open.

James Hooper
Analyst, Bernstein Autonomous LLP

Q

Hi. Good morning and thank you very much for taking my question. My question is around the share gains and margins [indiscernible] (00:35:50). Now, clearly, your competitors have acknowledged that you are [ph] an incumbent force (00:35:53) and gaining share in the market, not just you. But I was interested to see whether the share gains you've made have had any impact on the incremental margins from gaining share and whether

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there's a part of these margins increasing once you kind of consolidated the share gains going forward. Thank you.

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

Yes. Thanks, James. I think the way to think about it is the share gains that we've had, you should expect them to be at segment average from a gross margin standpoint. But the volume element of it, as we launch them, will improve our net margin obviously with the fixed cost leverage that we'll get from them, the manufacturing efficiencies. So, that share gain launch, as we move through the second half of the year, you'll see not only the top line growth from that but you'll see the net margin expansion as we move through the next two quarters.

Operator: Thank you very much. [Operator Instructions] Our next question comes from Patrick Cunningham from Citigroup. Patrick, your line is now open.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Good morning. Aerospace continues to be quite strong over two or three year stack. How should we think about gross levels over the next few years, given pricing actions for a longer-cycle business, whether that starts to normalize and then the debottlenecking and new capacity you have potentially allowing you to serve more volume there.

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

Yeah, Patrick. So, we are anticipating high single digits and double digits, depending on what quarter you're lapping, high single digits and double digit growth frankly for the foreseeable future. I meet with a lot of the CEOs of these companies and every one them, whether it's military, general aviation or commercial aviation is – their forecasts are extremely strong.

And when you combine those three, you kind of get this exponential impact on us because we get the top line, margin and the leverage across the whole business. So, that's why we are – you see us investing both OpEx and CapEx so much. We just announced a new aerospace factory in the United States this past quarter at about $380 million CapEx cost, and we continue to invest in debottlenecking. So, I don't see an end to this high single digits, low double digits kind of growth trajectory for at least as many quarters as we're projecting.

Operator: Thank you very much. Our next question comes from Vincent Andrews from Morgan Stanley. Vincent, your line is now open.

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

Hi. Good morning, everyone. I'm wondering if you can speak a little bit more about the Mexico architectural market, in particular, both – hi, I'm unmuted. Can you now hear me?

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

Yeah, we can hear you now.

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

A

Go ahead, Vincent.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Hello?

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

A

Yes, we hear you, Vincent. Yes.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

You can hear me? Okay. Great. Sorry, I don't know what happened. But just curious if you could speak a little bit about the – okay, terrific. If you could speak a little bit about the Mexico architectural market and, in particular, sort of what you're hearing from customers that's giving you confidence that there'll be a pickup in the large project volume in 3Q and presumably more so in 4Q? And then what, to that end, have you baked into the guidance for the full year for that? Thank you.

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

A

Sure. So, what we're hearing, as you would expect, given the reach of our business down there, we're pretty well-connected not only to the key government entities, but to the large project owners, the project managers, the contractors. And as far as the sequential improvement, Vincent, there's a lot of these projects that are already in flight. And so they're kind of dialing back rather than complete stop on the spending. And then as we move forward here, the initial pause from April, they're starting to complete and move forward with completion of some of those projects that were already in flight. Beyond that, there's a high degree of confidence from the folks that we talk to on the ground in Mexico that once our two Presidents come to some kind of agreement that that will open the floodgates. And there will be some tariff, I'm sure. I don't – I have no idea any more so than anyone else does on what that endgame will be.

But the advantage that Mexico has and will always have is proximity. So, even if there's some tariff that adds cost to goods coming from Mexico to the United States, relative to all the other alternatives who are also getting tariff, it's still in a significantly advantaged position. It's got a strong workforce, a well-educated workforce, a highly productive workforce and proximity. And tariffs can't put an ocean between us and Mexico. So, I guess the combination of projects in flight starting to restart and this pretty high level of confidence that wherever the two governments end up, Mexico will still be an advantaged position.

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

A

Yeah. Vincent, just to get to your second question, what's built into our guide. You look at, again, Q2, organic growth in Mexico was low single digits. Again, retail up, our project business down, and we look at the second half holistically, we have that business up modestly to mid-single digits. So, it's not a significant step-up in terms of total PPG, but again, a step up sequentially from first half to second half for the project work and continued growth in retail.

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Operator: Thank you very much. Our next question comes from Arun Viswanathan from RBC. Arun, your line is now open.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. So, I guess you've shown now a few quarters of consistently improving volume growth. As you just answered, aerospace is definitely contributing to that. But you are showing some better growth in some of the industrial verticals. So, maybe you can just give us your outlook as you look into specifically auto OEM. I know you've answered a few questions there already. But I mean, I guess, is it really production that you'd expect that would drive you further next year? Is there any other initiatives, whether it be EV growth in China or maybe some Europe customer mix? What else would you point that would maybe help continue to drive maybe a turnaround in auto OEM? Thanks.

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

A

Yeah. Hey, Arun. It's a number of the things that you mentioned. I'll try to talk about each one of them. Clearly, we have the share gain momentum that's kicking in now. That's one piece. The longer-term fundamentals for this industry and growth are still there. There's still a deficit in new vehicles. You've got a fleet age, you've got car park per capita in places like India and China. So, the fundamentals are still there, especially given that the whole world has been pretty much under-producing since COVID. So, longer-term, the fundamentals are there. So, you've got the short-term share gains, and we do expect to start to see stabilization and increase in builds as tariff dynamics and inflation and other affordability and macro conditions get more confidence in the consumer. There's just a – until we get through some of this period of uncertainty, there's an overall lack of confidence that's holding back auto purchases.

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

A

Yeah. We said in our – Arun, it's Vince. We said in our prepared remarks, we're at industry in terms of volume and demand, and we certainly expect in the second half of the year continuing into 2026 us to outperform the industry, share gain part of that, a couple of customer-specific issues that we're seeing that were negative to us in the back half of last year will be beneficial to us in the back half of this year. So, those – and we still have very good positioning in China where retail sales were up double digits in the second half and production [ph] didn't (00:45:20) match that.

Operator: Thank you very much. Our next question comes from Matthew DeYoe from Bank of America. Matthew, your line is now open.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Thank you. Can we talk through the puts and takes on price raws and cost cuts in the second half, because if I look back to some of the prior calls, I think you had said like $75 million of self-help actions and cost savings would hit 3Q. And in a vacuum, that should be able to really get you more than what you're expecting as it relates to margin improvements year-over-year. So, what's kind of diluting that?

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

A

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Yeah. Matt, just some clarification. The restructuring benefits we earmarked for this year were $75 million full year, growing throughout the quarter or growing throughout the year. We're about a $30 million clip through the first half. So, we'll still grow incrementally in the second half beyond what we saw in the first half, but it's not an incremental $75 million. Again, as we look at price cost, we still expect the same inflation – raw material inflation rate. We do expect some incremental pricing to benefit us in the second half versus the first half as we put some price increases in in the second quarter in certain businesses.

Operator: Thank you very much. Our next question comes from Aleksey Yefremov from KeyBanc. Aleksey, your line is now open.

Q

Thanks and good morning, guys. This is [ph] Ryan (00:47:10) on for Aleksey. I just wanted to circle back to auto OEM. And specifically in China, I think there's been a lot of news circulating kind of in the last couple of weeks just around potentially some elevated inventories, the end of price-cutting wars. So, just kind of curious what you guys are hearing from customers there and kind of what the – maybe the production outlook is going to look like maybe in the next six to 12 months. Thanks.

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

A

Yeah. I think – [ph] Ryan (00:47:36), I think that it's certainly doing better than the rest of the world as far as production outlook. That drives – given the lack of volume in the rest of the world that drives a competitive dynamic. And our technologies are really productivity focused. And so we do get an appreciation of that from our customers in the automotive OEM space. EVs are doing better in China and one company in particular, who we are number one with, is doing better than the rest of industry. And about one out of every three cars produced in the world comes from China. So, you add all those up, and China is actually acting as a buffer to us in auto OEM relative to what's happening in US and Europe.

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

A

Yeah. The one other thing I would add, [ph] Ryan (00:48:32), is if you look at exports from China, they're up about 10% through the first half of the year on a year-over-year basis. That's another growth element coming out of China, which is driving the auto production.

Operator: Thank you very much. Our next question comes from Josh Spector from UBS. Josh, your line is now open.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hi. Good morning. I wanted to follow up just on the conversation around Architectural margins. So, I think Vince has highlighted earlier, you had almost 100% negative incremental. You talked about some things with FX translation, but the reported for the segment was zero, and you talked about some costs. So, if I kind of put this together, if I think about a normal 40% incremental margin, correct me if I'm wrong, there's about $30 million of maybe higher costs that hit you. Can you maybe bucket those up between the supply chain issue versus FX? And then as you look at the second half, should we expect this higher decremental to persist or does it go back to normal? Thank you.

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

A

As we talked about earlier, Josh, a couple of factors at play here. Most meaningful is the mix difference between Mexico and our non-Mexico business. So, with Mexico B2B down, there's a mix impact. As we talked throughout the call today, we expect that to become less of an issue as we progress through the year. The FX impact normalizes in the back half of the year, so both on raw materials, as well as there's an FX impact between just Europe and the Mexican peso. We did have a transitory issue in Australia. To put that in order of magnitude, that hurt our volume on a year-over-year basis by half a turn, so 50 basis points. So, it was impactful on our bottom line as well. As Tim alluded to earlier, that was primarily contained to Q2. And then – so those are the big impacts. I think you'll see us return to a normal incremental margin in the back half of the year as some of these FX and one-time events fall by the wayside.

Operator: Thank you very much. [Operator Instructions] Our next question comes from Chris Parkinson from Wolfe Research. Chris, your line is now open.

Christopher Parkinson
Analyst, Wolfe Research LLC

Q

Great. Thank you so much. Tim, when you sit down with David and you think about the outlook for the company over the next, let's say, 6 to 18 months or so, it seems like aerospace and P&M are kind of the leaders. You have some new products in both, especially in P&M. And then within that, I know you have some new things in auto OEM throughout. But where would you have the greatest confidence over the next 1.5 years or perhaps even longer in terms of your ability to significantly outgrow markets to the point where your confidence in the investment community will surely take notice?

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

A

Yeah. Hi, Chris. We're outperforming and will continue to outperform in aerospace. Refinish, you didn't mention that one. I'm guessing that's because you were focused on the chemistry-related innovations. But refinish, we will continue to launch innovations outside the can, some of which you would have seen when you were here that drive shop productivity and digital tools, et cetera. We expect to continue to outperform there. Our traffic business, now that we've got it cleaned up and it's only focused on the country where we have a super strong position, we'll continue to perform and outperform there as highway projects and infrastructure are invested in. Protective and marine, as I said earlier, no end in sight to particularly our outperformance in the areas of fire protection and marine aftermarket.

This packaging dynamic in Europe – of Europe increasing BPA regulations, that plays to our advantage and that'll play out in the next couple of years, 2026 and 2027. Comex, PPG Mexico will – once we get through this transitory issue with project spending being paused, that'll continue to be an area of outperformance for us. I think share gains in Industrial Coatings where we, frankly across many of our segments, where we have a strong product and service offering but are underrepresented in share, as we focus more acutely on the areas where we have the strongest right to win, you'll see that business outperforming. And, look, at the end of the day, Chris, our algorithm for growth, combination of our talented people, our much more focused and sharper kind of future-facing portfolio, much more disciplined around our enterprise growth strategy and where we invest and where we have the strongest right to win.

Our three new, crisply-defined operating segments that drive distinct missions, distinct value propositions, distinct investment criteria. The three-pronged innovation approach that you heard about when you were here between

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chemistry inside the can, digital productivities outside the can, and then the use of AI not only for productivity internally but also customer-facing use cases, and the key enablers of a lot of work that we're doing on OpEx and commercial excellence, the outcome of that is we are committed to what I laid out two years ago which was ongoing a 2% to 4% organic growth company that delivers an 8% to 10% (sic) [12%] (00:54:55) EPS growth every year and $1 billion of adjusted free cash flow. So, that's kind of our growth algorithm. When you take everything I described in each of the businesses plus what we're doing to build this organic growth and margin machine, we're comfortable that those commitments that we've made to the investment community are, in fact, what we'll deliver.

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

A

Yeah. And that free cash flow number, again, as everybody recalls, includes the deduction for capital spending.

Operator: Thank you very much. Our next question comes from Jeff Zekauskas from JPMorgan. Jeff, your line is now open.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Two-part question. For Vince, cash flow from operations was $370 million-or-so for the first couple of quarters; last year you did $1.4 billion. Do you expect cash flow from operations this year to be same as last year or higher or lower? And for Tim, the results in Performance Coatings were good, that is volume growth was plus 3% and price was plus 3%, but your operating income was up maybe 9% or $30 million. I can imagine it being up double that with that kind of price and volume. Were you satisfied with the Performance Coatings results or was there something that's been holding the margins back? Your incrementals were even lower.

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

A

Yeah, Jeff. It's – sorry, Jeff. Yeah, this is Vince. We are tracking ahead of prior year in cash from operations. Certainly, as you're well aware, most of our cash flow, because of the seasonality of our businesses, is back half-weighted. We still have our normal blocking and tackling to do as it relates to inventory management, as we come out of the peak seasons with collections from our customers, but our expectation is for our cash to grow on a year-over-year basis, our cash amount to grow on a year-over-year basis.

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

A

Yeah. Jeff, on the margin question, of course, I would have wanted the net margin for Performance Coatings to drop more EBIT, EBITDA and cash to the bottom line. But we made a conscious decision coming into the year, I mean this segment is, I mean, 25.7% EBITDA segment, strong growth of mid-single digits in a very difficult operating environment. It is a shining star right now, and we want to capture as much of that value as we can for the future for our shareholders. So, we made a conscious decision to make some fairly significant investments particularly in aerospace and protective and marine and some digital investments in refinish so that we can keep this thing running like it is and growing into the future, Jeff. So, we made a conscious decision to spend more on OpEx, growth focused OpEx for things like debottlenecking in aerospace, digital initiatives in refinish and feet on the street and penetration initiatives in protective and marine.

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Operator: Thank you very much. [Operator Instructions] Our next question comes from Aron Ceccarelli from Berenberg. Aron, your line is now open.

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

Q

Hello. Good morning and congrats on the good quarter. You said you revised down your organic sales growth guidance for both architectural paints and Industrial Coatings. I take the point that Q2, perhaps on the volume side, it was a bit softer than expected in architectural paints. But could you please break down the contributing factors in terms of volumes and pricing for the second half for these two segments, particularly because from what I see, you are quite positive on the outlook for Industrial Coatings? Thank you.

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

A

Yeah. So, I'll take the first part of it on Architectural. We did adjust down our outlook, particularly for Europe. We were disappointed in Europe that the momentum that we saw in late Q1 didn't continue into Q2. So, we thought the prudent thing to do going forward was to assume that it would be kind of current state plus our share gains that would drive and did not count on any market recovery. So, the flip side of that, Aron, is that any stimulus, any catalyst, whether it be the impact of a tariff agreement, whether we see some progress in Ukraine, whether we see some progress in the Middle East, anything that would give a little bit of consumer confidence in Europe would be a positive to what we have guided in our revised guide for Architectural Europe because actually the household balance sheets are pretty strong, generally speaking. So, it's much more about consumer confidence.

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

A

Aron, on Industrial, very modest decrement to our prior guide really relating to what we saw in Q2 in China, just carrying forward, again, I would call it more rounding in terms of percentages.

Operator: Thank you very much. We currently have no further questions. So, I'd like to hand back to Alex Lopez for any further remarks.

Alejandro Lopez
Director-Investor Relations, PPG Industries, Inc.

Thank you, Carlie. We appreciate your interest and confidence in PPG. This concludes our second quarter earnings call.

Operator: As we conclude today's call, we'd like to thank everyone for joining. You may now disconnect your lines.

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