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PPG Industries, Inc. (PPG)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Elliot, and I will be your conference operator today. At this time, I would like to welcome everyone to the Third 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] To allow everyone an opportunity to ask question, company requests that each analyst kindly ask one question.

Thank you. I'd 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. Elliot, and good morning, everyone. This is Alex Lopez, Director, investor relations. We appreciate your continued interest in PPG and welcome you to our third quarter 2024 financial results conference call. Joining me on the call 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 Wednesday, October 16, 2024.

We have posted detailed commentary and accompanying presentation slides on the Investor Center of our website, ppg.com. The slides are also available on the webcast site for this call and provide additional support to the opening comments Tim will make shortly. Following management's perspective on the company's results for the quarter. 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 filing with the SEC.

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

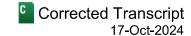
Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Thank you, Alex, and good morning, everyone. Welcome to our third quarter 2024 earnings call. I'd like to start by providing a few highlights on our third quarter 2024 financial performance. Make a few comments on our press release this morning, and then I'll move to our outlook.

The PPG team delivered sales of \$4.6 billion and our eighth consecutive quarter of year over year segment margin improvement. This culminated in record third quarter adjusted earnings per diluted share of \$2.13, which represents 3% year over year growth despite an unfavorable impact from a higher year over year tax rate, which reduced the EPS comparison by \$0.08, or 4%. Our segment margin improvement was driven by favorable

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business mix due to our sales of our advantaged products and a continued focus to deliver productivity and lower costs.

Our growth broadened as seven out of ten businesses delivered organic growth in the quarter, and another business, specifically our Architectural Coatings business in Europe was flat. We delivered year over year sales volume growth of plus 2% in the Performance Coatings segment, driven by above market volume performance in Automotive Refinish, including high-single digit percentage increases in US collision related products despite lower overall industry collision claims.

Additionally, our Aerospace Coatings business delivered record quarterly sales stemming from double digit percentage of organic sales growth, and despite improving our production capacity this year through debottlenecking and other productivity gains, we still ended the quarter with an order backlog of approximately \$290 million. This backlog demonstrates the strong demand for our technology advantaged products and excellent industry dynamics.

We had sustained growth in Architectural Coatings Americas and Asia Pacific driven by the professional contractor channel in the US and Canada. Also, our concessionaire network in Mexico continues to perform well. Additionally, our protective and marine business benefited from strong global demand and our recent share gains. Year over year organic sales for Architectural Coatings in Europe were flat. And while, of course we aspire for growth in this business, the flat results are positive trend after several quarters of sales declines. This result was supported by growth in Central and Eastern Europe, offset by lower sales volumes across Western Europe.

Solid growth in our Performance Coatings segment in a difficult environment reflects the strength of our key technologies, brands and services. However, this growth was offset by increasingly challenged global auto OEM and industrial production, which constrained demand in the Industrial Coatings segment.

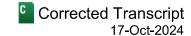
As has been well publicized, the automotive OEM industry, particularly in the US and Europe, has taken unscheduled, prolonged downtime that was not considered in our July financial guidance. This rapid decline in industry production negatively impacted our top line, and while we reacted quickly with cost mitigation efforts, we were not able to fully offset the earnings impact late in the quarter. We were able to partially offset the decline with PPG share gains that resulted in double digit percentage volume growth in Latin America and single digit percentage volume growth in China.

Similar to prior quarters, general industrial activity in the US and Europe was lackluster and mixed by end use, and our volume performance mirrored that backdrop. Despite delivering solid volume growth in China and India, our aggregate Industrial Coatings business organic sales declined by a mid-single digit percentage. We delivered strong top line performance in the Packaging Coatings business, achieving our third consecutive quarter of volume growth driven by incremental share gains.

During the third quarter raw material costs were flat year over year, and we expect this will continue in the fourth quarter. We are just now starting preliminary discussions with our suppliers for 2025, and there is ample capacity in our supply chain.

We ended the third quarter with cash of about \$1.3 billion. During the quarter, we completed \$200 million in share repurchases and paid \$160 million in dividends. On a year to date basis, we have returned approximately \$1 billion of cash to shareholders through dividends and share repurchases.

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This is supported by our consistent cash flow generation. Our strong balance sheet provides us with financial flexibility to create shareholder value going forward. I want to take this opportunity to provide you with an update from our previously announced strategic reviews of the global silicas products business and the Architectural Coatings US and Canada business.

As previously announced, we reached a definitive agreement to sell our silicas products business for approximately \$310 million in pre-tax proceeds. We expect to close this transaction in the fourth quarter.

Regarding the Architectural Coatings US and Canada strategic review, per this morning's announcement, I am pleased to share that we have reached a definitive agreement to sell 100% of this business for a transaction value of \$550 million. We are very pleased to be working with a quality buyer like American Industrial Partners, a growth focused company with a strong track record.

These two divestitures further optimize our portfolio by improving our organic growth and financial return profiles and will result in increased capability to channel our growth resources to areas where we have the strongest growth and strongest margin profiles and a demonstrated right to win.

As we stated, when we announced this review on a three year pro forma basis, PPG's overall company sales volume results would have improved cumulatively by over 200 basis points, excluding the Architectural Coatings US and Canada business. Also, the company's Performance Coatings segment operating EBIT, excluding the US and Canada Architectural Coatings, would have resulted in approximately 300 basis point improvement in segment margins in 2023.

These actions clearly demonstrate the active management of our portfolio focused on value creating shareholder value by management and by our board. We expect to close on the silicas transaction in Q4 and the Architectural Coatings US and Canada transaction late in Q4 or early 2025.

Let me reiterate that our other architectural coatings businesses in Latin America, Europe and Asia Pacific remain important and core businesses for PPG. On top of these portfolio actions, we have announced a comprehensive restructuring program to eliminate associated stranded costs from these transactions, separately to enable footprint rationalization specifically, in Europe and a few other global coatings businesses. This program will deliver approximately \$175 million once fully implemented, including savings of \$60 million in 2025. These self-help actions reflect our ongoing commitment to aggressively manage our controllables.

As we execute and deliver in Q4, we start to execute on our self-help initiatives, I'm excited about entering 2025. We'll have a sharper, more focused future facing portfolio and are building a higher growth and higher margin profile company. For our customers, we are both delivering solutions today that ensure their success and innovating for tomorrow to improve both their productivity and sustainability. The result will be profitable, organic growth for PPG and shareholder value for our owners.

Finally, we remain committed to our heritage of strong cost management and improved productivity that reinforces the ability to maintain our momentum in driving higher margins and earnings growth. The strong performance would not be possible without the dedication of our employees to deliver growth for PPG. Thank you to our PPG team around the world who make it happen and deliver on our purpose every day. Thank you for your continued confidence in PPG.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from John Roberts with Mizuho. Your line is open. Please go ahead.

John Roberts

Analyst, Mizuho Securities USA LLC

Thank you. Tim, could you give us the valuation multiple on the architectural deal and is the exit completely clean, or is there anything left behind to PPG to deal with besides the stranded costs at corporate?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Yeah. Hey. Thanks, John. So sales of that business are approximately \$2 billion. The EBITDA margins, low-single digits. And when you do the math, the multiple comes out to a 14 multiple. And as far as — it's a clean cut, a clean break. There of course will be some transitionary service agreements. But it does include ongoing exclusive supply agreements with AIP for them to distribute our protective and light industrial coatings. Okay. Thanks, John.

Vincent J. Morales

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

And this is Vince. John, just a reminder, the manufacturing and the distribution facilities associated with this business were primarily standalone, so there's no issues in terms of separation there as well.

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

Michael Sison

Analyst, Wells Fargo Securities LLC

Hey, guys. Congrats on getting the deal done, deals done. Can you maybe talk about the growth algorithm for 2025 post the sale of the architectural and silicas, how do you sort of see the volume growth potential for PPG going forward? And I know it's a little bit early to give an EPS walk, but just any framework on how EPS sort of could go next year and hopefully we're in a recovering economy.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Yeah. Thanks. Thanks, Mike. You're right. It's a little early to give any numbers. But, the way we're thinking about it is we have momentum in a number of areas. We're very pleased with the trend in Performance Coatings. If you look at auto, despite what's happened here in Q3, IHS is projecting marginally positive builds next year. And marginally positive would be a lot better than this year. Europe, while it's taken a while to get here, is finally flattened which is a positive story for us as we head into 2025.

We're gaining traction on a number of the growth initiatives that we've been talking about all year. And then, I'd say the self-help that we announced today will start to kick in so that will help us in 2025 as well. So, overall, we'll continue that — we're assuming we'll continue to have some challenging macros. But when you combine with the portfolio move that we just announced this morning, we're optimistic and excited that a sharper, more focused PPG, a PPG with higher growth and a higher margin profile will be the result in 2025.

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Vincent J. Morales

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

Yeah, Mike, Vince. One thing I'll add there, and we put this certainly in our press release but, again, we expect — we have a strong balance sheet today. We expect to end the year with a strong balance sheet. So that gives us that flexibility to use that balance sheet in the subsequent quarters and years to our shareholders' benefit.

Operator: Your next question comes from Michael Leithead with Barclays. Your line is open.

Michael Leithead

Analyst, Barclays Capital, Inc.

Great. Thanks. Good morning guys. Can you just speak a little bit more about the outlook and trajectory for industrial margins? And when you think about this quarter, was the weakness driven more as a function of the price declines or volume came in below forecast and we got caught off-sides a little bit at the end of the quarter.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Yeah. Hey, Mike. So I'd say it was largely driven by the volume, particularly as we progressed through the quarter, predominantly in auto OEM, but also in general industrial coatings. There was some, as you saw in the documents, there was some price impact as well. But we expected that, that was all index pricing. The real issue was volume. So the outlook – any volume will bring that leverage right back. But also part of the reason why we're taking these self-help actions.

Operator: Your next question comes from Ghansham Panjabi with Baird. Your line is open.

Ghansham Panjabi

Analyst, Baird

Thank you. Operator. Good morning everybody. Tim, as it relates to the \$550 million in gross proceeds, is that number within the range of outcomes that you anticipated as you contemplated the sale of the assets initially? And then also related to that, how should we think about proceeds allocations and also any dissynergies from global procurement that we should keep in mind?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Yeah. Hey, Ghansham. The \$550 million and certainly the 14 multiple is consistent with what we were expecting to get. Goldman did a tremendous amount of work with us during this process. We literally had over 100 interested parties to begin with. Got 30 initial bids. And so we had a very broad group of interests that gave us a lot of optionality and gave us a lot of insight into what the true value of the assets were. We're pleased with the 14 multiple.

Proceeds, I would just point to our track record over the last four quarters, we've said multiple times, we're not going to let cash just grow on the balance sheet. So, if there's nothing out there that delivers better shareholder value, we've been buying back shares in the last four quarters. And we stick by our deployment plans there. And as far the third part of your question, I think it was on any potential dissynergies of raw material, we don't really see any there because if you think about, as you know, raw materials are generally procured on a regional basis and within North America, particularly with the growth of PPG Comex over the years, even without this business, we are a large producer (sic) [consumer] (00:19:13) of coatings raw materials.

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

Duffy Fischer

Analyst, Goldman Sachs & Co. LLC

Yes. Good morning. A question just around the cost program or couple, so of the \$250 million in the charge. How is the cash from that going to flow out? How do we model that? Then on the \$60 million that you get next year, will that be netted against any kind of stranded costs from the sale of the two businesses where the net of that ends up being smaller and then to get to the rest of the \$175 million, how does that flow in in the subsequent years?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

So, Duffy, I'll let I'll ask Vince, the \$250 million, how does it look from a cash outflow standpoint? And then your additional questions. Vince?

Vincent J. Morales

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

Yeah. Duffy. So again, program announced today, \$250 million charged immediately. That cash will be spread over a three year period. I'd say front loaded in the first 15 months or so, 15, 18 months. The savings, as we said, are \$60 million next year and then pro rata over the following two years. We are making some structural changes to our footprint. So that takes some time as we look at facilities and have to move production around. We do have some short term quick hitting items as well. But \$60 million for next year, we'll certainly give the subsequent years when we give our guidance in January. And I think you had another question on, again, the total charge is \$250 million, \$175 million, savings total \$60 million next year.

Oh, I'm sorry. One other comment. We do have another \$70 million of costs that we are required to book as incurred as opposed to upfront. So over the next three years, again, I would assume right now those are pro rata over the next three years as we move equipment, etcetera, those costs have to be booked as incurred.

Operator: Your next question comes from the line of Patrick Cunningham with Citigroup. Your line is open.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Yeah. Hi. Good morning. Just a follow-up on some of the cash outlay here. I'm just wondering how the M&A pipeline looks as it stands today? Are there any specific regions or technologies you want to target, and then just given the sales of the architectural business here and some restructuring in Europe, would it be safe to assume Architectural Coatings M&A is off the table? Or are there anything that you would look at in perhaps Latin America or something?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Yeah. Hi, Patrick. The M&A pipeline over the last 1.5 years-or-so has been, I'd say, thinner than normal. That's changed a little bit with some of our peers making a couple of announcements as well as the — obviously, the two things that we did here, but you should not think that we would exclude Architectural Coatings anywhere. It's wherever we have the strongest right to win, I'm not going to take a lot of interest in buying a number three anywhere or number four.

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But we'll look at — we have a fiduciary responsibility to look at anything that comes across our desk. And so we'll look at any opportunity. But as I've talked since I took over last year, we're going to be very focused. We're building an organic growth machine. And we will supplement that with inorganic growth to the extent that it adds shareholder value, but we will be very targeted in how we do that and where we do it.

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

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

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Thank you. Good morning. And congratulations on getting these deals done. A question on the store sale would be, I'm assuming that all those stores had operating leases. And I'm just wondering, how you consider the transfer of those lease liabilities? Were those considered debt under, I think, the recent accounting provision? And [ph] does it have (00:23:47) any change to your amortization or depreciation or anything like that?

Vincent J. Morales

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



Yes, Vincent, there's been a call out in our 10-Q, 10-K on the quantity of those. Those leases, along with any – almost all other obligations transfer with the business. So there'll be no change to our debt profile as a result of that. Certainly, that footnote that details our lease commitments will be updated accordingly.

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

Joshua Spector

Analyst, UBS Securities LLC



Yeah. Hi. Good morning. Tim, I was wondering, if you could talk about the confidence overall in the growth framework that you laid out a little bit more than a year ago. I think we understand this year, the macro [ph] hasn't (00:24:38) been cooperative, but you're coming in probably below the low end of that 8% to 12% EPS growth framework. And this is a year where you've had a good amount of help from lower raw materials.

So I guess, if I look at everything together, I mean, our assumption is the divestments are modestly dilutive maybe to EPS. You talked about a challenging macro. You have cost savings. So as we think about that 8% to 12% EPS growth framework, is that too high of a bar for next year as we sit today? And if not, what do you take to bridge that gap?

Vincent J. Morales

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



Yeah, Josh, just real quick. We're not going to give our 2025 guidance. Tim will talk about macro moves, but we're not going to give 2025 financial guidance. One other thing, we — if we just put the net proceeds into a share repurchase, which we haven't made a decision on that yet, but if we just did that, this would not be dilutive. The transaction will not be dilutive to PPG, it'll slightly accretive.

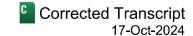
Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.



Yeah, Josh, I mean, I am confident in those goals that we set out last year over the course of the cycle and there will be some puts and takes depending on the macros outside of our control. But I'm still confident those are the

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appropriate metrics for us going forward. And as I mentioned earlier, we feel good about the momentum that we have going into next year in a number of areas.

I know we focused on volume a lot here over this past year-or-so, but every single quarter, I think it's seven or eight quarters in a row now, we have gotten better on year-over-year volume comps. And a couple of our businesses, most notably aerospace and refinish, have been doing a great job. And that, of course, helps from a mix standpoint. So I'm feeling good about the momentum that we have on the initiatives that we laid out last year.

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.

Thank you. Good morning. Tim and Vince, on raws, given the excess amount of supply in the marketplace from your producers and today's lower oil price, should we be thinking about another low-single digit decline in raw material costs in 2025 for you guys?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Hey, David, we've said for Q4 that we should expect flat again, which would be consistent with Q3. And, again, that's because we're lapping declines of prior years. As we look to 2025, frankly, it's too early for us to give you a guide there, but we're just starting negotiations for 2025 contracts with our suppliers. But I guess, if there — if you think about things like China being maybe a little slower than people would like.

Those negative things from a demand standpoint and negative things from a macro standpoint actually helped the story from supply-demand on our raws. So we go into the year or year-end here with ample supply upstream of us. So that's the position we're entering our 2025 negotiations with.

Vincent J. Morales

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

Hey David, this is Vince. As we talked many times with you in the past, we probably have six months visibility here at raws. So what we say today, positive or negative could change in six months based on external dynamics.

I do want to stress what Tim said is we've negotiated – began negotiation with our suppliers, almost everyone of them have excess supply and are willing to work with us in a joint manner for the betterment of both parties.

Operator: Your next guestion comes from the line of Jeff Zekauskas with JPMorgan. Your line is open.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

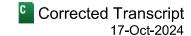
Thanks very much. What are the cash proceeds from the sale of the architectural business? In the quarter if you excluded the architectural business, what would have been the volume growth in your Performance Coatings business? And when do prices stop going down in auto OEM?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

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Yeah. Let's – we'll tag team this one and ping pong it a little bit, Jeff. The first one I'll take. We expect the proceeds from the architectural [indiscernible] (00:29:21) transaction to be about – the cash proceeds to be about \$450 million.

The price – I'll go to the third one and let Vince, fill in the sandwich in the middle there. But on the price side, again, the vast majority of the negative price you see is indexed contracts. And those are on time lags of anywhere from 6 to 12 months.

So if you go back and look at our – when the prices like in auto, for example, started to turn negative, knowing that that's all indexed pricing, we have some that will stop and flatten out after six months and some that will flatten out after 12 months.

Vincent J. Morales

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

Yeah, Jeff, on your question about what's the organic growth and performance or volume growth and performance. If you take the sales out, you take the delta year-over-year out on price and volume for the Architectural US, Canada business, you end up almost at the exact same numbers for this particular quarter.

Operator: Your next question comes from the line of Stephen Byrne with Bank of America. Your line is open

Stephen Byrne

Analyst, BofA Securities, Inc.

Yeah. Thank you. So your volumes were flat and your raws were flat, your COGS were down 3.5% or – a little over 3%. What's driving the lower COGS? And do you got more tailwinds on that coming.

And then just to follow-on to that, to the indexed pricing, what is it indexed to? 6, 12 months ago, energy was not that much dissimilar. So what's driving that? How can we – how do we anticipate that to change?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Yeah. Hey Steve, the COGS, we have started to gain on our manufacturing productivity that we've been talking about for the last 1.5 years. So that's helping us in addition to the items that you mentioned. I heard indexed contracts are typically not based on energy other than our silicas business, which we're selling. Our coatings indexed contracts are based on a basket of raw materials that closely represents the formulation cost for any particular goods. So they're not directly linked to either oil or energy.

Vincent J. Morales

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

Yeah. If you remember, Stephen, at the beginning of an inflation cycle, we typically lag on price on the way up. And so, again, as we get to the end of that cycle, we're lagging on price on the way down. So there's probably a three or six-month pause on both sides of that that are dislocated from when the raws moved.

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

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Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Yes. Thank you and good morning. I appreciate you don't want to give 2025 guidance holistically. But perhaps you could comment narrowly with regard to the deal. If we take into account the various tax angles and stranded costs, do you think that this US and Canada divestiture is likely to be slightly dilutive or slightly accretive or immaterial to your 2025 earnings trajectory? And then secondly, as a practical matter, will you move it to discontinued operations in the fourth quarter or just keep it in as normal course?

Vincent J. Morales

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

Yeah, Kevin, this is Vince. Good series of questions there. Again, if you just assume a share buyback at yesterday's share price for the net proceeds that Tim just alluded to, we would be slightly net positive from an accretion perspective next year. We do have about \$15 million of stranded costs. We saw the restructuring announcement this morning, that's the start to tackle those stranded costs that we'll certainly activate on fairly quickly. With respect to the accounting, our intention is to move this to discontinued operations. It's over 10% of the company. We'll go through that – those mechanics here over the next several weeks. And upon closure here, we'll – hopefully, we close as we said in the fourth quarter, but we will move this discontinued operations accordingly.

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

Yes. Hi. This is [ph] Davante Adams (00:34:17) sitting in for Frank. Congrats on the transaction. To that point, Vince, about taking costs out, you guided 2024 to \$300 million in corporate costs, just curious as to where you think you're going to drive that corporate costs down to?

And then secondly, really good progress on Refinish. You added 100 more Moonwalk units. Just curious why the guidance for 4Q is flat on Refinish? And what should we think about the growth in 2025 for Refinish? Thank you.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Well, [ph] Davante (00:34:50), I think, you may be – should be practicing for a likely loss against the Steelers this weekend. But I'll take your second question and let Vince take your first. Refinish, we've said multiple times, and I think you know Frank understand that business with the two-step distribution. There's always a lot of noise in the chain stocking, destocking, all the distributors manage their cash differently. And so, yeah, we really try to look at that on a multi-quarter basis. So if you take Refinish total year-to-date, sales are flat, but insurance claims are significantly down. So we're picking up about 500 net shop wins per quarter and that's a pretty consistent run rate. So we really watch the net wins and the multiple quarter sales.

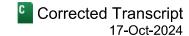
Now, one other thing about Q4 of last year, we did have a fairly significant pull forward relative to timing of price increases. We're not anticipating that our distributors will do that as much this year. So all those things together give that lead to the table that shows a difference in organic sales growth between Q3 and Q4.

Vincent J. Morales

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

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Frank, on your question on corporate costs, we haven't finalized our 2025 profit plan yet. A lot of moving pieces in there, including things like pension, medical costs, et cetera, that we need to get finalized. I'd say from a structural basis, so the structural costs in corporate, we would expect with this cost program, those structural costs to be lower, but we'll have to see how some of these other items come out, and we'll certainly give that update in January with our 2025 guidance.

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

John McNulty

Analyst, BMO Capital Markets Corp.

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Yeah. Good morning. Thanks for taking my question, and congratulations again on the asset sale. So maybe we can speak to the auto's outlook. So clearly things came in a bit worse than expected. I guess at least what the consultants are looking at is this kind of drags on for another quarter or so, and then we start to get to positive growth in the first quarter of next year. Is that what you're kind of expecting, hearing from your customers as well, or is there any reason to think this could either end earlier or end later than that in terms of some of the pressures? I guess, how are you thinking about that business?

And then also, just on the cost-cutting program, how much of it's going to be tied into the auto and industrial segment as part of your European outlook versus just kind of more broad cuts across Europe?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.



Hey, John, well, first, the way you described, you answered the question exactly how I would answer it. That is what we're hearing from our auto customers is this downturn in builds and increase in production downtime, et cetera, is going to continue into Q4. And honestly, it's something that we're watching very closely, because there's one particular customer in the US where there's some strike talk, and so – and that any strike there is not built into our guide. So we're watching auto very closely as we move into Q4.

But as you said, we are expecting, based on what we're hearing, and including based on what we see from IHS, we are expecting an uptick in 2025. The cost, maybe Vince can give you the exact numbers, but there is a portion of that self-help that is dedicated to the automotive business and in particular, the automotive footprint in Europe and elsewhere. But we've got some work to do with works councils and things like that before we get final decisions made in Europe. But certainly, auto will be a part of the self-help.

Vincent J. Morales

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

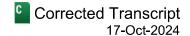


Yeah, I'll just add a couple of comments on the industry. What we do see and what we've seen in Q3 here are the industry healthily reacting to inventory levels. The inventory levels are not out of control at this point. So we think the discipline there instilling is positive.

Secondarily, what some of the carmakers are doing is taking early downtime to do changeovers earlier. We think coming out of those to the new models, we think will have a little bit of a benefit based on some of the particular plans we have, etcetera. So good healthy inventory or managing that inventory properly and the changeovers, we think, will give us some incremental benefit next year.

Operator: Your question comes from the line of Laurent Favre with BNP Paribas, Your line is open.

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Laurent Favre

Analyst, BNP Paribas SA (London Branch)

Yes. Good morning, guys. The first question is on the Aerospace business. I think you're getting to some slowdown. I was wondering how you factored in, I guess, all the ongoing headlines at the main OEMs in terms of your volumes outlook, also if possible into 2025?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Hey, Laurent. We are not seeing a slowdown. There's one customer that's on strike currently, but the backlogs are so big in OE and aftermarket, all that does is we shift our production around a little bit. And military is just red hot. So we are not seeing a slowdown.

In fact, we continue to see strong demand across the board for our technology. We're projecting for fourth quarter high-single digit growth and there could be upside for that. And going into 2025, I expect another outstanding year for our Aerospace business.

Vincent J. Morales

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

Yeah. And I think what we're running into here, Laurent, is we've had a couple of years of exceptionally strong growth. We're just running into compounding law of large numbers. The industry is very, very robust. So it's just the mathematics of large numbers, but we're not seeing any slowdown.

Operator: Your next question comes from the line of Mike Harrison with Seaport Research Partners. Your line is open.

Michael J. Harrison

Analyst, Seaport Research Partners

Hi. Good morning. I have another follow-up question kind of on the aerospace business. It sounds like you've been capacity constrained there and the backlog or demand is still growing maybe faster than you can debottleneck or add capacity. So what are your longer-term plans for bringing on some additional capacity in that aerospace business? And is that kind of at the top priority in terms of where you'd like to focus your organic growth initiatives now that you are getting through this portfolio optimization effort with the US Canada Architectural business? Thank you.

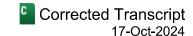
Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Again, perfect question because it's exactly spot on. We love our team and products and customers in the Architectural US, Canada business, but this gives us the opportunity to really focus our resources, not only our capital and capacity investment resources, but our human and management bandwidth resources on businesses like aerospace.

And yes, we are looking at long-term capacity additions in that business in parallel with continued bottlenecking and productivity at our existing facilities. So, we're very bullish not only on Q4 and 2025 but multiyear kind of momentum for aerospace. And we'll invest accordingly.

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Operator: Your next question comes from the line of Aleksey Yefremov with KeyCorp (sic) [KeyBanc] (00:43:30). Your line is open. Please go ahead.

Aleksey Yefremov

Analyst, KeyBanc Capital Markets, Inc.

Thanks. Good morning everyone. In Refinish, your sales were up mid-single digits in 3Q, flat expectation in the fourth quarter. Could you just talk about these dynamics here? Is this comps or is this business just slowing down?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Yeah. I answered a little bit of this on an earlier question, Aleksey, but it's not slowdown in body shop activity, it's not slowdown in sellout, if you will. It's really more a phenomenon of inventory management by the channel, particularly here in the United States combined with a comp issue related to pre-buying last year that we likely will not have this year.

But now we're – again, this is – we look at this business, even though we report it quarterly on this chart, sometimes that gets a little frustrating because it's really a multi-quarter and sometimes even annual look that you have to take at our sell-in to the channel.

Vincent J. Morales

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

Yeah, just again, Aleksey, on that pre-buy that Tim mentioned, that was ahead of a January 1 price increase, January 1, 2023, excuse me — January 1, 2024 price increase that there was a pre-buy ahead of. So in the comp reflected that.

Operator: Your next question comes from the line of Arun Viswanathan with RBC. Your line is open.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Hey guys. Thanks for taking my question. So first off, on the architectural sale, I think I guess, I was under the impression that EBITDA margins were more in the 4% range instead of 2%. So I just want to clarify that. It looks like its implied kind of \$40 million of EBITDA. And then secondly, when you think about volume growth, I guess, going forward, it sounds like for maybe 2025-2026, we're going to be mostly impacted by industrial and automotive.

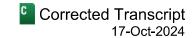
Obviously, aero can sometimes be at the upper end of industrial growth rate and maybe some of your other verticals like protective and marine or maybe even packaging, maybe at the lower end just on a structural basis. But in general, it looks like you'd be very levered to industrial production and automotive production. Are those the kind of the main two factors that would kind of drive your volumes going forward? Or how should we think about how your top line evolves from here?

Vincent J. Morales

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

Yeah. Arun, this is Vince. I'll take the question on the architectural business. And it's more of the latter what you said. So if you do the math and we gave all the numbers to do the math, you get certainly that what we're selling

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is that 2% business, 2% EBITDA business. And, again, that includes all the assets, all the liabilities, basically a clean sale of the business. And as Tim alluded to before, we do have exclusive supply agreements on a multiyear basis on a go-forward basis that will be in our organic numbers.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

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Yeah. And relative to kind of the volume and growth, certainly, Auto OEM and general industrial have been the detractors in Q3, and that will likely carry into Q4. But if we look at the broader enterprise we're up to — we've been progressing every quarter with a number of businesses that have positive growth.

And we're up to seven positive, one flat and two down. So yes, those two are down, and any uptick there gives us some nice leverage. But we do expect the positive momentum in all those other businesses to continue. So I think that's more — it's really a combined story rather than just auto and industrial.

Now those two specifically, as I mentioned, IHS and what we're hearing is that auto will have a modest uptick of builds next year. And from being down, what, mid to high-single digits this year, that's a pretty big pivot. And then general industrial, we are expecting it to be better in 2025, albeit not as strong as those other businesses that already have the positive momentum.

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

Chris Parkinson

Analyst, Wolfe Research LLC



Great. Thank you so much. Tim, I don't think I have to tell you that you've had a pretty busy year, but when you take a step back and you look at kind of the results of PC ex North American architectural, how should investors be generally thinking about the growth rate over the last couple of years when volumes have been such a focus?

And then probably more importantly, when we get into 2025 and 2026, how comfortable are you that you can actually outgrow your respective end markets based on whether it's content and aerospace, new products obviously across Refinish and Moonwalk, and even down to marine, how should we be conceptualizing that now that ultimately that's pretty cleaned up? Thank you.

Vincent J. Morales

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

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Hey, Chris, let me – this is Vince, let me start real quick. I just got a quick comment here, if you look at the architectural US business, it has grown nicely this year on the top line. As we alluded to, since we talked in February on our call, and certainly as we talked to investors throughout the year, we've made commensurate investments to get that growth on the top line. So the bottom line hasn't grown nearly as much as the top line this particular year because we've been investing in the business. So that helps you, I think as you go through your algorithm on the PC.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.



Yeah. And on that — to that point, that's one, one of the reasons why we were able to successfully sell it to a good buyer is because of that momentum that we're gaining from the investments on the top line. But then also it just validates a bit the rationale for selling it in the first place in that we're investing in those growth initiatives in that business as opposed to shifting some of those resources elsewhere. So now — but longer term, I'm absolutely

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convinced that the momentum that we're gaining, and you mentioned 2025, 2026, combined with the portfolio actions that were taken, we will have a higher growth company and a higher margin company.

And that's why I stand behind those growth – top line and bottom line growth numbers that I talked about last year for kind of a much sharper and more focused PPG going forward. So the macros this year were the macros and they were big negatives in some places or some businesses for growth for us, but we're controlling what we can controllable, which is how we invest our growth capital, how we invest our management capital and complementing it with self-help to drive EPS.

Operator: Your next question comes from the line of Laurence Alexander with Jefferies. Your line is open.

Daniel Rizzo

Analyst, Jefferies LLC

Good morning. This is Dan Rizzo for Laurence. Thanks for squeezing me in. I just want to follow up on a comment you made about insurance claims being down in a year, but you're taking share. But I was wondering if insurance claims are down because of maybe collision avoidance technology is growing, and that's kind of secular change? Or is it something just with timing or just [ph] purely are (00:51:20) for this year?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Yes. I think there's a number of reasons. I don't think it's heavily influenced by the anti-collision technologies. While those are great technologies, frankly, they're offset by distracted driving, unfortunately, particularly cellphone driven. The drop in insurance claims is more driven by, one, totals are higher. And so there's less repair claims and more replace claims.

It's also driven by the type of miles driven that we're getting compared to maybe historical. Also, just given the broader economy, and this is a transitory item, I believe, the broader economy, some folks are not turning in their insurance claims because of affordability of insurance rates going up and others are not turning in insurance claims just because they're pocketing the cash instead of getting it repaired. I believe those two are transitory as – I think, as interest rates come down, the inflation gets under control, I think those two – with consumer confidence coming back, those last two will improve.

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

Aron Ceccarelli

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

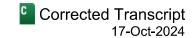
Hello, good morning and congratulation on the sale. Maybe can you talk a little bit about the outlook for protective and marine, the comparable basis for Q4 is not very different from Q3, you're talking a little bit about a slowdown. I would like to understand what's changing there? And also, if you can update on the change in strategy in marine would be great, and how you see that?

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Sure. Glad to get a question about this business because it's been doing great for us. I think, I'm accurate that it's our sixth straight quarter of volume growth and organic growth in protective and marine, doing well. But when you

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go backwards on six, we're starting to comp the beginning of some really strong upticks, particularly late last year, beginning of this year. So we feel good about it. There's a lot of infrastructure spending, a lot of marine aftermarket spending, ship building is returning, you've got a lot of LNG spending, you've got near-shoring spending.

So we feel good about this business. And marine specifically, to your question, we've been doing really well on marine aftermarket. We still participate in marine newbuild. We like that place, but we love marine aftermarket because we've got some really differentiated technologies, SIGMAGLIDE in particular which is, frankly, taking off because it's such a fuel savings for our customers and such a sustainability improvement for our customers. So bullish on the business, feel good, don't over-interpret the flat in Q4. That's more of a comp issue.

Operator: Your next question comes from the line of Jaideep Pandya with On Field Investment Research. Your line is open.

Jaideep Pandya

Analyst, On Field Investment Research LLP

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Thanks a lot. First question I have is just on your deco strategy now that you're exiting North America. What about Europe? I know you have highlighted that Europe is a very profitable business and you obviously acquired Tikkurila. But given now there is one of your close competitors also doing a strategic review of their deco business, do you intend to potentially add to your deco business or are there any further steps towards maybe reducing the deco exposure in this regard?

And then the second question, sorry to zoom in on packaging, but I think there has been some share shifts around packaging in the last one year. If the share goes back to one of your other US competitors from the ones that you've gained, should we still expect growth because you've gained share? Because some of your other competitors are a little bit more skeptical or negative about packaging than you guys. So I just wanted to double check on that. And once again, well done on selling North America.

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

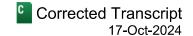


Thank you, Jaideep. I'll take the first one. Vince, you want to take the packaging one just to divide and conquer here. So very clear, our deco strategy in the rest of the world, now that this transaction — well, we haven't closed it yet, obviously, but once it's completely behind us, our deco strategy is to focus on those countries where we're number one or a strong number two, that is where we have a proven track record of delivering good earnings, good cash and good growth.

And so Europe, specifically, we're number one, I believe, in 10 countries, and some of that coming from Tikkurila, some coming from other deals, and we're strong number two in other countries. Some of the self-help that I mentioned earlier will apply to those businesses in Europe that will improve the profitability even further. So we'll adjust. We'll stay in those businesses as long as we keep putting up good numbers like we have been and retain that strong number one and number two position.

Mexico, for example, lights out. We have a strong number one position, and we're shooting lights out every quarter. In other places, Asia Pacific, Australia, we've got a strong number two position. So as I said in my opening remarks, those businesses are important to our portfolio, core to our portfolio, and we'll keep investing.

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Now that said, you asked about M&A potential in deco. One, it would only — we'd only be interested if it fit those criteria that I just described, probably not in Europe because we've already got a very well-established position in Europe. But we have the responsibility to our shareholders to look at things that come on the market and we'll assess them. It's a little early yet for the ones that were just recently announced by our competitors. Packaging, Vince?

Vincent J. Morales

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



Yeah, Jaideep. On packaging, I think you hit the nail in the head in terms of history. There was some share shift exiting, like I'd say, 2022 to 2023, etcetera. That's all lapped. We did pick up share for the full year of 2024. We still are fairly confident we're going to pick up more share heading into 2025.

So you'll see positive top line comps in 2025 as well based on what we're talking to with respect to our packaging customers. So, again, our technologies and the services we provide are the reasons why we're maintaining or on a net basis picking up share.

Operator: There are no further questions at this time. I will now turn the call back over to Alex Lopez.

Alejandro Lopez

Director-Investor Relations, PPG Industries, Inc.

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

Operator: This concludes today's conference call. You may now disconnect.

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