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PPG Industries, Inc. (PPG)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Angela, and I will be your conference operator today. At this time, I would like to welcome everyone to the First 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 section. [Operator instructions]

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

Jonathan Edwards

Director-Investor Relations, PPG Industries, Inc.

Thank you, Angela, and good morning everyone. This is Jonathan Edwards. We appreciate your continued interest in PPG and welcome you to our first 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 Thursday, April 18, 2024. We have posted detailed commentary and accompanying presentation slides on the investor center of our website, ppg.com.

The slides are also available on the webcast site for this call and provide additional support to the opening comments Tim will make shortly. Following management's perspective 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 filings with the SEC.

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

Timothy M. Knavish

Chairman & Chief Executive Officer, PPG Industries, Inc.

Thank you, Jonathan, and good morning everyone. Welcome to our first quarter 2024 earnings call. I'd like to start by providing a few highlights on our first quarter 2024 financial performance and then I'll move to our outlook.

The PPG team delivered sales of $4.3 billion, a solid sales performance despite a very challenging macro environment. And we delivered our sixth consecutive quarter of year-over-year segment margin increases. This culminated in first quarter adjusted earnings per diluted share of $1.86, which is $0.02 above the midpoint of the range that we provided in January. This was also our second-best Q1 adjusted EPS in the company's history, falling just $0.02 short of the record achieved during the early COVID surge and house paint sales.

Our first quarter adjusted EPS was, once again, up year-over-year, with moderating input costs and improving manufacturing performance mitigated by lower sales volumes and higher wage and benefit costs. As we indicated in January, we had a large customer win last year at Walmart, and a significant portion of lower volumes year-over-year was driven by this prior year $40 million load-in. We're also impacted by lower demand in Europe, including the effect of fewer selling days in March stemming from an early Easter holiday this year.

We also experienced ongoing tepid global industrial production. Adjusting for these year-over-year comparison items, volumes were nearly flat, continuing the underlying positive volume trajectory over the last five quarters. As I'll discuss in our outlook, I fully expect positive sales volumes in Q2.

A benefit for us during the quarter was China, where despite a challenging general economy, our portfolio delivered double-digit organic sales growth, reflecting our strong mix of well-established businesses in the country. For PPG, India also grew by double digits in the quarter. In addition, our commercial teams executed well and drove solid global organic sales growth in our aerospace, specialty coatings and materials, and protective and marine coatings businesses. Our selling prices were flat with positive pricing in the Performance segment, offsetting lower pricing in Industrial segment.

First quarter pricing comparisons include a transitory unfavorable impact from European energy-related pricing indices that were put in place during a period of extremely high energy prices in that region in the first quarter of 2023. We experienced lower energy input costs in the quarter to offset this lower index-based pricing.

We expect total company selling prices to be slightly positive overall in 2024, as targeted structural selling price increases have been implemented in several of our Performance segment businesses, offsetting some index-based pricing contracts in the Industrial segment. Our operations have benefited from further improvement, as we experienced stable upstream and downstream supply chains and customer order patterns.

From a supply perspective, the vast majority of our suppliers have sufficient or excess capacity, as we continue to experience moderating input costs. This is noteworthy as we are just entering the peak buying period due to the overall seasonality of the paint industry.

We also increased our growth-related investments, supporting initiatives that will deliver volume gains later this year and going forward. Building off of the full-year 310 basis point improvement in total segment margins in 2023, further margin improvement remains a priority in 2024. This will be driven by stronger sales volumes as the year progresses, improved manufacturing productivity, and moderating input costs from historical highs. Specifically, on manufacturing productivity, our improved operating cadence will be more financially impactful during our peak seasonal quarters, as we deliver additional volume growth.

In the first quarter, we delivered on our margin improvement commitment with the Industrial segment margins improving by 100 basis points versus prior year, and the Performance Coatings business' margins were also up by about 40 basis points, as favorable pricing and moderating input costs were mitigated by lower volumes and higher wage inflation.

From a cash perspective, we expect another year of excellent cash flow, and our balance sheet remains strong, including lower inventories year-over-year. We'll continue to follow our legacy of utilizing our strong cash flow and balance sheet to create shareholder value.

In the first quarter, we repurchased approximately $150 million of PPG stock, reflecting our commitment to use excess cash to create shareholder value. Additionally, yesterday, our board of directors increased our share buyback authorization by an additional $2.5 billion, bringing our total share repurchase authorization to approximately $3.4 billion.

I'm pleased with the progress we've made on our enterprise growth initiatives. We executed strong growth from selling our innovative products into the mobility space, and continued to further utilize our world-class distribution of 5,200 concessionaire locations in Mexico to drive additional non-architectural coatings products into one of the world's fastest-growing economies.

In automotive refinish, customer adoption of our industry-leading digital tools increased, yielding nearly 400 additional net body shop wins. These digital tools include our LINQ services and MoonWalk mixing machines, both of which are best-in-class and are focused on improving body shop productivity. To date, we've sold over 2,000 MoonWalk mixing machines and approximately 2,700 LINQ subscriptions.

We announced strategic reviews of the architectural US and Canada business and the global silicas product business in the first quarter. Strategically, we are driving this portfolio optimization with a goal of transforming to a higher growth, higher margin company.

As an example, excluding the architectural coatings business in the US and Canada, Performance Coatings segment margins would be an average of 200 to 300 basis points higher than the last several years. We'll communicate the determination of a path forward on these strategic assessments when appropriate with our target of no later than the third quarter.

Now, I'll comment on our second quarter outlook. We expect to deliver adjusted Q2 EPS between $2.42 and $2.52 per share, which is at midpoint would be 10% higher than our previous record quarterly EPS. While we anticipate global industrial production to remain at low absolute levels and demand to be uneven by geography, we expect our overall second quarter sales volumes to be positive by a low-single-digit percentage, aided by organic growth in aerospace, protective and marine, and our share gains in packaging coatings.

We project continuing solid growth from our businesses in China, our third largest country for sales, led by our automotive OEM business where our strong positioning with electric vehicle OEM producers will drive further sales. Additionally, we expect to deliver further sales growth in Mexico, our second largest country for sales, leveraging our strong position across many businesses as well as our world-class distribution network.

We are confident that PPG's unique geographic profile, with strong and growing positions in China, Mexico and India, along with stabilization and eventually modest growth in Europe and the continued improvements in the US, will support PPG's consistent sales volume growth as we move forward. We anticipate overall company selling prices to be flat to slightly positive in the second quarter, as the impact of index-based contracts in our Industrial segment will be offset by selling price increases in our Performance Coatings segment. There's still some unfavorable pricing impact and offsetting energy input cost benefits from prior year European energy surcharges, but it's less than the first quarter.

With regard to commodity raw materials, supply remains ample, and we will continue to realize benefits from moderating input costs. We expect mid-single-digit percentage raw material deflation in the second quarter, following the realization of high-single-digit percentage decreases in Q1. We're watching oil price and feedstock volatility, and we will manage any impact accordingly, although we expect that recent oil price increases will be absorbed upstream.

Looking at the remainder of 2024, we remain confident that we will deliver positive sales volumes in each remaining quarter in 2024, including our growth in China and India. We'll also execute on our more than $270 million and growing order backlog in aerospace, driving further growth in our well-positioned businesses in Mexico and driving expanded benefits of our key growth initiatives across electric vehicle, auto parts, powder coatings, and various digital solutions. PPG remains focused on our enterprise growth initiatives to drive higher sales volumes and fully capitalize on our technical and service capabilities.

We'll drive further improvement of our operating margins, aided by sales volume growth leverage and our initiatives to drive manufacturing productivity following several years of supply chain and other disruptions. And we will diligently manage our costs and continue to execute against previously approved restructuring actions.

Lastly, we entered the second quarter of 2024 with a strong balance sheet, which provides us with flexibility for further shareholder value creation. Thank you to our more than 50,000 employees around the world who partner with our customers every day to drive mutual success by providing best-in-class paints, coatings, specialty materials, including productivity enhancing and sustainable solutions.

Thank you for your continued confidence in PPG. This concludes our prepared remarks, and now would you please open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Tim. [Operator Instructions] Your first question comes from the line of Ghansham Panjabi from Baird. Your line is open.

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

Q

Thank you, operator. Good morning everybody. Tim, I know you have a lot going on across the portfolio by business and also by geography, but your guidance embeds quite a bit of an earnings improvement during the back half of the year on a year-over-year basis. So, I guess just on that, can you just lay out the specifics that underlay your confidence for that dynamic to play out, especially with some of the upstream input costs such as energy trending higher? Thank you.

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

A

Yeah, sure, Ghansham. Thanks for the question. I'll tell you how I'm feeling about the full-year guide here. We have a bold 10% EPS growth target off of a strong record year last year and on a very challenging planet. But we've got strong reasons to believe and we're confident in that.

First of all, we've proven over the last several quarters what we can do on margin and cash. That gives us optionality. We believe that our strong volume momentum will continue. We went from minus 3%, minus 2%, minus 1%, now essentially flat without the one-timers. We're expecting positive volume in the rest of the year.

I'm satisfied with where pricing is. We continue to get price in Performance. We've got indexing offsets in Industrial, but I'm confident in that. We've got manufacturing momentum. We're starting to deliver on the productivity initiatives, as well as some incremental volume leverage. The portfolio, we're starting from a position of strength in a number of our countries and businesses, aerospace, Mexico, China, India, PMC, automotive.

We've got some share gains in the process of being launched across packaging, refinish, industrial coatings. We've got our enterprise growth strategy initiatives and we do have some optionality again with capital deployment. So, we feel good about the ramp between Q1 to Q2 and the second half of the year, Ghansham.

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

Yeah. And, Ghansham, this is Vince. Just as we talked, a strong balance sheet. In our full-year guide, we don't have any further cash deployment baked in at this point. As we alluded to in our press release, we did purchase about $150 million of shares in the first quarter, but our full-year guide does not assume additional cash deployment at this point in the remainder of the year. We'll make those decisions on a real-time basis.

Operator: Thank you. The next questions comes from the line of John McNulty with BMO. Your line is now open.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Yeah, good morning. Thanks for taking my question. So, maybe on the price versus raws dynamic. I guess, can you speak to whether you expect to see your raw material basket down from 1Q to 2Q? And then on the pricing side, if we take out the indexing, which really should be kind of a net neutral, what portion of your business do you expect to see real pricing as we're pushing forward? Because it does sound like you've got a number of initiatives to push further price. So, can you help us to think about those things?

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

Yeah. Let me just do the math. This is Vince, John. Let me do the math on the pricing. Again, we had in Q1 on a year-over-year basis, European energy surcharges really reflecting the high cost of natural gas in Europe last year. That was about $15 million on a year-over-year basis. As you alluded to, John, that was completely offset an exact pass-through in our cost of goods sold.

But if you're looking myopically at the price line, that's about $15 million and we have about half of that carryover in Q2. So, $6 million, $7 million in Q2. We still have an energy surcharge impact. Excluding that, I would exclude that as what would be our structural pricing. And Tim is going to answer the raws question.

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

Yeah. Hey, John, thanks for the question. As far as progression from Q1 to Q2; Q1, we did say they were down high-single digits, which was better than our forecast of mid-single digits. Q2 was, we believe, down to mid-single digits. And we're confident enough now to issue full-year guide on raws being down in that low-single digits to mid-single digits for full-year 2024. So, we've got better visibility now into what we believe that price/raws will look like for the rest of the year.

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

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey guys. Nice start to the year. You talked about being confident in turning the corner in volume growth in 2Q, maybe give us a little bit of color on how much market growth you need or macro help? And how much really just comes from your execution and maybe just some areas of growth that you're seeing in your end markets?

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

A

Yeah, Mike. First of all, it's based on a number of factors. One is the overall trend of the company, particularly when you adjust for – you got to take the Walmart load-in out. And when you adjust for that, we've been ramping. So, that's one part of it.

Second is, we are seeing a number of the share gain wins across some of our businesses from last year, starting to launch in Q2 in industrial, in refinish and in packaging primarily. And we've also – we're only 16 or whatever days into the month here. And while that's just what one-sixth of the quarter, we're comfortable with what we're seeing on orders and shipments thus far in the quarter. So, we're comfortable in saying that we'll be positive volume for Q2.

Operator: Thank you. The next question comes from the line of Duffy Fischer with Goldman Sachs. Your line is open.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Good morning. Two questions [ph] off the (00:21:26) buyback. One, I just want to clarify. So, Vince, in the annual guide, you're saying that there's no more buybacks that – you're not even rolling through the $150 million per quarter into that annual guide number.

And then maybe for Tim, if you look at the $150 million run rate, that'd take you over five years to eat through the program that you've now got available, how should we think about that buyback ramping going forward? What level should we put into our models?

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

A

Yeah. Duffy, this is Vince. You stated it properly. We obviously purchased $150 million in the first quarter. That will obviously be impactful to the financials. We have nothing further assumed in our full-year guide for the balance of the year.

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

A

The way that I'm thinking about the additional authorization that we got from our board yesterday is really consistent with what we've done and said over the last number of years and quarters. We said that, obviously, we're going to pay our dividend. Obviously, we're going to do what we need to do with the CapEx to grow our businesses organically. We paid down all of our high-cost debt last year. And we've consistently said that in the absence of shareholder value-creating acquisitions, we're not going to let the cash sit on our balance sheet.

And we did that in Q4. We did it in Q1. So, we're really sticking with that mantra. The way to think about magnitude going forward will depend on all of those factors, what's our actual leverage sitting at versus what we see in our acquisition pipeline after we've done those kind of organic things of dividend and CapEx.

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

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Tim and Vince, in US architectural, have you seen any disruption since your announcement in late February? What's the level of interest in these assets? And what's, I think, the most likely outcome of this review and process? Thank you.

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

A

Yeah. Good morning, David. It's Tim. We had a very detailed and thoughtful communications plan ahead of making the announcement on February 26 that we executed very shortly after that press release went out and have continued to execute. And we've seen very minimal, if any, disruption. There's chatter, but we've got really good talk plans out there. We're engaging our key customers. We're engaging our key – obviously, our employees. We're engaging our owners, as you know. So, a very minimal disruption to the business.

Second question, we expected strong interest because of the strength of the brands and the strength of the assets in our architectural US/Canada business. I'm pleased to say the interest is even higher than what we expected. So, that's – we feel good right now about where we are. As far as the – which likely outcome, David, until numbers start coming across the desk and we can start looking at what's best for long-term shareholder value creation, it's a bit early. But we want to be definitive on our path forward in Q3. So, we'll have a much better view of what this structure might look like in another quarter or so, David.

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

Christopher Parkinson
Analyst, Wolfe Research, LLC

Q

Great. Thank you so much. Tim, you've obviously been at the company a long time, and you're making some pretty dramatic moves in the first six quarters. When you take a step back away from the North American architectural and the specialty reviews and you look at your remaining businesses across Performance and Industrial, just how confident are you versus even, let's say, a couple of quarters ago, last year, however you want to characterize it, how confident are you that those remaining businesses are the best-in-class R&D innovators and will ultimately render above-market growth in the respective end markets over the next year or two? I mean – or perhaps even a little longer, just has your confidence changed in the portfolio positively or negatively? Thank you.

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

A

Hey, Chris, thanks for your very polite way of saying that I'm old at the beginning there. I feel more comfortable now than ever that we are building a portfolio here at PPG that will have a higher growth profile and a higher margin profile. As you alluded to, we did what I would call just pruning last year of some smaller parts of our portfolio that we really did not see being consistent with our enterprise growth strategy and our performance targets. We did that last year. Obviously, Q1 this year, I announced two pretty sizable ones.

Going forward, at least today, you shouldn't count on us coming out tomorrow or any time soon with another very sizable divestiture. So, I'm comfortable with what's in the portfolio at a high level. We will continue, however, to prune on a smaller scale. And one of our mantras going forward is that, every business has to earn the right to stay in the portfolio.

That means, one, from a performance outlook standpoint, but two, consistent with our very focused enterprise growth strategy. I also want to add that, when we talk about portfolio, Chris, it's not just about the pruning and divestitures. But we are also intending to be continued acquirers going forward just on a very focused basis for those things that meet both our performance outlook and our enterprise growth strategy.

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

A

Yeah. And, Chris, this is Vince. If you think about the remaining portfolio, the businesses, we have the right to win in the businesses, whether it be on a regional basis or on a global basis. As you alluded to in your question, most of these businesses have strong technology associated with them.

We've talked earlier in our comments about the margin profile, if absent these businesses that we're doing a strategic review on, which again would be higher on a pro forma basis. So, again, the right to win, good margins, good customer pull. Those are the things that we're focused on with respect to the portfolio.

Operator: Thank you. The next question comes from the line of John Roberts with Mizuho. Your line is open.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you. Another coatings firm has suggested that you might separate North American architectural into Pro versus DIY and deal with them separately. Could you comment on that?

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

A

Hey, John. There's a lot of theories out there from a lot of different parties. As I mentioned, the interest level that we've seen coming in is very high, higher than we expected. And not all of those parties have the same view of what we should do, and what this might look like at the end.

So, my only comment would be everyone should be confident that we – we said we were casting a wide net intentionally. Everybody should be confident that we will look at every option that comes in and weigh them and do what's best for shareholder value, period. It's a little early to go beyond that, again because nothing – no numbers have hit our desk yet.

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

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. Thanks for taking my question. On the higher CapEx range for the year, what are the areas you're contemplating additional growth investment? And should we expect this to be a reasonable CapEx base for the next few years?

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

A

Yeah, Patrick, this is Vince. A couple things. One, we did have some capital spending spill over from last year into this year, just things we didn't get to at the tail end of last year, so our Q1 capital a little higher.

We're also looking at additional growth-related capital spending in Mexico and also in India. But if you look – and we said this on our Q1 call or our year-end call as well, we're going to be somewhere in that 2.5% to 3.0% over the midterm. We still have some additional capital last year, this year, and we're catching up from COVID. So, again, we're a little bit higher. [ph] We said we recognize (00:31:41) that in our January call. But again, over the midterm, you should expect us to return to our normal range.

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

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

The LLC portion is very important. So, I appreciate that. Listen, I know that some of the growth you're expecting in the next three quarters for 2024 are tied to higher operating rates, volume improvement, productivity gains. But as you also indicated, you're also spending more money on growth initiatives and so forth. How do we think about the interplay between those two in terms of millions of dollars or EPS, et cetera? Any way that you can kind of frame the interplay between those two?

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

A

Yeah. Well, Mr. Mitsch, this is Tim. The net-net of the growth that we're expecting versus the investments in growth that we're making, net-net, we're expecting that to deliver the, at midpoint, 10% EPS growth for the year. Those investments that we – we didn't just start making those in Q1. We started making those last year, and a number of those will start to actually hit the P&L now coming here in Q2, Q3 and Q4. Beyond that, Vince, I don't know if you want to add any details.

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

A

No. I mean these are – these investments are things such as digital, as Tim alluded to, with respect to our consumer-facing businesses, Also with respect to refinish, we're building out digital tools that increase our customer liaisons. We have other investments in Comex where we're delivering – we've had multiple quarters of record earnings.

Our protective business, we're adding some capacity, strong protective business. We still have some infrastructure spending that has not yet hit the books, but we're building in anticipation of that. And even in aerospace, where we have a backlog that we – that continues to grow, we're adding some capacity there to try to work at that backlog and get to it in a much more expedient manner. So, those are examples. If you look at our – our overhead's up, that's something where some of the growth spending as a result of – that overhead's up as a result of that growth spending.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thanks, and good morning everyone. Can we talk a bit about refinish? And it would be helpful if you just could level set us in terms of where volumes are now versus pre-COVID levels. And I'm just – what I'm trying to understand on a go-forward basis, you're talking about volume declines for 1Q and 2Q against very difficult comps in the year ago period. So, is the assessment that we've normalized volumetrically post COVID – and if that's the case, what should the algorithm for refinish be in terms of volume and price on a go-forward basis from here?

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

A

Yeah. Hey, Vincent, Tim here. Thanks for the question. Let me kill the second part off first, the easy part. Price, you should expect us to continue to execute on price the way we always have in refinish, because the value proposition of the pain inside the can, plus all the tools and service outside the can continues to improve. And it's such an important part of the repair, but a fairly low-cost part of the repair. So, we'll continue to execute on price.

In volume, Q1 was lower than we expected. And if you saw the claims data for March that just came out for the US, in particular, were quite a bit lower than really the industry expected. The whole refinish industry loves an ice storm down in the Southeast US or Southwest US, where they're not quite ready to handle with an ice storm, and it was a pretty mild winter, particularly down south.

And so, the claims in March were down significantly. That affected Q1 and, frankly, will also carry in and affect Q2 which is why we're – partly why we're saying down mid-single digits on sales for Q2. The other factor in Q2 is we did have a very strong Q2 last year. That said, I've spoken and Chancey, who runs that business for us, has spoken to our key end users here in the last weeks and they're all saying the same thing about Q1, but we are all expecting, I would say, a return to more normal growth in the second half of 2024. So, we just got to get through Q2.

To your question on industry versus 2019, set March aside from a claims standpoint, because it's a bit unique. Other than March, we're down low-single digits, mid-single digits versus pre-COVID as an industry, but we are seeing things like [ph] a mouse-driven (00:37:20) ticking up – we are seeing more and more return to downtown areas, if you want to call it that.

So, long and short of it, down a bit in Q1, down a bit in Q2 because of one-timers here from a weather standpoint and a claims standpoint, confident in the second half of the year and confident for the long-term health of this business. And that's if we don't gain share, but we are continuing to gain share through our digital tools, as I mentioned in my opening remarks.

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

Yeah. And, Vincent, this is Vince. Just a point of clarification, the claims data Tim referred to, these are industry claims, which are down again low-double digits. The current reading was down low-double digits for the month of March. So, these are industry [ph] closing claims (00:38:06) that affect the entire industry.

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

Yeah. Prior to March, they were down low-single digits.

Operator: Thank you. The next question comes from the line of Stephen Byrne with Bank of America Merrill Lynch. Your line is open.

Steve Byrne
Analyst, BofA Securities, Inc.
Q

Yes. Thank you. Tim, I'm trying to get my head around why the US architectural business has been just barely profitable on average for five years. Has that trend been improving? Has there been any benefit from The Home Depot partnership? I ask because I had one of your store managers tell me, you have to match the pricing in Home Depot, which clearly would not be good for his margins. But underlying all that, is it the number of stores? Or is it – do you need to move to more of a concessionaire model in this business like Comex and like Ben Moore (sic) [Benjamin Moore] (00:39:10)?

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

Thanks, Steve. So, as far as what it's done over the last couple of years, it's been a little ups and downs, but it has been below company average, and we have been investing, particularly in The Home Depot model. But why has it been at the low level of profitability over the last several years? A number of things. The macros aren't great. You've got this post-COVID hangover across the whole industry. As I mentioned, we have been investing – and through – you mentioned our own stores, through our own stores, that's a high fixed cost model and you need velocity through those stores and with all the factors in the macro and in the post-COVID that velocity has decreased.

Now, The Home Depot Pro initiative is certainly working and gaining momentum and is positively contributing. But at this point, it's not far enough in that ramp-up curve to offset those macros, particularly what's happening on the DIY side. So, the reason we're doing this now is we do have momentum in this kind of omnichannel model with the combination of The Home Depot, our stores and our independent dealers. But we need a partner to make that go faster to get this to company average profitability. And so, that's why we're open to a number of different scenarios for this business.

Operator: Thank you. The next question comes from the line of Jeff Zekauskas with JPMorgan. Your line is open.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. I think in your Performance division, in the first quarter, of the six categories that you look at aerospace, refinish, architectural, all of them came in lower than you expected on a sales basis. And my impression is that things weakened in March globally. So, if we forget the second half for a moment, is your expectation now that the second quarter is a little bit weaker than you thought it would be before as you began the years?

And then secondly, as far as the share repurchase goes, I think over the past five years, your average purchase price is about $130. And so, how do you evaluate the success? Or what are you trying to achieve in taking $3.4 billion and repurchasing your shares, how will you gauge the success of that allocation of capital?

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

Okay. Hey, Jeff, thanks for the question. I'll take the kind of momentum question that you asked, and Vince can take the repo one, but – so kind of a full transparency, there were a couple of things that were weaker in Q1 than what we expected. We expected the Walmart – lack of a Walmart load-in, right? So, that's the straight math.

We expected some negative Easter timing impact. I would say that was higher than what we expected. And we are actually – again, it's only halfway through the first month, but we're seeing a bit of post-Easter snap-back, okay? So, that was worse in the first quarter, but that will be just shifting to the second quarter.

Two other things, Europe was softer than we expected. And industrial production, combined with the launching of some of our share wins, was weaker than we expected. So, if you think about all of those and roll forward to Q2, obviously, the Walmart load-in comp isn't there. I mentioned we're getting an Easter snap-back on Europe, early days, but we're comfortable with what we're seeing in April. So, I'm not saying it's going to have a snap-back, but it's – we don't see it getting worse.

And on the Industrial side, we are seeing – we are launching a number of those share gains that we executed throughout the second half of last year in Q2. And then finally, the refinish factor that I just mentioned, refinish, particularly in March, was a bit slower than we expected, but we're expecting a strong second half for refinish.

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

Yeah. Jeff, this is Vince. In terms of share repo, obviously, your numbers are accurate in terms of last several years. Again, we've gone – if you look over a longer time horizon, there's been times where we've done minimal share repurchases for consecutive number of years. Typically, when we're more active in M&A, there's been times where we've done a large portion of the repurchases over a couple – of a series of years when the M&A market is not as robust. And we have excess cash or excess balance sheet capacity.

When you look – we do calculate what we think is our intrinsic value of our stock price. We do feel that with the 10% growth rate we have going forward in our estimates, there are times where it's an imperative for us to look at share repo as an option. As Tim said, we have a prioritized list of cash deployment. And again, dividend, keeping the businesses healthy with CapEx. We look at M&A and then we look at the intrinsic value of the stock based on our assessment and that's how we effectuate the cash deployment.

Operator: Thank you. The next question comes from the line of Kevin McCarthy with VRP. Your line is open.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Thank you, and good morning. Tim, a few questions for you on the subject of Europe. I think EMEA was 31% of your mix last year, if you do wind up divesting some or all of US and Canada architectural, maybe that number will rise a little bit moving forward.

And it sounds like in contrast to China and India, which came in very strong, Europe did come in weaker than you expected. So, a few questions would be, A, what is driving the variance versus your prior expectation in Europe exactly? B, maybe you can provide some color on the consumer-facing businesses that you have there versus Industrial.

And I'm curious to understand whether rationalization of your customers' capacity is playing a role at all. We were hearing more and more about that from various chemical companies anyway. So, just a little bit more color on the region there and kind of what glide path of volume you need macro-wise to achieve that positive volume growth overall for the company that you alluded to.

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

A

Yeah. Thanks, Kevin. I'll take the last one first just to [ph] tick it off (00:47:26) here. We have not seen any significant – I can't, frankly, think of any of our customers that have rationalized their capacity to the point that is affecting our numbers, yeah, in Europe. In Europe, I'd say the two businesses that probably affected us the most in Q1. One was consumer-facing, and that was Deco. That was slower than we expected, mostly in France and in the Nordics. We did see green shoots in the East, where we're also quite strong. So, that's given us a little optimism looking forward.

The second business on the Industrial segment, automotive; automotive was weaker than we expected for the quarter. So, that gives some insights there. But as we look forward, we do – again, early days in April, we're seeing a better order book and better shipments, we do see – we do believe that as we talk to our customers, that the Deco businesses in those hard-hit countries is bouncing off the bottom. They're not expecting it to get worse. And we do see recoveries beginning to happen in the East.

And again, each individually, maybe not the largest Deco markets, but when you add them together, they're important part of our portfolio, places like Poland, places like Romania, where we have strong number one positions in growing, places like Hungary and Czech. So, we do see some green shoots there. So, we are not expecting Deco to get worse, but we're also not naïve enough to say there's going to be a huge V-shape, but we are expecting incremental improvements. And if you think about all the cost actions that we've taken on that continent, a little bit of incremental volume delivers really good leverage.

Automotive, we're taking a bit of a wait and see. Also, we're not expecting it to get worse. But marginally, it's a similar story, a very different end customer base. We are expecting modest recovery, but we're watching it closely. And at the end of the day, with Europe, this has been a benign macro environment for a decade, maybe more. And our teams have shown the ability to do what they need to do from a positive mix, a positive price and, importantly, a structural cost standpoint to deliver earnings and cash even in that very benign environment.

So, sum it all up, Q1 was worse than we expected in those couple of businesses. We are expecting sequentially incremental improvements, which will give us good leverage and – but we are watching it closely, and if we don't see what we need to see, we will take further structural cost actions.

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

A

Yeah. And, Kevin, this is Vince. I'll just add a point on architectural. As Tim mentioned, lower than our expectations in Q1, largely attributed to March. If you look at our performance through the first two months of the year, so Jan, Feb, that business was on our targets. We do feel there was a bigger Easter impact and we're seeing, again, a snap-back at least early in April in that business.

Operator: Thank you. The next question comes from the line of Aleksey Yefremov with KeyCorp. Your line is open.

Q

Thank you, and good morning. This is [ph] Ryan (00:51:29) on for Aleksey. Just wanted to talk a little bit more about the targeted pricing you're doing in Performance Coatings. Wondering if you can discuss some of the areas other than refinish, and then just wondering if you guys are like having some more success in recent weeks following this uptick in oil. Thanks.

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

A

Yeah. So, [ph] Ryan (00:51:51), look, the question on pricing, again, we'll continue to execute as we always have in refinish, as I described. But all across Performance, we deliver a value proposition that's far beyond the tin of paint. And that's what enables us to continue to offset things like wage inflation, which are higher than we expected. Things that offset things like logistics expenses, which are higher than we expected.

And that's because we typically supply very advanced technologies in our own products, but then additional services and tools to help the customer beyond what's inside the can of paint. So, we expect to get price in refinish. You'll see incremental price in aerospace. We expect it in parts of PMC, where we have some really good sustainable solutions for our customers that they're very interested in. And so, we really expected to see almost across the whole portfolio of Performance Coatings.

Operator: Thank you. The next question comes from the line of Michael Leithead with Barclays. Your line is open.

Michael Leithead
Analyst, Barclays Capital Inc.

Q

Great. Thanks. Good morning guys. Question for Vince on raws and inventory. Can you just talk about where you guys are relative to more normalized raw material buying patterns? It looks like you maybe still have a few extra days of inventory.

And then I appreciate you don't give free cash flow guidance, but just given your full-year assumptions of raws down low to mid-singles, volume up for the full year. I guess broadly, should we still expect working capital to be a source of cash this year? Thanks.

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

A

Yeah. I'll take the end of that, Michael, because our assumption is we're going to continue to work down. We have excess inventory relative to our history. We're going to continue to work that down. Especially as we're in this peak production season that Tim alluded to earlier, we're probably carrying four to five days of excess inventory versus history. All of that's in raw materials. And we've made progress. We were at 10 days at one point last year. So, we're about halfway through our journey. We hope to take another bite out of that in Q2, a sizable bite in Q2.

And then for the balance of the year, continue to be prudent in our purchases, and that should generate a positive working capital on a year-over-year basis, working capital impact on a year-over-year basis on free cash flow. In terms of our purchases, as I said in the opening remarks – or as Tim said in the opening remarks, most of our suppliers have excess supply. This is a market that is advantaged for us, and we'll continue to push that. But again, our intention is to work down raw materials in concert with the peak season.

Operator: Thank you. The next question comes from the line of Laurent Favre from BNP Paribas. Your line is open.

Laurent Favre
Analyst, Exane BNP Paribas

Q

Yes. Good morning. I had a question on China. I think you talked about growth in Q1. But presumably, this was still a quarter impacted by COVID. So, I was wondering, when you look into Q2, what kind of momentum are you seeing there on the ground? Thank you.

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

A

Hey, Laurent. Thanks. Sure. There was an impact – some impact on COVID. But automotive was a big driver. We expect that to continue. We're expecting double-digit, high-single-digit kind of growth again in Q2 from automotive. Industrial Coatings grew in China for us, and we expect that to continue.

Refinish grew in China, and we expect that to continue. So, it's really – we've been maybe more confident than others on China for the last several quarters. And that is actually playing out as we expected. So, I don't think you're going to see overnight going back to the growth rates of 5, 10 years ago, but we remain confident in continuous growth in China.

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

A

Yeah. And just a couple of other data points, our aerospace business is doing well there. The Chinese New Year brought about record travel in the country. And again, industrial activity there for our set of products and our set of businesses, we expect to remain strong.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. I just wanted to go back to the volume outlook. So, it looks like you're guiding organic sales to be up low-single digits in the second quarter and for the full year as well. So, if you look at that second quarter number, it looks like low-single digits, you can have some targeted price initiatives. So, should we assume kind of flat volumes for Q2?

And then similarly for the full year, how are you thinking about kind of consolidated volume growth? I know you've given out some guidance by segment as well on the slides. But it would look like that you'd need a kind of ramp to about the low to mid-single digits on volumes in the back half. Am I reading that correctly? Or yeah, maybe you can just clarify how you're thinking about volumes, how they should evolve through the year.

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

A

Yeah. Thanks, Arun. It's Tim. You're reading the second half, I think, correctly. But Q2, one adjustment, you said price up, volume flat. We're actually expecting more price flat, volume up. Some of that because of what Vince talked about earlier, we still have a little bit of carryover of price negativity from that European energy cost pricing from last year. So, Q2 price flat, volume up. And the rest of the year, I think you described it well is that we'll see volume growth momentum moving through Q3 and Q4.

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

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey. Good morning. I wonder if you could just talk about Americas architectural a little bit more. So, excluding the load-in impact, it seems like your volumes are up slightly, curious just how much of that is Comex continuing to grow versus what you're seeing in the US? And if you could help us kind of delineate in the US, what's going on with Pro and DIY from a volume perspective in the first half? Thanks.

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

A

Yeah, Josh, actually, it's a little bit flip-flop because Mexico, while it had another great quarter from a kind of sales and earnings standpoint as well as cash, the Easter impact in Mexico was more of an impact than it was up here. It's a really important holiday for our friends in Mexico. And so, we actually had decent performance in our architectural US business versus last year and versus the kind of market.

We're confident that we gained share in 2023, and we saw that momentum continuing into Q1. All on the Pro side, though, Josh. DIY remains soft, but we did see a good performance. The way we look at our Pro business now with what we're doing between our own network, our partner, Home Depot, and our many good partners across the private dealer channel, we look at it in totality. And despite all the negative macros, all the negative news as recently as this week on housing, we were up low-single digits for the architectural US business. On the Pro, I'm sorry, that's on the Pro side.

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

Michael J. Harrison
Analyst, Seaport Research Partners

Q

Hi. Good morning. I was wondering if you could give a little more color on what you're seeing in India. Obviously, you gave us some comments on what you're seeing in China. But what are some of the key markets that you're serving in India? What's your current position? And I guess maybe what stage or inning are we in, in terms of the growth potential that you see in India?

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

A

Yeah. Mike, I was just there. I just got back a couple of weeks ago, and it was fascinating. I've been going to India for 25 years, and there was always a lot of talk of improvements in infrastructure and public investment and growth. It's happening now. It is actually happening and it is very noticeable.

If you go regularly, you will see a big difference there, a lot more cranes, lot more highways being constructed, trains, airports. We've got a very good position there, mostly on automotive, industrial and refinish, and all of those businesses are growing. And we feel really good about the growth trajectory going forward.

Now, it is not in our top five countries today. But the reason that we've started to highlight it is, one, we do have a very good position there. And for the first time in a long time, we see real tangible industrial production and infrastructure growth on the ground.

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

And, Mike, what's fostering that is we are seeing a significant amount of reshoring in Asia to India. The economy there is growing as robustly as Mexico. And again, that's driving that industrial activity.

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

Laurence Alexander
Analyst, Jefferies LLC
Q

Good morning. Just one quick one. On the proposed possible exit of the [ph] silicas and the (01:03:33) restructuring of the North America coatings, how much would that have changed your volatility across your business? And I guess just going forward, I mean, you talked about M&A sort of leading to mostly focusing on higher growth, higher margin. To what degree does the volatility of the businesses you're acquiring factor in? Or just how are you thinking about that managing that going forward?

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

Sure. Thanks, Laurence. The volatility, the cyclicality, the seasonality are factors, of course, but I would say the number one and two factors are, does it improve our overall organic growth profile on a long-term basis for the company and does it improve our overall margin profile? So, those are our first two factors. And then if we can do it without adding cyclicality and seasonality, even better.

To the first part of your question, clearly, architectural US/Canada is one of our more highly seasonal businesses. So, if we do separate entirely from that business, you can visualize the outcome there. And I would say the silicas business does have some cyclicality to it, because part of that business is tied to auto OEM production and tires. But only a portion of that business, other parts of it are tied to automotive aftermarket and tires. Other parts are tied to battery separators, consumer electronics. So, I would say it will have some impact, but not enough that it's going to, I think, affect your modeling of how you might model the company in its entirety from a cyclicality standpoint.

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

Yeah, Laurence, Vince, just a reminder, as we said in February, this has a multiple hundred basis point impact on sales volume improvement if you do a pro forma basis. But again, looking at that for a period of time, it's not significant in terms of cyclicality.

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

Jonathan Edwards

Director-Investor Relations, PPG Industries, Inc.

Okay. Thank you for your continued confidence in PPG. We want to thank you as well for good operating, so much appreciated. We appreciate your interest and confidence in PPG. This concludes our first quarter earnings call.

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