

29-Apr-2026

PPG Industries, Inc. (PPG)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Tracy, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2026 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] . Thank you.

I would now like to turn the conference over to Alex Lopez, Director of Investor Relations. Please go ahead, sir.

Alejandro Lopez

Director-Investor Relations, PPG Industries, Inc.

Thank you, Tracy, and good morning, everyone. This is Alex Lopez. We appreciate your continued interest in PPG and welcome you to our first quarter 2026 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, April 28, 2026. We have posted detailed commentary and the accompanying presentation slides on the investor center of our website, PPG.com.

Following management's perspective on the company's results, we will move to Q&A session. Both the prepared commentary and discussions during this call may contain forward-looking statements reflecting the company's current view of future events and the 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 good morning, everyone, and welcome to our first quarter 2026 earnings call. Before we begin today's call, I want to take a moment to remember our dear friend and colleague John Bruno, whose passing last week is a tremendous loss. John was not only an exceptional contributor to our company, but a wonderful husband, father and friend, whose leadership, intellect, compassion and humor touched everyone who knew him. Thank you to the many of you that reached out. It meant a lot to us here at PPG, but more importantly meant a lot to his family.

Now, I'd like to start by providing highlights of our first quarter 2026 financial performance, and then I will share our outlook. I am pleased to report that PPG delivered solid performance in the first quarter, demonstrating our

ability to maintain growth momentum in a challenging macro environment, led by our differentiated aerospace and PPG Comex businesses.

We achieved organic sales growth of positive 1%, marking our fifth consecutive quarter of higher year-over-year organic sales. This growth was driven by higher selling prices, with further selling prices increased announced, and expected price realization for the remainder of the year targeted to offset any inflationary impact much more quickly than prior inflation cycles.

First quarter net sales totaled \$3.9 billion, up 7% year over year, with adjusted earnings per share of \$1.83 and an increase of 6% versus the prior year. Our segment EBITDA margin was over 19%, reflecting solid execution of our share gains, the benefits of our technology-advantaged products, strong brand recognition along with excellent commercial execution.

Turning to our segment performance, in Global Architectural Coatings, first quarter net sales rose 13% to \$965 million, with positive 2% organic growth. Organic sales for architectural coatings Latin America and Asia Pacific increased by a mid-single-digit percentage compared to the first quarter of 2025, with equal contributions from selling price and sales volumes. In Mexico, retail sales were especially strong and project-related sales continued their recovery. Architectural coatings sales in Europe remain mixed by country, with a low-single-digit percentage decline in total, which was partially offset by favorable pricing.

Segment income increased more than 30%, supported by pricing and execution of self-help actions, which drove EBITDA margins up 230 basis points above prior-year levels. We expect organic sales and margin momentum to continue into the second quarter of 2026. Also, we continue to reduce our overall structural costs in our architectural business in Europe, and we have four manufacturing plants that will be closed in the second half of 2026, resulting in lower fixed costs going forward.

Our Performance Coatings segment delivered 5% positive net sales growth to \$1.3 billion, led by double-digit organic growth in aerospace and high-single-digit growth in traffic solutions and protective and marine coatings. PMC has now delivered 12 consecutive quarters of positive volume growth. As expected, automotive refinish organic sales decreased by double-digit percentage as sales volumes were lower, reflecting customer order patterns stemming from our US distributors during the first half of 2025.

On a positive note, we are seeing improvements in the US industry accident claims. February and March industry claims were down 1% year-over-year, which now makes three out of the last four months with low-single digit declines year over year, reinforcing a normalization trend after the high-single digit to double-digit declines most of last year. Another positive data point, we are seeing our US distributor fulfillment orders sequentially improve as inventory levels normalize.

In refinish, as we previously communicated, we expect year-over-year organic sales volume declines in the second quarter as we lap strong prior-year first-half order patterns. We anticipate volume growth during the second half of 2026. Segment EBITDA was strong at 24%, driven by the strength of our aerospace business despite the unfavorable year-over-year refinish volume comparisons. In fact, the investments that we are making in aerospace to support our customers' demand have resulted in improved productivity and improved output. We are well positioned to deliver consistent growth in this key end market for the next several years.

I would like to again emphasize the important and sizable role that our aerospace business plays as a key growth engine for our company. Demand is expected to remain strong given our highly specialized and qualified products

for both the OEM and aftermarket channels. Our backlog remains at about \$315 million despite year-over-year output increasing.

The PPG aerospace business provides unique technology-advantaged products in various sub-segments, transparencies, sealants and adhesives, coatings, services and engineered materials. In each one of these verticals, we have a strong presence that allows us to provide a superior customer offering, including excellent distribution capabilities, creating a truly unique value driver for our company and for our shareholders.

Another differentiator of PPG aerospace business is the balance is not only between OEM and aftermarket, but also we are not overly dependent on any sub-segment as we're well-balanced across commercial, general aviation, and military. I'd like to highlight just two examples of the proprietary technology-advantaged aerospace products that are designed to provide customized chemistry solutions inside the can and improve productivity for our customers outside the can.

PPG's PRC Seal Caps deliver lightning strike protection for aircraft while significantly improving application time and material usage for our customers. ARE 3D Printed Sealants are customized gasket solution that offers superior quality and increased customer productivity solutions.

Now, moving to the Industrial Coatings segment, first quarter net sales grew 4% to \$1.6 billion. Organic sales were flat, including share gains that led to 1% sales volume growth, well outpacing industry demand as we realized the benefit of share gains with strength in automotive OEM coatings and packaging coatings. We expect to launch additional share gains in the Industrial segment throughout this year and into 2027.

From a business unit standpoint, our automotive OEM business delivered flat sales volume, which outpaced the decline in global automotive industry production by about 300 basis points. The industry decline was largely due to year-over-year comparisons in China, as the first quarter of 2025 was very strong and first quarter of 2026 was tepid. Expectations for China industry comparisons are to improve in the coming quarters.

For PPG, due to our strong product portfolio and commercial execution, we expect to continue outgrowing the market in the second quarter and for the full year in 2026. Organic sales for our Industrial Coatings business were down a low-single digit percentage as lower volumes due to inconsistent demand were partially offset by positive pricing actions in this business.

Packaging coatings organic sales increased by a double-digit percentage year over year, growing significantly above industry rates. Sales volumes for PPG are up over 20% on a two-year stack basis, driven by share gains as customers continue to select our leading technologies.

Segment EBITDA margin was negatively impacted by regional mix as China automotive production dropped in comparison to a particularly high level in first quarter of last year. Looking ahead, we expect sequential margin improvement, driven by incremental industry and PPG sales volume growth, selling price realization and aggressive cost management.

With the impact of the Iran war, costs have risen for raw materials, energy, logistics, and packaging across the coatings value chain. In this rapidly evolving macro environment, we are focused on our ability to supply our technology-differentiated products, services to our customers, which will allow us to maintain our organic growth momentum. I'm expecting the actions we are taking, combined with PPG's portfolio strengths, to offset geopolitical-driven impacts.

To-date, we have had limited impact from supply shortages, and we have the ability to leverage our unique, broad, and global supply chain footprint to securely source raw materials and drive competitive pricing for those raw materials. Additionally, we are leveraging our years of expertise in product formulation technology and our ability to maximize the use of AI to optimize products to drive reductions in our raw material costs.

Considering our procurement capabilities, our global footprint, our formula flexibility, our portfolio strengths, and the current macro environment, the impact to PPG is expected to be a mid-single-digit percentage in the cost of goods sold for the remainder of the year. We expect to fully offset these costs, and we are proactively raising prices to secure raw materials for our customers.

Given the distribution models and price mechanisms we have in place, we expect to deliver price/cost realization much more rapidly than we did in previous inflation cycles. This realization will impact our Global Architectural Coatings, our Performance Coatings segments first, and then flow through our Industrial Coatings segment.

Importantly, there are areas where we anticipate potential upside to the second half of 2026, such as our growing aerospace business and our architectural coatings Mexico business, where demand has been strong. Additionally, industry demand and automotive refinish has been recovering faster than we initially expected. As a result, we are reaffirming our full year 2026 EPS guidance range of \$7.70 to \$8.10.

Again, let me reemphasize, our top priority is supporting our customers' needs through technical expertise, products with consistent quality and continuity of supply, even as market conditions remain highly dynamic.

Now, let me talk about our balance sheet and cash. Our strong balance sheet continues to provide financial flexibility. We ended the quarter with cash and short-term investments of about \$1.6 billion. We repaid \$700 millions of debt that matured in the first quarter and returned approximately \$260 million to shareholders through dividends and share repurchases. Our cash deployment remains focused on maximizing shareholder value creation.

Looking ahead, our accelerating organic growth momentum and proactive pricing actions position us well for the year. For the second quarter of 2026, we expect strong growth in aerospace, architectural coatings Latin America, protective and marine coatings, automotive OEM coatings, and packaging coatings, while demand in architectural coatings Europe, automotive refinish coatings and in global industrial end use markets will remain below prior year.

We expect overall pricing for the company to be positive, with the strength from our Performance and Architectural Coatings segments and flat year-over-year price in the Industrial Coatings segments, with all three segments having improved pricing versus the first quarter. This will result in organic sales growth for the second quarter in the range of flat to positive low-single digits versus the prior year.

Given our ability to outperform the macro through our commercial momentum, combined with our pricing realization and self-help actions, we expect to deliver adjusted earnings per share growth in the range of flat to a positive low-single-digit percentage for the second quarter versus the prior-year period.

We are confident in our strategy and the strength of our portfolio, delivering higher growth in earnings despite challenging market conditions. Thank you to our PPG team around the world who make it happen and deliver on our purpose every day. We appreciate your continued confidence in PPG.

Now, before we open the line for questions, I would like to congratulate Vince on his upcoming retirement on this, his final PPG earnings call. Thank you Vince for more than 40 years with PPG. Thank you for being a great contributor to our company, a driver of results, a driver of shareholder value, a great mentor to many talents, a great teammate to our operating committee, a great partner to the last three CEOs and a great friend to me. Thank you, Vince.

As PPG makes the CFO transition, we are delighted to welcome Jamie Beggs as our new Chief Financial Officer. With her extensive background in financial leadership, Jamie brings a wealth of experience that will be instrumental in driving our continued growth and success. Please join us in extending a warm welcome to Jamie as we work together to achieve new milestones and create lasting value for our stakeholders. We are thrilled that Jamie is joining our team.

Now, operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Ghansham Panjabi with Baird. Your line is open. Please go ahead.

Ghansham Panjabi

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

Q

Thank you, operator. And our best to you, Vince, and our best to – very best for John's family as well. I guess, Tim, first off, on your comments on price/cost recovery will be much faster than prior periods, can you just outline some of the specific changes you've made to support that? And then related to that, you've been very calibrated in the past with pricing and with previous inflation cycles to kind of maintain your market share, et cetera. Do you expect volumes to hold this go around as well, just given the near 20% increases you've implemented thus far? Thank you.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Thanks, Ghansham. Look, the difference this cycle from a volume standpoint is, as you know well, for the last three years, we've been building our organic growth muscle, right? So, we have tremendous muscle- or tremendous momentum from an organic growth standpoint that will help as we move forward with price increases. And if you compare the last couple of cycles, the pre-COVID cycle of 2017, 2018 took us about a year-and-a-half to get to run rate neutrality. The 2021 cycle, which was the post-COVID combined with the Texas Freeze took us about a year. Now, we're talking months.

So, it's a combination of two things, Ghansham. Number one, we've always had a good pricing muscle. And with each cycle, we refine that, we learn, we get better, we get faster. Now, from a volume standpoint, we're combining it with positive momentum on the organic growth muscle that we've been building and demonstrating results through these last five quarters or so. So, we're confident that we're going to be able to strike the right balance between pricing and volume.

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

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Nice start to the year. And congrats to you, Vince. And, John will be sorely missed. In terms of your outlook for the second half, Tim, how do you see volumes sort of shaping up sort of at the midpoint? Any effects from the Iran conflict on each of the segments? And just give us your thoughts on the type of volume growth that could be – that's kind of embedded in your outlook.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Thanks, Mike. In everything, unfortunately, you kind of have the time stamp right now because it's just so fluid out there, right? But based on today's environment, we feel good about the second half volume. A couple of things, first of all, aerospace beat our own expectations in Q1. And we continue to see improving output there. And as you know, we're essentially sold out. So, every incremental output that we get is incremental volume for us.

Second, and this is a significant one for us, we had said all along that refinish would have positive volume in the second half. It's recovering a little earlier than we expected, and we got two really good sets of data points in US collision claims rates, as well as improving US distributor fulfillment orders. Then on top of that, we've got the Industrial segment share wins that we will continue to launch as we move through the year.

And finally, Mexico has really recovered nicely for us. Retail is doing great. And with each passing quarter, projects get a little better. And some of our other businesses, packaging is doing great, up double digits. PMC is doing well and has been doing well for a couple of quarters. We've got a good order book there. We have not seen any order book changes with the Iran conflict. Obviously, we've seen change in feedstock pricing, but when it comes to volume and order books, based on today's current environment, we have not seen any negativity in our order books.

Vincent J. Morales

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

A

Yeah, Mike, this is Vince. Just to peel the onion back a little on the refinish comments, just as a reminder for everybody, in the base load, we had very strong refinish activity in the first half of 2025. Distributors stocked up inventory. We were well above market. The second half, the patterns hurt us. So, we have much easier comps. So, we still expect muted volumes in refinish for the year. But the comparisons are why Tim said we expect growth year-over-year in the second half.

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

John Roberts

Analyst, Mizuho Securities USA LLC

Q

Thanks. It was good to see that PPG family come together for John Bruno. And welcome Jamie. And Vince, again, thank you very much for all the good service and good luck with the Penguins tonight. Tim, on your guidance on slide 9, raw materials, how much higher do you think costs are going up for the smaller competitors who maybe buy raw materials through distributors? And with the dynamic pricing that's going on out there, are there gaps opening up between competitor pricing or is it relatively orderly and competition is generally moving up together?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Hey, John, thanks for your support of Mr. Bruno. It's really hard for me to say what our smaller competitors are seeing. But what I will say is, we are getting more favorable deals and contracts and agreements because of our volume, right? So, even though prices are going up and we're projecting basically mid-single digits here based on today's knowledge, but – and that's on the back of our volume, our global footprint and our ability to get the best deals in the market because of our scale. So, I would imagine that our smaller competitors are likely seeing higher prices than what we're seeing on the input costs.

Operator: Your next question comes from the line of Chris Parkinson with Wolfe Research. Your line is open. Please go ahead.

Christopher Parkinson

Analyst, Wolfe Research LLC

Q

Great. Thank you so much. Vince, a sincere congratulations. And most importantly, thank you for the life advice going back to 2015, before I was even married. And I must disagree with one of my colleagues here, go Flyers. Okay. In terms of the second half of the year – sorry, that was in honor of our friend. In terms of the second half of the year, Tim, perhaps you could just give us kind of the puts and takes. Obviously, you've been very proactive in pricing in terms of those dynamics, which is helpful in terms of us to contemplate, but also that you could have some positive mix effects specifically in PC. So could you just kind of go through your thought process in terms of how you're thinking about margin in the second half, what you want to see, what you need to see or just overall? Thank you.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Hey, thanks, Chris, and thanks for your support here recently with the passing of John as well. So, first of all, I'm confident that we'll have positive volume in the second half. I'm confident that our net EBITDA margin will improve in the second half, and that's because of a number of things. Number one, aerospace will continue to grow. Good margin contributor. The refinish recovery that we've already talked about, a big impact on our net margin. Mexico continuing to grow. That's a good contributor to our net margin. So from a mix standpoint, it's really all good news for us, right?

And then from kind of a top line and gross margin impact standpoint, it's all those three things added together, plus the launch of our Industrial segment share gains as we progress through the – and these are ones that are already locked in. So, we've got a favorable mix. We've got pricing actions underway. Yes, raws will be higher, energy costs will be higher, and logistics costs will be higher. But we feel good about the playbook and the actions that are in place to drive not only the price/cost side of the offsets, but also these other really PPG portfolio differentiators that will drive elevated mix and volume as we move through the second half.

Vincent J. Morales

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

A

Yeah. And baked into our guidance, Chris, if you recall, we still have cost actions we're taking. We have several plants coming out in Europe in the second half of the year. And so, that'll help from a cost structure perspective.

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

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. Thank you. Good morning. And first, the best to John's family. And Vince, congrats and thank you sincerely. Tim, just on the price increases you've announced, how should we think about the realizations that you will realize? And beyond the current spike in raws, the sustainability of these increases when and if oil prices and other input costs come down. Thank you.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. So, thanks, David. Thanks for your support. So, we announced – I announced to the world price increases up to 20%, and that's because I had to notify our customers around the world that there are some products that will have to go up that much, right? It will be the – we'll have – the actual realization will be spread out depending on customer size, depending on what products they actually buy, depending on the actual cost impact of those products.

So in order to offset the mid-single digit cost of goods sold increase that we're expecting for the remainder of the year, we need to realize low-single digits to offset that as a total company. And then, we're ready if the situation gets worse. If we have to flex more moving through the year, we'll do more and we'll drift our price up to mid-single digits. But right now, based on today's operating environment, net-net, we need to get solid low-single digits to offset mid-single digit COGS inflation.

Now, what happens if and when it comes down the other side? Just like there's a lag going up, there'll be a lag coming down. And also, what's yet to be determined, Dave, is what's the impact of the structural damage to petrochem facilities in the region that may stretch out how and when things come back down.

Vincent J. Morales

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

A

And just a reminder to everybody, in the prior cycles, in almost every business, we went out for more than one price increase as the situations developed. So, again, this is not uncommon that we price for what we know today and then we adjust as necessary.

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

Frank J. Mitsch

Analyst, Fermium Research

Q

Thank you. And yes, rest in peace, John. We lost a truly great one. Hey, Vince, I'm roughly calculating, this is your 80th – roughly 80th conference call as IR or as CFO, I was wondering if you could take a moment or two and recap the highlights of each one of those conference calls, and perhaps they'll put a plaque in the conference room where these conference calls are held. But my business question is free cash flow generation was negative in the first quarter as it's typically the case. I was wondering how you look at the potentials for free cash flow generation in 2026. And feel free to be as bold as possible so you can give Jamie a stretch target. Thank you.

Vincent J. Morales

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

A

Hey. Thank you, Frank. If you look at our cash from ops, we were up about \$50 million versus the prior year. We did have elevated capital spending, lower than the prior year, which was our target. So, again, our cash forecasts do not change versus what we gave in January. We're expecting a good strong cash year. And can you talk about the priorities here?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah, yeah. Look, first of all, we were thinking about a dart board rather than a plaque here. But we expect a good proxy walking around number for us is for our cash flow to be up 10% of our sales, right? And then the prioritization of that, of course, we got a dividend that not everybody has. We'll keep that going. We've got some really good organic investments, like what we're doing in aerospace, for example. We've been looking at M&A. It's not our number one priority. It's not the tip of the spear for us, but we will do deals when they make sense for our shareholders.

In my 3.5 years, we've done two small bolt-ons, and we'll use that if and when the right asset comes along at the right price. But beyond that, I think we're now at 10 straight quarters of doing repo. And you should expect me and Vince and my new CFO to follow that same pattern.

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

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. A two-part question, one about the present, one about the future. In the quarter, what was the currency benefit to EBIT year over year? And you speak about getting ahead of raw material cost inflation, but you do sell to the auto OEM industry. Do you think that that's an industry area where you will be ahead, like raw material inflation or behind? And in your spending for aerospace, you speak about being capacity constrained. At a point in time, should your volume growth rate elevate because you have more capacity available as a base case or it doesn't work that way?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Jeff, we might have lost you at the tail end of your questions, but I think I got all three parts of them, so I'll take auto. Okay. Jeff, please. Yeah, you're very choppy, Jeff. We lost you at the end. But...

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

What I tried – yeah.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Go ahead. Please.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Just try to answer the questions, we'll go from there.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Okay, thank you, Jeff. I'm going to take the two, and I'll let Vince take the currency one. On auto, I mean, look, we all know it's the toughest of our businesses to get pricing, but we get pricing. If you look at the last cycle, we got pricing coming out of COVID and on the Texas Freeze. One thing that helps with this situation, actually, Jeff, is it's such an acute and well known event and driver to inflation and petrochem feedstocks that you start from a stronger point of not having to demonstrate and explain and convince.

Now, that's – as you know, we also have some index contracts that will automatically move but will automatically move with some time lag. So, in our guide, in our normalization by Q – run rate normalization by the beginning of 2027, Q1 of 2027, we've got all of that factored in, okay?

Now, aero, absolutely, you will see increases in output volume and therefore revenue for our aerospace business going forward. I would put it in a couple of different buckets. One, we're continuously improving output with some of these incremental debottlenecking kinds of investments that we've been making. Round numbers over the last year, so we've put about \$150 million into those kind of investments. And they're paying off as we go. You'll see some improvement in late 2026 into 2027, coming out of those investments. Second, we announced a new plant to the tune of about \$380 million. That will be more of a step change in volume output as we get out into like the 2028 timeframe.

The third category, Jeff, is we've got a lot of engineering work happening right now. We're not done with investments. And I can't get ahead of my board or anything, but we're still working on additional investments. So, you should, going forward, expect to see a nice increase in our aerospace revenue. Vince, you want to take the currency?

Vincent J. Morales

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

A

Yeah. Jeff, the currency impact for Q1 was less than \$0.10 year over year, positive. That was included in our guide for the year and for the quarter. If you look at the balance of the year, so the remaining three quarters, the total is going to be less than half of that and most of that in Q2. So, again, all included in our original guide back in January.

Operator: Your next question comes from the line of Kevin McCarthy with Vertical Research Partners. Your line is open. Please go ahead.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes. Thank you. And good morning. Vince, congratulations to you. Appreciate all of your help over the last 20 years or so. And you'll be greatly missed, as will Mr. Bruno, of course. My question, maybe for Tim is on the subject of M&A. I think you made a small acquisition recently in Ozark as part of Traffic Solutions. Curious about that deal, but maybe more importantly, can you put external growth into forward context for us, Tim? I think you've been quite focused on organic growth. Now that you have five quarters of expansion under the belt, do you feel like you have a little bit more license to grow externally, or should we expect PPG to remain highly disciplined as you have been in recent years?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Hey, thanks, Kevin. So, Ozark, I would call that an opportunistic asset. Highly synergistic for us with double underlying under highly – we paid – we got a good price relative to what it was sold for a number – a few years – just a few years ago. Walking around number, Kevin, about \$100 million in revenue. So, it's a small bolt-on, but what it does, because of the highly synergistic nature of it, is it actually helps our margin position and cash generation position for that small business for us, the Traffic Solutions. So, it raises its margin profile a little bit. But the reason we have that in our portfolio is, it's a really consistent cash generator for us that we can use to then deploy that cash on things like new aerospace plants. And it's steady. Because of its safety and infrastructure, it's very stable. And so, it just kind of spits off cash for us year over year.

And now, with Ozark, it'll deliver financial – great financial returns for us and our shareholders because of the high synergies and the relatively low purchase price. Now, more broadly, I am very pleased with how the teams have grown that organic growth muscle, and Kevin, I remember some of our conversations four, five years ago, and so, we're not done, so we're pleased with five straight quarters of organic growth, and by the way, outperforming market over those five quarters. So, I think we've always had a license. We've always had a strong enough balance sheet to do whatever M&A we want. But the way I think about it is, first of all, it's got to be the right asset. I'm not interested in just buying something so that I can put another flag somewhere or find something purely for the sake of raw material synergies. I want to buy something that adds to our future organic growth and margin profile.

Second, it's got to be the right time. The last few years has not been the right time as we've been, first of all, exiting some things in our portfolio and tripling down on organic growth. I think we can handle some deals now, but it still has to be at the right price because I've got some pretty darn good, organic investment opportunities that have great financial returns. And so, I'm really, to use your word, disciplined, we will continue to be disciplined. But I do think we have the right license to do selective M&A. And you've seen us with two small bolt-ons this year. We actually did a kind of a productivity outside the can, allied products acquisition earlier in the year to help industrial refinish pipeline. So, it's still not the tip of the spear for us. We will still be extremely disciplined. We will look at every asset that comes available, but it's got to meet the right asset, the right time and the right price.

Operator: Your next question comes from the line of Duffy Fischer with Vertical Research Partners (sic) [Goldman Sachs] (00:42:09). Your line is open. Please go ahead.

Duffy Fischer

Analyst, Goldman Sachs & Co. LLC

Q

Great. Good morning, guys. Two questions on refinish. So, first, when you anniversary Q2, revenue will be down about 10%. Has that done anything structurally to the margin there? Do you need to do any restructuring to reset that on a profitability basis? And then second, once we get through the snapback in the second half, should we think about that business structurally being kind of flat volumes and price up 2% to 3% going forward?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Hey, Duffy. I think you're pretty close there. We don't, as far as the go forward, right? The go forward, it's not going to be a high volume growth industry. But it's still a good revenue growth and EBITDA growth machine for us because of our ability to capture value for the total value that we deliver, because of the work we've been

doing to expand our TAM, right, we're selling more into the body shops now than we ever did beyond just the coatings, right?

So, when you think about digital tools, MOONWALK's allied products, we just have a bigger target TAM, that's enabling us to grow. And then we've got a really good run of share gains there. And so, as the market normalizes, this will be – it will never be our highest-growth business, but this will be a nice low-single-digits growth business for us, with really good margin and really good cash.

Now, to the first part of your question, yeah, we have not had to do massive restructuring with this decreased volume. So, what you should expect instead is as things normalize in the second half, you should expect outstanding leverage because you've seen some of that negative leverage in the second half of last year, right? So, you should expect a really nice snapback in margin leverage.

Now, to define snapback though, that's really a bottom line snapback. This industry, we expect to return to normal over the last X number of years and normal being a minus 1, minus 2 industry volume. We'll do better than that because of our expanded TAM and then a really nice EBITDA machine for us.

Operator: Your next question comes from the line of James Hooper with Bernstein. Your line is open. Please go ahead.

James Hooper

Analyst, Bernstein Autonomous LLP

Q

Good morning. Thank you very much for taking my question. I'd like to go back to aerospace, please. We've got Europe running out of jet fuel, flight cancellations and other potential issues if the conflict continues. Can you remind us what your split of OEM and aftermarket is and can you give a little bit of detail about how aerospace growth could be affected if flying hours are tearing down throughout this year? Thanks.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Thanks, James. I'll give you the spoiler alert answer first, and I'll give you little more details. We see no impact of the potential slowdown in flight miles in some parts of the world in 2026 and now – here's why. First of all, the business is balanced roughly 50% OEM, 50% aftermarket. And then, it's balanced across commercial aviation, general aviation and military. So, kind of one of those sub-segments may be affected from a flight mile standpoint. But it's one of many sub-segments. And then even that sub-segment has learned a very hard lesson coming out of COVID.

What the commercial customers did is they radically depleted their inventories of aftermarket products including a lot of what we sell. And because of the strength across the breadth of this industry, that has never been able to be rebuilt. And I still get phone calls, like, literally weekly, about restocking and our ability to keep aftermarket parts and components in stock and rebuilt. So, what you should expect, if that does happen, I think we would be rebuilding aftermarket inventory for some time period while all the other segments that I mentioned remain red hot. And I think, if anything, it could be an improved mix for us because typically your aftermarket mix is a little richer than your OEM mix.

So, I watch news like everybody does. I see the impacts and I see my customer CEOs talking about this on the news. But we see really no impact here because – don't forget, because of what's going on in the world here and

the NATO rebuilding their own defenses, the military side of the business growing tremendously on both OE and aftermarket as well, okay? Thank you.

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

John P. McNulty

Analyst, BMO Capital Markets Corp.

Q

Hi. Thanks for taking my question and condolences to John's family, great guy. And, Vince, it's been a really great ride, so appreciate all the help. Just a quick one on the protective and marine business. I think the expectation was that we were going to see the growth in that business moderate just given the huge success you've had over the last year-and-a-half or two in that and yet you still put up high-single digits. I guess, can you help us to think about what drove that presumably stronger-than-expected volume and how we should think about that throughout the rest of 2026?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. So we did – we have been stacking like lots of double-digit and high-single-digit quarters for multiple years. So just by the laws of big denominators, we did expect that to come down somewhat. But we're very pleased that, in Q1, we still put up high-single digit, high-single-digit growth off of a much bigger denominator.

I'd say in the short term, the real strength is Asia and has been Asia. And both marine new-build and marine aftermarket have been stronger. But look, there's a lot of protective coatings work going on around the world. There's a lot of data center work going on around the world. We just launched and announced a comprehensive end-to-end offering for data centers. There's a lot of infrastructure work going on.

So, we see that business continuing to be a growth engine for us for the rest of 2026 and frankly beyond because it's got some strength in some segments that are relatively unaffected by some of the macro issues that are affecting other places.

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

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning and congrats. And thank you, Vince, and my condolences, of course, to the Bruno family. John was a wonderful man. Could I ask you to talk a little bit about the Industrial Coatings margins? They came in a little bit softer than expected. You did call out Chinese mix on the auto OEM side and I guess there was a little bit of negative price, I think, as a function of the index contract. But can you just help us understand why the margin contraction was so great and how to think about it through the balance of the year? Thank you.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

So, Vincent, you could answer the question for me because you nailed it, right? So, let me just give a little more color to it. See, the biggest impact was China auto. As predicted, it was going to be down. I think it was down well into the double digits as far as China auto builds for the quarter. And we outperformed that a bit because of some

of our wins, but it's still down significantly. And that's a really good operating margin business for us because if you think about it, one out of every three cars in the world is built in China. So, the scale and the leverage is stronger on the upside when things are being produced in China, but the negative also happens. So, that was the biggest.

The second was, even though we're talking constantly over these last two months about raw material increases, we were still rolling off some index contracts from the deflationary cycle, mostly in our automotive and our packaging businesses, which are both in Industrial segment. We should be wrapping up the roll-up of those in Q2. We've got a few more that have to roll up, but that's really been the drivers. Number one, automotive OEM builds in China; and number two, index contracts.

Vincent J. Morales

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

A

And just to add some more color on China auto builds, so last year, Tim mentioned very, very strong quarter for the industry for PPG. This year, the reverse. On a two-year stack basis, we're almost flat in China. So again, we had – the comp issue is really what we're dealing with.

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

Joshua Spector

Analyst, UBS Securities LLC

Q

Yeah. Hi. Good morning and I echo my congratulations to Vince and Jamie. And, of course, my condolences to John's family. He'll be sorely missed. I did want to ask on pricing and surcharges specifically. How much are you using surcharges this cycle versus prior years? And then, kind of similar again on auto OEM, have contract structures changed to allow that or has the cycle of recovery become a lot faster in that part of the business? Thanks.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah, Josh, we do – we are using surcharges in some of our businesses more this time because freight costs are up, right? Whereas most of our contracts and even non-contractual businesses, we're typically talking about raw materials, but we've got two additional ones that don't get as much attention but are pretty significant to that MSD contributor, and that's logistics costs because of diesel fuel and European energy costs because of what's going on. So I'd say in those two specific areas, we're using surcharges more than we typically have.

And beyond that, it's largely been our typical price increase, which we prefer. They're stickier. And again, on the auto question, most of the auto contracts are designed around raw material inflation, less so around freight and energy. But those are discussions that we should have with our customers first, and we've started those discussions. So, more to come there. But most just – most of the index contracts that we have in auto and packaging are pretty much limited to raw materials.

Operator: Your next question comes from the line of Matthew DeYoe with Bank of America. Your line is open. Please go ahead.

Matthew DeYoe

Analyst, Bank of America

Q

Morning. Yeah, just to echo what everybody's been kind of saying, Vince, congrats on a great career. And clearly you know the sentiment on John, he was just such a core salt of the earth guy. So, yeah, it's a huge loss. I wanted to ask on the OEM side in China, there's often discussions in the market around Chinese competition or China moving downstream. And coatings is one area where I feel like maybe there's roadblocks to how far China can compete globally. But in that market, are you seeing better competition? Are there pushes to adopt local suppliers for the auto companies? And then on the refinish side, I mean – well, I'll just stop there and I'll let you answer first.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Okay, thanks. So, there's no doubt that the China automotive OEM industry has gone through a absolutely radical transformation in the last couple of years with the Western JVs dramatically shrinking and the China domestics dramatically increasing. And there's also no question that those Chinese domestics have worked hard to get Chinese supplier content on the vehicles. But I would say, thus far, that has all been on, let's call it, hard parts, rigid parts, widgets that the Chinese companies can produce. When it comes to automotive coatings in China, there's already more competition in the rest of the world because you've got the traditional three plus you've got two Japanese players and one Korean player.

But the finished film on a vehicle, it's very hard to duplicate, very hard to reverse engineer all the way back to resin formulation, which is really the backbone of automotive OEM coatings. And so, that gives automotive OEM coatings some protection. I don't know what my peers do, but I know we produce the secret sauce outside of China and ship it into China. So, the coatings, by nature of you're buying kind of mixed chemicals and the end product is a finished film on the vehicles, which, because of the transformation that happens in the application and curing process, is different than the mixed chemicals. It does give a nice buffer of protection for automotive OEM coatings versus other automotive parts.

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

Laurent Favre

Analyst, Exane BNP Paribas

Q

Morning. I'd like to come back to the MSD inflation points, please. I mean, we're seeing energy solvents, lots of spot prices on upstream chemicals at more than 50%, sometimes 100%. And I understand you guys don't buy products that are just out of the cracker, but still, I'm wondering how it's only MSD. Are those spot numbers not coming through in actual contract negotiations? Or are the intermediate guys producing resins and additives being squeezed? Or is it that you have contract protection for the rest of the year, but then you will see further inflation into 2027?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Thanks, Laurent. I'd say two comments on that. Of course, our suppliers are seeing that energy impact, mostly in Europe. And we've got that built into that blue box of mid-single-digits overall cost of goods sales inflation. And then the second piece of energy is logistics cost. And we've got that built in there as well. And so, we have all of that, everything that's just – you got to time stamp it based on our best estimates of today's operating

environment. But we've got that all built in. We're absolutely seeing what you described. But we've got that all built into our guide.

Vincent J. Morales

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

A

Yeah, Laurent, as you're fully aware, most large coating companies do not pay anything close to spot, especially when you have commodity inflation spikes. So, we're contracted, and we are negotiated in most of our raw material supply, not only for the quarter but for the full year.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Right. And one final comment I'll make, really, Laurent, on your question and even more broadly on the whole raw material and total inflation, one big difference between this cycle and the cycle coming out of COVID, which was a combination of post COVID recovery and the deep Texas Freeze. At that time, you'll recall that coatings industry volumes were very high. A lot of coatings companies could not keep up with customer demand, so that is a significant difference when it comes to what does a coatings company see, particularly a large coatings company see versus what is being seen upstream. Supply demand economics still matter. And that's a big differentiator between this cycle and the last cycle.

Operator: Your next question comes from the line of Patrick Cunningham with Citi. Your line is open. Please go ahead.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. I'd like to echo my deepest condolences to John's family and the PPG family. And thank you to Vince for your partnership over the last two years. For architectural EMEA, I think you mentioned closing four manufacturing plants in the second half, could you quantify the fixed cost savings there and cost to deliver? And then maybe more broadly, how you are thinking of the long-term strategic value for the business? [Technical Difficulty] (01:00:50)

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yeah. Are you there, Patrick? We lost you a little bit.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Q

I'll just try again. For architectural EMEA, you mentioned closing [indiscernible] (01:01:07).

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

A

Yes, yes. Okay, I got it.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Q

And then the long-term strategic value?

A

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Right. So, yeah four plants, here's a good walking around number for you. You'll see this savings in 2027, but a good walking around number is about a \$25 million reduction in our fixed cost base from the closure of those four plants. And that will go on in perpetuity for us.

Now, in total, you'll see about a \$50 million structural – restructuring benefits for our company this year. You'll see another \$50 million next year, with \$25 million of that \$50 million being tied to these four plants. Now, that's not the only kind of fixed cost reduction initiative. We've got some restructuring, some back office people costs being reduced. We've got a lot of formula optimization costs going over there as well. So, the value to this business, when markets are even flat, this business delivers really good earnings and really good cash to us. That's the value in the portfolio.

We have, over the last couple of months, seen a little better volume. We had a good March in architectural Europe. So, as you think about this market getting to flat volume and the mission of this business in our portfolio is to spit off good earnings and good cash so that I can deploy that in some of our higher growth, higher technology businesses. And every – we're constantly evaluating each of our business' mission and how they're performing to that mission in our portfolio. But that's how we're viewing it today. And we've got – we're not waiting. We're not sitting around hoping and waiting for a European recovery. We're building a business that can perform well at flat volume.

.....
Operator: There are no further questions at this time. I would now like to turn the call back over to Alex for closing remarks.

Alejandro Lopez

Director-Investor Relations, PPG Industries, Inc.

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

.....
Operator: This does conclude today's call. Thank you all for attending. You may now disconnect.

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