

FINAL TRANSCRIPT

Thomson StreetEventsSM

PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Event Date/Time: Apr. 21. 2011 / 6:00PM GMT



Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

CORPORATE PARTICIPANTS

Vince Morales

PPG Industries - VP IR

Chuck Bunch

PPG Industries - Chairman, CEO

Bob Dellinger

PPG Industries Inc - SVP- Finance, CFO

CONFERENCE CALL PARTICIPANTS

Don Carson

Susquehanna Financial Group - Analyst

Brain Maguire

Goldman Sachs - Analyst

David Begleiter

Deutsche Bank - Analyst

Bob Koort

Goldman Sachs - Analyst

Frank Mitsch

BB&T Capital Markets - Analyst

P.J. Juvekar

Citigroup - Analyst

Kevin McCarthy

BofA Merrill Lynch - Analyst

John McNulty

Credit Suisse - Analyst

Bill Young

Chem Speak

Dmitry Silversteyn

Longbow Research - Analyst

Gaji Balakaneshan

Buckingham Research - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2011 PPG Industries Inc. earnings conference call. My name is Deanna, and I'll be the Operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session.

(Operator Instructions).

As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the conference over to your host, Mr. Vince Morales, Vice President Investor Relations. Please proceed.



Apr. 21, 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Vince Morales - PPG Industries - VP IR

Thank you. Good afternoon. This is Vince Morales, Vice President of Investor Relations for PPG Industries. Welcome to PPG's first-quarter 2011 financial teleconference. Joining me on the call today from PPG are Chuck Bunch, Chairman of the Board and Chief Executive Officer; Bob Dellinger, Senior Vice President Finance and Chief Financial Officer; and David Navikas, Vice President and Controller.

Our comments relate to the financial information released on Thursday, April 21, 2011. As a reminder to everyone, we have modified our quarterly earnings call process and, approximately one hour ago, we 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. We will not read those prepared remarks during the call. During the call, Chuck will share his perspective on the Company's results in the quarter and then we will move directly to Q&A. This modified process allows substantially more time for Q&A, while providing a similar amount of data compared to our prior approach.

Both the prepared commentary and discussion during this call may contain forward-looking statements reflecting the Company's current view about 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.

This 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 a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures. For any additional information, please refer to PPG's filings with the SEC. Now, let me introduce PPG's Chairman and CEO, Chuck Bunch.

Chuck Bunch - PPG Industries - Chairman, CEO

Thank you, Vince, and welcome, everyone. PPG posted record earnings per share this quarter marking the third consecutive quarterly record for the Company. We have built on the strong performance and momentum from the second half of 2010. Our year-over-year sales improved 13% to \$3.5 billion with each major region posting double-digit percentage sales increases and higher sales in every PPG reporting segment. Higher volumes accounted for about one half of our sales growth lead once again by stronger global industrial activity which aided many of our businesses. The global industrial recovery continues with solid growth in emerging regions and North America and with strengthening conditions in Europe. The higher European activity levels outpaced our expectations of a few months ago.

Excellent volume growth was also a key factor in the record earnings performance by our Optical and Specialty Materials segment. In construction end use markets, activity levels remained low in the developed regions, as these markets have not demonstrated any convincing signs of imminent improvement. Despite the market weakness, our volumes in businesses serving these markets were modestly positive in comparison with an already low prior year base. Improved selling prices accounted for the majority of the Company's remaining sales gains in the quarter. Every reporting segment posted higher year-over-year pricing with the most significant percentage gains in commodity chemicals and glass, resulting in substantial earnings recovery in these segments versus the recession impacted first quarter of last year.

In our Coatings businesses, higher selling prices partially offset persistent raw material cost inflation. Despite inflationary cost pressures, operating margins in each Coatings segment were essentially flat with the prior year, and our total Coatings operating earnings improved by nearly 12%. Volume and pricing gains were supplemented by continued aggressive cost management actions. We also expanded our product reformulation activities in an effort to utilize lower raw material -- lower cost raw materials to limit inflationary impacts on our customers.

Apr. 21, 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Lastly, another growth lever for us is the continued deployment of our cash for earnings accretion. While our recent acquisition activity has been minimal, we repurchased about \$275 million of PPG stock during the quarter, bringing our total repurchases over the past nine months to about \$700 million at an average share price of \$81. As a result, our share count has dropped nearly 3% versus last year's first quarter.

In summary, our performance in the quarter was excellent. Despite persistent inflationary pressures, our overall segment margins improved by more than 300 basis points in comparison with last year and 150 basis points sequentially versus the fourth quarter of 2010. We posted double-digit sales growth on strong volumes and higher pricing and achieved record first quarter earnings per share. We also returned about \$375 million of cash to shareholders including \$90 million of dividends.

Looking ahead, we remain optimistic as we anticipate similar economic trends in the second quarter, which is seasonally our strongest sales quarter. We remain focused on offsetting inflationary pressures with expected additional price gains in the second quarter in all our businesses. Also, our aggressive cost management and execution focus remains. Finally, we continue to work on accretive initiatives to deploy our cash. We are applying our disciplined approach toward evaluating acquisitions and anticipate several small to medium sized bolt-on acquisitions over the next 6 to 9 months. Lastly, as a reflection of our outlook and our continued strong cash prospects, we raised our quarterly dividend another \$0.02 today to \$0.57 per share, which is our second increase in the past 9 months. That concludes our prepared remarks. Now, Operator, would you please give instructions and open the phone lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Begleiter, Deutsche Bank.

David Begleiter - Deutsche Bank - Analyst

Thank you, good morning.

Chuck Bunch - PPG Industries - Chairman, CEO

David.

David Begleiter - Deutsche Bank - Analyst

Chuck, you mentioned to combat raw materials reformulation using more Chinese TO2, how much have you been able to offset TO2 usage with reformulation, new technologies and Chinese sulfates?

Chuck Bunch - PPG Industries - Chairman, CEO

I would say those reformulation or additional sourcing options, it's still, it would still be less or low single-digit percentages in terms of our overall raw material usage.

David Begleiter - Deutsche Bank - Analyst

And just on Q2, would you expect margins in Coatings to be up in Q2 year over year?

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Chuck Bunch - PPG Industries - Chairman, CEO

I would say our Coatings margin should be comparable to the margins that you're seeing. I think you're going to have some improvement in our seasonally stronger businesses in the second quarter, but I would say that the margins would be comparable.

David Begleiter - Deutsche Bank - Analyst

Thank you very much.

Vince Morales - PPG Industries - VP IR

Thanks, David.

Operator

Bob Koort, Goldman Sachs.

Bob Koort - Goldman Sachs - Analyst

Thanks. Good afternoon, guys.

Chuck Bunch - PPG Industries - Chairman, CEO

Bob, good afternoon.

Bob Koort - Goldman Sachs - Analyst

Chuck, I guess we've heard some different accounts of pricing in US architectural, your European competitor talks not really seeing price yet at the big boxes and we had Sherwin on today talking about their own stores where they pushed through a series of price hikes. Can you sort of give us an appraisal of the landscape by channel regarding pricing specifically in the US market?

Chuck Bunch - PPG Industries - Chairman, CEO

Well, what I would say is that it is probably Company-specific. From a channel standpoint, obviously the products and formulations are similar with each channel, so I think the pressure of the raw material pressure exists across-the-board. We were able to implement price increases in the first quarter in all channels. Obviously, we are experiencing here in the second quarter additional raw material inflation on a year-over-year basis and sequential basis. So we're weighing our options and looking at the marketplace, talking with our customers, and so I would say we're evaluating additional actions as we move into the second quarter and through the rest of the paint season.

Bob Koort - Goldman Sachs - Analyst

And could you address what's going on with the auto builds globally and the impact from Japan, and will we even notice it in your numbers or is that a small enough piece auto OEM that's affected that won't be that noticeable?

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Chuck Bunch - PPG Industries - Chairman, CEO

There was no real impact in the first quarter from the tragic events in Japan because it was just at the end of the first quarter. I would say there is going to be a small impact in the second quarter, minimal in terms of the overall PPG sales. I would say now we're looking at something on the order of a 1% impact on overall PPG sales in the second quarter from what I would call lower builds in the second quarter versus the initial forecast, probably concentrated more in the Japanese OEMs but affecting others more broadly. We do not participate directly in any automotive sales in Japan but we do supply those customers outside of Japan, especially here in North America and in Europe. But our overall forecast, if we say we're going to-- it'll impact the total Company to the order of maybe 1% of sales in the second quarter, we would anticipate making up those sales from an industry standpoint by the end of the year. So if you look at the full-year impact, we don't see it as sustaining and actually, we think there'll be some catch up in the third and fourth quarters but an impact that's going to be concentrated in the second quarter.

Bob Koort - Goldman Sachs - Analyst

Great. And one man's opinion, I like the new format, so I'll get back in line hopefully to have another question at the end.

Vince Morales - PPG Industries - VP IR

Thank you, Bob.

Operator

Frank Mitsch, BB&T Capital Markets.

Frank Mitsch - BB&T Capital Markets - Analyst

Was that last comment by Bob planted by Vince?

Vince Morales - PPG Industries - VP IR

No.

Frank Mitsch - BB&T Capital Markets - Analyst

Congratulations on a nice quarter. Following up on the commentary you were talking about looking at TIO2 substitutes and Chinese pigments and you were focused it looked in the commentary on the architectural EMEA, the European business. Can you comment on your progress in terms of that? I mean have you fully looked at it across the entire PPG Coatings platform and decided that those sort of moves in utilizing less TIO2 was more germane to Europe rather than the rest of the region? Am I reading too much into that? Where exactly are you on that process?

Chuck Bunch - PPG Industries - Chairman, CEO

No, I'd say we're doing this broadly. TIO2 probably has the highest concentration as you know, Frank, in the architectural businesses but we do use TIO2 in our other Coatings businesses, so this is an across-the-board initiative on the part of PPG to expand our sourcing supplies so every business has targets, has goals, is qualifying additional suppliers. But we are not trying to in any way take quality out of our formulations or products. So we're looking right now to just expand sources of supply to

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

give us more opportunities and to look more globally at these suppliers, at these products, and we're obviously having some success in expanding our supply base.

Frank Mitsch - *BB&T Capital Markets - Analyst*

All right, all right, fine, so I read too much into the commentary that it was mostly-- that is was in the European side, it's really across-the-board as to what you're looking at?

Chuck Bunch - *PPG Industries - Chairman, CEO*

Yes.

Frank Mitsch - *BB&T Capital Markets - Analyst*

All right and then you made the comment that the volumes call it 6%, 7% up for the entire Company and across each region it was about roughly the same, so I was a little bit surprised by that. One would have thought that you might have seen faster growth here or there, so basically you're seeing as much growth in Europe and in Asia? And continuing on the volume side, you mentioned that pricing, you're expect pricing gains in the second quarter but you also expect volume gains in the second quarter?

Chuck Bunch - *PPG Industries - Chairman, CEO*

Well, first on a regional basis, I would say that we experienced volume gains in all regions lead by Asia-Pacific followed by Latin America and North America. And in Europe, we had volume gains but they weren't to the extent that we saw certainly in Asia, and not as much here, but there were certainly volume gains. And again, focused on the industrial and automotive markets so principally, we had volume gains in architectural in Europe, but very modest.

Frank Mitsch - *BB&T Capital Markets - Analyst*

All right, and you would anticipate continued volume gains in the second quarter as well?

Chuck Bunch - *PPG Industries - Chairman, CEO*

Yes. We think that this is continuing with the point that Bob Koort brought up in the last question about we will see in the second quarter the impact on the supply chain in automotive OEM, especially with the Japanese manufactures. But aside from that, we still see growth continuing in our markets and broad in terms of the end use markets and the regions.

Frank Mitsch - *BB&T Capital Markets - Analyst*

All right, terrific, thank you.

Vince Morales - *PPG Industries - VP IR*

Thank you, Frank.

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Operator

P.J. Juvekar, Citi.

P.J. Juvekar - Citigroup - Analyst

Yes, good afternoon, Chuck.

Chuck Bunch - PPG Industries - Chairman, CEO

Hi, P.J., how are you?

P.J. Juvekar - Citigroup - Analyst

So several questions on this Chinese TIO₂, but isn't that mostly lower quality sulfate production and is that good enough for European paints?

Chuck Bunch - PPG Industries - Chairman, CEO

Well, we continue to work on our processing initiatives. As you know, we have built a very large business in every end use market in Coatings in China, we have now close to \$1 billion in sales there. So we have extensive experience now with local or domestic production, and we've learned in many cases how to work more successfully with these products. So I wouldn't say it represents any sacrifice in terms of the quality of products or processes that we're using.

P.J. Juvekar - Citigroup - Analyst

And typically how cheaper is that pigment compared to pigment, that you would buy in US or Europe?

Chuck Bunch - PPG Industries - Chairman, CEO

At this point, I would say it is less expensive, modestly so, but it is less expensive and represents a good opportunity for us in both the supply security and economic value.

P.J. Juvekar - Citigroup - Analyst

Okay. And just lastly, you look at European architectural margins, there's still about less than half of that of US performance businesses, so as you improve manufacturing there and use less expensive TIO₂ and all that, where do you think you can take those margins to?

Chuck Bunch - PPG Industries - Chairman, CEO

Well we have 2 points. One, the first quarter is a seasonally low quarter for any let's call it Northern Hemisphere architectural business, so those margins in Europe in architectural will move up in the second and third quarters. And they've done a good job so far on very limited volume improvement in offsetting the inflationary increases. And also you have to remember that we still have a purchase price accounting at work in our EBIT reported segment earnings for architectural EMEA, so if you look at it on an EBITDA basis, our full-year returns on an EBITDA basis are into the low teens. And so we think that the ability to sustain those margins, to have excellent cash flow in this level of construction market activity in Europe has been successful and we



Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

think there'll be more gains in the future, both as the market improves and as we continue to work on supply chain and cost improvement.

P.J. Juvekar - Citigroup - Analyst

Thank you, and Vince?

Vince Morales - PPG Industries - VP IR

Yes, sir.

P.J. Juvekar - Citigroup - Analyst

Are your natural gas hedges completely off now, the higher cost hedges that you had?

Vince Morales - PPG Industries - VP IR

No, P.J. Just to refresh everybody, we have higher pre-2010 hedges in primarily in our commodity chemical business but also a small portion in our glass business. They're in the range of between \$7.50 and \$8 depending on the quarter. We have about just under 20% in the first quarter hedged and that bleeds off P.J. at about 1% per month. For the full year, we're about 12% hedged at \$7.50. So we're continuing to experience that as a tail wind as we go throughout the year based on current market price.

P.J. Juvekar - Citigroup - Analyst

Thank you.

Vince Morales - PPG Industries - VP IR

Thank you.

Operator

Kevin McCarthy, Banc of America Merrill Lynch.

Kevin McCarthy - BofA Merrill Lynch - Analyst

Yes, good afternoon.

Chuck Bunch - PPG Industries - Chairman, CEO

Hi, Kevin.

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Kevin McCarthy - BofA Merrill Lynch - Analyst

Question on chlor-alkali. It seems as though the market's tightened a fair amount in the wake of the crisis in Japan. Can you talk a little bit about your price realizations there, how much is flowing through? And then secondly, I understand you declared force majeure at Natrium 2 days ago. Maybe you could comment on whether that's just going to be a brief interruption or whether you would anticipate any meaningful impact on 2Q there.

Chuck Bunch - PPG Industries - Chairman, CEO

First, I'll take the pricing discussion for chlor-alkali. The supply demand for caustic soda and for chlor-alkali more broadly has tightened up in light of the events in Japan. They were a large exporter of their production to other areas of Asia-Pacific. So we didn't see an impact in the first quarter, second quarter demand will remain high. Pricing has solidified. We have on the chlorine side, we have a \$60 increase that is currently being implemented here at the beginning of the second quarter. We have on the caustic side a \$40 a ton increase that has already been implemented at the end of the first quarter and an additional \$60 a ton increase that has been announced and is in the process of being implemented here in the second quarter. So the pricing environment strengthened in chlor-alkali and we see that continuing now certainly through the next couple of quarters.

On the force majeure declaration at our Natrium plant a couple of days ago, that was at the end of a scheduled outage, and as we started up, the plant we ran into a couple of equipment issues. We are making good progress now in bringing that equipment back and now we're talking let's say on the order of days for this force majeure and the additional outage rather than, and the additional outage, let's say rather than weeks or something more serious. So there was no catastrophic event, but we just did have some equipment issues as we started back up from that outage, but we're confident that this thing it's positive here and we should have some good news in the coming days.

Kevin McCarthy - BofA Merrill Lynch - Analyst

Okay, that's good to hear. And then just as a follow up, Chuck, what is the status of the pending bolt-on acquisition that you have in the Pacific Northwest on chlor-alkali and maybe you can comment on kind of the background of that deal, how it helps you?

Chuck Bunch - PPG Industries - Chairman, CEO

Equa-Chlor, we expect to close on that deal on the 2 of May, so it is in-process. And for us, this was an attractive bolt-on acquisition. It actually fit strategically with the rest of our footprint here in North America. We thought that there was excellent synergies for PPG, both in terms of our operations and we have not been a major player for a number of years on the West Coast and actually, the acquisition has been welcomed I think by the market and some of our customers as increasing our flexibility and our ability to support them, so for us, it's a small bolt-on. I think the timing is good with the improvements we're seeing in the chlor-alkali business here in North America, it has a solid customer base and we think this is a logical and very nice acquisition opportunity, and clearly a bolt-on for us in this business.

Kevin McCarthy - BofA Merrill Lynch - Analyst

Okay, thank you, Chuck.

Operator

John McNulty, Credit Suisse.

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

John McNulty - *Credit Suisse - Analyst*

Yes, good afternoon. Just a couple of questions. In the Optical business, you noted that there was going to be a higher growth focus and some incremental advertising and selling costs. Is that something that-- how should we think about that hitting the margin? Is it something where it'll be an incremental hit or does it just offset some of the positive leverage with sales going higher?

Chuck Bunch - *PPG Industries - Chairman, CEO*

I think what you'll see, John, is-- we think that it will improve our growth trajectory in the business. We have some exciting new product developments on the transition side which is the biggest single business in that Optical and Specialty Materials segment. And I would look to see those margins sustain themselves but bring us a little stronger top line growth and comparable bottom line margins.

Vince Morales - *PPG Industries - VP IR*

I'll remind you, John the business has some seasonality to it as well.

John McNulty - *Credit Suisse - Analyst*

Okay, sure, no thanks a lot. And then with regard to your TIO2 supplies, it sounds like you're looking for a broader supplier platform. In terms of the contracts that you're looking for are you setting things up for longer term in the event that there may be supply issues if the market actually starts to further tighten here with either US or European markets getting better on the housing front?

Chuck Bunch - *PPG Industries - Chairman, CEO*

Well, I wouldn't say our contract practices or policies have changed. We do try to contract to the extent that we can with most of our major suppliers. So we have contracts in place now with TIO2 and with other major raw materials and we try, to the extent possible, to protect our interest going forward with these contracts in the event that there are supply disruptions or issues.

John McNulty - *Credit Suisse - Analyst*

Okay, great. Thanks a lot.

Operator

Bill Young, (inaudible).

Bill Young - *Chem Speak*

Hi, good afternoon, Chuck.

Chuck Bunch - *PPG Industries - Chairman, CEO*

Hi, Bill.

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Bill Young - *Chem Speak*

You mentioned maybe switching to some other polymer technologies in order to mitigate raw material costs, could you expand a little bit on that, please?

Chuck Bunch - *PPG Industries - Chairman, CEO*

Well, I think the entire industry, the entire coatings industry is faced with the increasing cost pressures that we've talked about in TIO2 and other commodities. TIO2 does provide-- as you know the principal benefit of TIO2 is its hiding powers and the paint formulation. So all of the industry, not only the coatings companies, but I think all of the broader non-TIO2 chemical suppliers are looking and working on initiatives, research initiatives to develop either new formulations or new products that can go into our paint formulations that will minimize the amount of TIO2. And some of those projects, and for those of us who have been around for many years we can remember when we had a lot of these substitute type of products that were actively in development, some of those continued through the years but maybe without the same emphasis. And I think you've seen from everyone in the industry now a focus on research and development to help offset what has been obviously one of the most inflationary raw materials in our basket.

Bill Young - *Chem Speak*

Well, I think I don't know, 10, 15 years ago, Rohm and Haas introduced what they called ropaque, and do you think that had any meaningful impact, and how about the second generation slice of products along these lines?

Chuck Bunch - *PPG Industries - Chairman, CEO*

Well, yes, I remember these days of the ropaque polymers from Rohm and Haas and I think they had some general acceptance in the industry and were used. And I don't know that those uses were growing over time but certainly now with the Rohm and Haas assets being in Dow's portfolio, we've seen a number of initiatives and announcements from Dow that they're putting more emphasis and more research behind those products. So they haven't gone away and I think in many cases now, the non-TIO2 producers are working hard to come up with products that they feel will help the coatings companies with this raw material supply and pricing issue.

Bill Young - *Chem Speak*

Okay. Thank you.

Vince Morales - *PPG Industries - VP IR*

Thanks, Bill.

Operator

Dmitry Silversteyn, Longbow Research.



Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Dmitry Silversteyn - Longbow Research - Analyst

Good afternoon, guys. A couple of questions since most of mine have been answered. First of all when you talk about up to maybe half a dozen acquisitions of the bolt-on nature that you're getting ready to complete over the next 6 to 9 months, are there likely to be-- can you give us an idea of where they would be geographically and in business wide? Are you looking to take advantage of some opportunities in the chlor-alkali land perhaps to expand your footprint or is it going to be confined to the coatings market?

Chuck Bunch - PPG Industries - Chairman, CEO

Our focus is, although not exclusively so, it's going to be primarily in the coatings space. And geographically, we have talked in the past that we wanted to improve our position in the emerging regions or the developing regions. Those have in some cases proved to be somewhat challenging. The one acquisition that we made in the fourth quarter of last year, which was Bairun in China, was one that we were able to complete there, But I would say geographically, we've broadened the search now. We've also included Latin America. We're also looking at Europe where maybe the growth prospects aren't as strong but where we have already a very well established position and that would give us an opportunity for more cost synergies to get us through what has been a lower growth environment here for the past couple of years but strengthen our position where we are already well situated.

Dmitry Silversteyn - Longbow Research - Analyst

Okay, all right, that's helpful. And second question, I just want to make sure I understand the volume and foreign exchange impacts in the EMEA decorative coatings as well as volume growth in commodity chemicals.

Vince Morales - PPG Industries - VP IR

What's the question, Dmitry?

Dmitry Silversteyn - Longbow Research - Analyst

The question is what's the volume in foreign exchange contributions to the European coating paint business and what is the volume contribution to the commodity, and if there's any foreign exchange in there as well?

Vince Morales - PPG Industries - VP IR

In the architectural Europe business, currency was negligible less than 1%. And in commodity chemicals currency was, let me make sure I got the right number, again virtually negligible, rounding to 1%.

Bob Dellinger - PPG Industries Inc - SVP- Finance, CFO

Chuck mentioned in architectural coatings EMEA, it's pretty well split between volume and price.

Dmitry Silversteyn - Longbow Research - Analyst

Okay, so about 3.5% to 4% in each then? And what about commodity chemicals of the 27%, 28% growth that you saw I would imagine it's mostly price but was there any positive volume?

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Bob Dellinger - PPG Industries Inc - SVP- Finance, CFO

Yes, there was positive volume but you're right, the bulk is price.

Dmitry Silversteyn - Longbow Research - Analyst

Low-single digits volume?

Vince Morales - PPG Industries - VP IR

Yes.

Bob Dellinger - PPG Industries Inc - SVP- Finance, CFO

Yes.

Dmitry Silversteyn - Longbow Research - Analyst

Okay, that's all I have, thank you.

Operator

John Roberts, Buckingham.

Gaji Balakaneshan - Buckingham Research - Analyst

Hi, this is Gaji Balakaneshan sitting in for John.

Chuck Bunch - PPG Industries - Chairman, CEO

Hi, Gaji.

Gaji Balakaneshan - Buckingham Research - Analyst

First question, aside from natural gas prices and maybe the random force majeure, is there anything you see that could affect commodity chemical profitability for the rest of the year?

Vince Morales - PPG Industries - VP IR

Well again, I think the biggest driver there, Gaji, is demand. Demand remains strong. Chuck mentioned the unfortunate events in Japan have constrained supply at least temporarily. So we've said since the beginning-- or the end of the year, we remained bullish on this segment and that still holds true today that we feel good about the supply demand economics. We do have that tail wind from natural gas, so we feel good about the segment.



Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Gaji Balakaneshan - *Buckingham Research - Analyst*

Okay, and then with constant rising inflation for commodities, is there-- well at what point do you start getting concerned about demand destruction, maybe not with your customers but from economic activity in general.

Chuck Bunch - *PPG Industries - Chairman, CEO*

Well I would say that it's a concern for I think not only our Company but every company. I mean we went through as we all know in 2008 in the first half of 2008, we had a very solid global growth, a lot of inflation, especially on the oil and petro chemical side and it ended badly with the financial crisis, Lehman and the like in the second half of the year. So I think inflation is a concern for any business. But in terms of where we see economic growth or the macro economic conditions, we think it's still solid. Now we're going to have probably more inflation and I think as you see companies that are in the middle of the supply chain like we are in many of our products, as we push through the inflation that we're receiving on a lot of these raw materials or metals and we push them through to our customers, it will lead to more inflation at the consumer level where you really haven't seen it as much here in this country. But we have a weak dollar and you have strong growth outside, so I think the risk here is that inflation heightens, especially in the US and that crimps the buying power of the consumers and threatens some of the nice recovery we've had in end use markets like automotive.

Gaji Balakaneshan - *Buckingham Research - Analyst*

Would you say that, just to follow up on that, would you say that your margins are higher than back in 2008 when we last saw these price levels and commodities? So maybe that-- it seems like everybody has higher margins this time around, so maybe that demand destruction would start happening earlier than it would have in 2008 if we didn't have the price shock to \$140 a barrel oil?

Vince Morales - *PPG Industries - VP IR*

Gaji, I think if you look at our margins two big deltas versus 2008, one, we took a tremendous amount of cost out during the recession in Coatings, I don't have that specific number in front of me, but hundreds of millions. And secondarily, we're still down close to 10% in volume. Now we've worked hard to offset price in raws but volume and cost are the two big deltas versus 2008 and one's positive obviously and one's negative to margins.

Gaji Balakaneshan - *Buckingham Research - Analyst*

Okay, great. Thanks for the help.

Operator

Don Carson, Susquehanna.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you. A follow up on chlor-alkali. Vince, what was the sequential increase in ECU pricing and the roughly \$170 of ECU increases on the board, what do you think the sequential progression could be in Q2 and Q3?

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Vince Morales - PPG Industries - VP IR

We don't give specific pricing, Don, for obvious reason, commercial reasons, but we did get our fair share of the caustic increase. Chlorine held fairly stable throughout the quarter, and as Chuck mentioned earlier, we have two price nominations for Q2 that based on recent market events I think we would feel good about them, or emboldened about them.

Don Carson - Susquehanna Financial Group - Analyst

So do you expect what to get about half of those in Q2 maybe and the balance in Q3?

Vince Morales - PPG Industries - VP IR

Historically based on historical perspective that's probably accurate.

Don Carson - Susquehanna Financial Group - Analyst

All right. And Chuck, back in 2008 chlor-alkali was a nice hedge against rising coatings raws and that business should be up nicely this year, I mean how much of the increase in your Coatings raw materials do you think the improved chlor-alkali earnings this year could potentially offset?

Chuck Bunch - PPG Industries - Chairman, CEO

Well it's going to be a significant assist to us on this and we have appreciated in the past the offset that we get sometimes in these really inflationary periods. So we're going to see, we think, in the improvement year over year in the chlor-alkali. We're going to offset quite a lot of that Coatings raw material increase on an overall corporate basis. We don't tend to look at it like that, but from an external standpoint it's certainly there, we try to evaluate these businesses on their own.

Don Carson - Susquehanna Financial Group - Analyst

Okay and then just to follow up on Coatings, you mentioned Americas and Asia's architectural volumes were up, was that all in Asia, what did your US architectural volumes do this quarter?

Chuck Bunch - PPG Industries - Chairman, CEO

You-- okay go ahead.

Don Carson - Susquehanna Financial Group - Analyst

And then just wondering how you're-- if you could sort of segregate that by channel and make market share comments that whether you're up or down?

Chuck Bunch - PPG Industries - Chairman, CEO

The volume improvements in architectural coatings were modest. We're talking now low-single digits. We had more improvement in terms of top line sales from pricing initiatives and we're obviously facing lots of raw material initiatives there. So we had some modest volume improvements and I would say that it was, from a channel perspective, I would say it was about even. We have a slightly different quarter here, Easter is later this year, weather has been a little slower, so there are a few little offsets. So I

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

think the real trends will probably be more evident after the end of the second quarter but we certainly think we've come up slightly off the bottom and most of the things that I've seen out there in terms of some of the commentary around commercial construction or even residential is that maybe we're going to have modest improvement and that was the case in Europe as well. So a little bit of volume, mostly more price, and I would say, I, haven't seen the other announcements and I think it's too early to say there'll be any significant share change for PPG right now.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you.

Vince Morales - *PPG Industries - VP IR*

Thanks, Don.

Operator

Frank Mitsch, BB&T Capital Markets.

Frank Mitsch - *BB&T Capital Markets - Analyst*

Yes, just a couple follow ups. On the chlor-alkali side, I'm trying to figure out here that you're going to lose some volumes with the force majeure and the turnaround, but it seems like pricing in the second quarter is going to be higher, significantly higher, than what you had. And so my question is as I look at the calculus there, are we looking at a second quarter that could be flat to up from the first quarter?

Vince Morales - *PPG Industries - VP IR*

Commodity chemical second quarter, Frank?

Frank Mitsch - *BB&T Capital Markets - Analyst*

Correct, yes. I mean-- obviously you're taking a volume hit but your margins are going to be-- your margin per ton is going to be higher.

Chuck Bunch - *PPG Industries - Chairman, CEO*

The three moving parts there, Frank, one is the down time, so the fewer tons. The second would be the maintenance cost will be higher which is multi-million dollar shifts and higher in maintenance costs and you're exactly right and we do expect stronger pricing to compensate if not more than compensate for that.

Frank Mitsch - *BB&T Capital Markets - Analyst*

All right, and then as we look at the third quarter you're going to start the quarter at a higher level and you'll get the tonnage back. All right, fair. And then Bob, you mentioned that you bought back, or Chuck mentioned in the speech, you guys bought back \$275 million worth of stock and you also mentioned that you feel very good about adding some bolt-ons on the M&A

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

front over the next 6 to 9 months, does that preclude any additional actions on share repurchase? How are you thinking about that?

Bob Dellinger - *PPG Industries Inc - SVP- Finance, CFO*

No it doesn't preclude any additional actions, but you know, we have been certainly saying we're looking for activity to earnings accretive, which would be share repurchases and acquisitions. To the extent acquisitions are running at a higher level, we'll dial down the share repurchases. And we still feel very good about the stock price. It's still at a point where share repurchases are attractive.

Frank Mitsch - *BB&T Capital Markets - Analyst*

Right, now you're paying a higher dividend on it so that helps you as well. Thanks a lot.

Vince Morales - *PPG Industries - VP IR*

Thank you, Frank.

Operator

Brian Maguire, Goldman Sachs.

Brain Maguire - *Goldman Sachs - Analyst*

Hi guys. Thanks for taking my question.

Chuck Bunch - *PPG Industries - Chairman, CEO*

Brian.

Brain Maguire - *Goldman Sachs - Analyst*

Obviously, an admiral job keeping margins flat at the Coatings businesses and I noticed in the press release some commentary about aggressive cost management and given that you guys did a great job of pulling costs out during the downturn and we're kind of at the point of the business cycle where company are usually adding them, just wondering if you could expand on where you're seeing those opportunities and if that could continue throughout 2011 to keep offsetting continuing higher raws?

Chuck Bunch - *PPG Industries - Chairman, CEO*

Well, I would say that we haven't been able to completely offset raw material increases with pricing, but we have continued to get favorable volume which is helping us. And cost initiatives we're always working on these. We haven't had any announced restructurings since 2009, but we continue to try to look for ways to run our businesses more efficiently. But I wouldn't say that we have significant new cost initiatives outside of what we're trying to do on a regular basis.

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Bob Dellinger - PPG Industries Inc - SVP- Finance, CFO

I think it's as the volume comes back we're being very disciplined on controlling growth in overhead, right? And therefore, we're seeing overhead as a percent of that incremental volume growth at much lower levels.

Brain Maguire - Goldman Sachs - Analyst

Okay, that makes sense. And then if I think about your business in terms of incremental margins, I thought about it being in the range of 30% to 40% and you were kind of in that range this quarter. Obviously that gets tougher to do as you go on and as we get closer back to prior peak levels, but given that volumes are still maybe in the order of high single-digit percentages below prior peaks, can we still get in that range on that volume growth and still get that kind of leverage or are we maybe moving it down a decile here?

Vince Morales - PPG Industries - VP IR

We're comfortable with that range well into this year, Brian.

Brain Maguire - Goldman Sachs - Analyst

Okay, great. And then just one housekeeping thing, could you tell us what the quarter ending share count was?

Vince Morales - PPG Industries - VP IR

160.5, I think?

Brain Maguire - Goldman Sachs - Analyst

Got you.

Bob Dellinger - PPG Industries Inc - SVP- Finance, CFO

Diluted.

Vince Morales - PPG Industries - VP IR

Diluted.

Brain Maguire - Goldman Sachs - Analyst

Diluted. All right, thanks very much.

Operator

(Operator Instructions) Dmitry Silversteyn, Longbow Research.

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

Dmitry Silversteyn - Longbow Research - Analyst

Quick question, excuse me, on the comment that was made earlier in answer to one of the questions when you talked about margins, you said that they should be comparable to second quarter to what we see. I just want to make sure comparable to what we saw in the first quarter or comparable to what we saw a year ago?

Vince Morales - PPG Industries - VP IR

Dmitry, our business is very seasonal.

Bob Dellinger - PPG Industries Inc - SVP- Finance, CFO

Year over year.

Vince Morales - PPG Industries - VP IR

So year over year.

Dmitry Silversteyn - Longbow Research - Analyst

Year over year, okay, that's what I wanted to make sure because otherwise it was really scary. Okay, thank you.

Chuck Bunch - PPG Industries - Chairman, CEO

Thanks for the clarification.

Operator

And there are no more questions in the queue at this time. I'd like to turn the call back to Chuck Bunch for closing remarks. Please proceed.

Chuck Bunch - PPG Industries - Chairman, CEO

Thank you very much for your attention and all the good questions that we have, and we look forward to talking to you again at the end of our second quarter. So thank you very much.

Operator

And thank you, ladies and gentlemen, for your participation. This concludes today's presentation. You may now disconnect and have a great day.

Apr. 21. 2011 / 6:00PM, PPG - Q1 2011 PPG Industries Inc Earnings Conference Call

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.