

FINAL TRANSCRIPT

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PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

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Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

CORPORATE PARTICIPANTS

Vince Morales
PPG Industries Inc - VP IR

Chuck Bunch
PPG Industries Inc - Chairman & CEO

CONFERENCE CALL PARTICIPANTS

John McNulty
Credit Suisse - Analyst

Bob Koort
Goldman Sachs - Analyst

Frank Mitsch
Wells Fargo Securities - Analyst

Don Carson
Susquehanna Financial Group - Analyst

Kevin McCarthy
BofA Merrill Lynch - Analyst

PJ Juvekar
Citigroup - Analyst

David Begleiter
Deutsche Bank - Analyst

Dmitry Silversteyn
Longbow Research - Analyst

John Roberts
Buckingham Research Group - Analyst

Brian Maguire
Goldman Sachs - Analyst

Robert Reitzes
Broad Arch Capital - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2011 PPG Industries Incorporated earnings conference call. My name is Carol, and I will be your coordinator for today. At this time all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. (Operator Instructions). As a reminder, ladies and gentlemen, this conference is being recorded for replay purposes. It is my pleasure to turn your presentation over to begin with, to Mr. Vince Morales, Vice President, Investor Relations. Vince, you may begin.

Vince Morales - PPG Industries Inc - VP IR

Thank you, Carol. Good afternoon. This is Vince Morales, Vice President of Investor Relations for PPG Industries. Welcome to PPG's second-quarter 2011 financial teleconference. Joining me on the call today from PPG are Chuck Bunch, Chairman of the

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Board and Chief Executive Officer, and Dave Novikas, Senior Vice President - Finance, and Chief Financial Officer. Our comments relate to the financial information released on Thursday, July 21, 2011.

As a reminder to everyone, based on our modified quarterly earnings call process, about one hour ago, we posted detailed commentary and accompanying presentation slides on our investor center at our website at PPG.com. These slides are also available on the webcast site for this call. We do not read these prepared remarks during the call. During the call, Chuck will share his overall perspective on the Company's results for the quarter, and then we will move directly to Q&A.

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, 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. Let me introduce PPG's Chairman and CEO, Chuck Bunch.

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Thank you, Vince, and welcome, everyone. Today, PPG announced earnings per share, which are up 30% versus the prior year, and a record for any quarter in the Company's history. This represents four consecutive quarters in which we delivered record earnings, underscoring the benefits of our broad end-use market reach and the global business portfolio we have built. Perhaps more importantly, our solid execution and operational excellence played a key role toward a strong performance in the quarter.

We delivered higher pricing in every segment, and continued our hallmark of aggressive cost management. This allowed us to overcome several transitory factors that impacted volumes in several of our businesses, including the full brunt of the automotive OEM industry production curtailments due to supplier disruptions related to the Japan crisis, scheduled and unscheduled production down time, in our commodity chemicals segment, and poor weather conditions for architectural painting in the United States, early in the quarter. The month of April was most heavily impacted by these factors, and our year-over-year volumes were negative in that month. Our volumes rebounded soundly in the remainder of the quarter to a growth rate comparable to the past several quarters. We posted positive volume growth in all regions with Asia-Pacific delivering the highest growth rate once again, driven by solid industrial gains in China.

Our Coatings segment delivered excellent results. The Performance Coatings segment established a new earnings record and the Industrial Coatings segment matched their second-quarter earnings record. This was done despite operating margins for these segments that dropped modestly versus last year, as a result of the weakened April volumes and a European architectural home center customer bankruptcy charge. Our Coatings margins in the months of May and June were consistent with the prior year, as volume growth resumed, and all eight of our Coatings businesses delivered higher pricing.

Our Optical and Specialty Materials segment also achieved record quarterly sales and earnings. This performance was despite increased Optical advertising costs, as we broadened our geographic exposure by capitalizing on high-growth opportunities in the emerging regions where we have delivered sales growth of 30% this quarter. Commodity chemical sales grew due to higher pricing, and earnings doubled despite increased maintenance costs and lower facility utilization, due to extended down time. Glass results also improved on strong fiberglass pricing.

Lastly, we have continued to deploy cash on earnings-accretive initiatives. In doing so we have remained mindful of our tradition of returning cash to our shareholders. Fully illustrating that tradition is that over the past twelve months, we generated \$1.2

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

billion in cash from operations, and have returned 100% of that cash to shareholders in the form of dividends and share repurchases. This past quarter, we also finalized a few acquisitions and prepaid \$400 million of debt that was not due until 2012.

In summary, I am pleased that we were able to deliver record results, despite some uncommon events this past quarter. We relied heavily on our strong execution, a PPG heritage, and were aided by our portfolio balance. Looking ahead, we anticipate the global economic recovery will continue, although at its current uneven pace. The resumption of automotive OEM production in the second half of the year, and our strong position in high-growth businesses and regions such as aerospace and Asia Pacific will supplement our growth. Also, although inflation pressures are moderating somewhat, we intend to secure additional pricing in businesses where we have not fully offset the inflated raw material costs.

Finally, we intend to deploy between \$500 million and \$1 billion of cash in the second half of the year, with a focus on earnings accretion. That concludes our prepared remarks. Now, operator, would you please give instructions and open the phone lines for questions?

QUESTIONS AND ANSWERS

Operator

Thank you very much, sir. (Operator Instructions). Gentlemen, your first question will come from the line of John McNulty of Credit Suisse. Please proceed, sir.

John McNulty - Credit Suisse - Analyst

Good morning. A couple questions the architectural business. In the volume trends in the US, can you give us a break down of what you were seeing in the big box versus your own stores?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

I would say those were roughly similar, John. I think again, weakness early in the quarter, improvement as we went through the quarter, but I would say between our own stores and the big boxes, fairly similar trends.

John McNulty - Credit Suisse - Analyst

Okay. And then in the Olympic One brand that you launched, can you give us some color as to the type of premium that you are going to be getting relative to your current platform, and then if you are going to be getting incremental shelf space, or if this is something that should be eating into the regular Olympic brand, how should we be thinking about that?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Well, the price point for Olympic One, which is one of the most exciting new product introductions that we have had in many years, it is now has been fully stocked in the Lowe's stores. Our price premium for Olympic One versus our current Olympic Premium line is on the order of 20% to 25%. We think from a value standpoint to the consumer, this will be one of the most -- one of the best value propositions, if not the best value proposition in terms of quality of paint in the can, the ability to use paint and primer, one coat coverage, we think that this is going to be excellent value for the consumers at a premium price versus our current Olympic Premium.

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Olympic Premium will stay in the Lowe's stores. We are not getting significant incremental shelf space with this, but we are now sharing the existing shelf space that we have with our current Olympic Premium, and we're getting displays, end caps, strong support in-store from our valued customer, and we're backing that up with a strong advertising push to get the message out on this exciting new product.

John McNulty - *Credit Suisse - Analyst*

Great. If I can just ask one last question. On the European architectural business, it looks like volumes are actually finally starting to recover, and I guess I am wondering what's driving that, if it is real demand, if it is share gains, because I was a little bit surprised to see that up to 3% you were highlighting.

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

We had nice volume improvement in Europe. I would say that was in continental Europe, with a little more strength in the French market. We also, though, had volume improvements in Benelux and eastern Europe. The UK market continues to be the weakest market that we participate in, and there, we didn't experience the same volume growth.

John McNulty - *Credit Suisse - Analyst*

Great, thanks very much.

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

Thank you.

Operator

Gentlemen, your next question comes to you from the line of Bob Koort of Goldman Sachs. Sir?

Bob Koort - *Goldman Sachs - Analyst*

Thanks. Good morning or afternoon.

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

Good morning, Bob.

Bob Koort - *Goldman Sachs - Analyst*

Chuck, I made an observation that since the beginning of the year, your stock price is up about 7% or 8%, but the forward earnings estimates by the Street are up about 23%, so clearly something has happened to devalue the stock, and I am just curious on two fronts. One, does that seem unreasonable to you, and we can expect maybe a little bit more aggressive share repurchase? Looked like it curtailed a bit in the second quarter, and then, two, as we look into the second half of 2011 into 2012, do you think we will see a little bit more of the late pull by the Coatings businesses to show some growth there as you get those prices and maybe some moderating of raw materials?

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Chuck Bunch - PPG Industries Inc - Chairman & CEO

I would say on the share price to earnings multiple, I think as most CEOs, we always feel that our Company share price is under valued. I would say in this case, we continue to report excellent results. I think maybe there was some weakness out there because of some other announcements in the space that companies that maybe weren't as confident about their performance, but we feel that there is an excellent value in the share price.

In the second half of the year, we have, as we discussed, plenty of cash that we intended to deploy. This is as you look at our cash flow through the year, it usually builds in our Company through the second half of the year, so we will have additional opportunities for what we call value-accreting cash transactions, including, I think, the more aggressive share buybacks. I think the second half of the year, also from a raw material standpoint, I see some moderation. If you look more specifically at the organic raw materials side, we have seen some price declines. You have seen overall lower prices in Asia, and here in here in the propylene molecule, and some of the resins, so I think that's going to help moderate the price increases in the second half.

We're still looking at inorganic raw materials, and specifically the pigments and TIO2. We don't see the same price declines, but we think overall, we're going to see a flattening as we have been talking about in raw material prices, that should allow us to recapture some of the margin that we lost in the supply or value chain, and I think it will be a good opportunity for our Coatings businesses to demonstrate the earnings and margin power that we have been talking about for the last several years.

Bob Koort - Goldman Sachs - Analyst

Terrific. And if I might add one follow-up. I noticed in your regional variation that obviously Asia Pacific continues to pull the greatest growth rates, but Latin America looked a little bit lighter. Is there something in one area or particularly that made that a little bit skinnier this quarter at 1%?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

I would say that the architectural business, this is not their strong season in the southern hemisphere, and I think you have seen some announcements about the architectural market in Brazil, I would say that it hasn't slowed down, but it is moderating, and there has been what I would call some pricing activity, or market share activity in Brazil, in particular, that probably moderated some of the let's call it the margins in that business in Brazil, so I would say that was probably the weakest market in South America or Latin America for us.

Bob Koort - Goldman Sachs - Analyst

Great, thanks very much.

Vince Morales - PPG Industries Inc - VP IR

Thanks, Bob.

Operator

Thank you. Gentlemen, your next question comes from the line of Frank Mitsch of Wells Fargo Securities. Sir?



Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Frank Mitsch - Wells Fargo Securities - Analyst

Thank you, and good afternoon.

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Good afternoon, Frank.

Frank Mitsch - Wells Fargo Securities - Analyst

Chuck, in your commentary you mentioned in the owner refinish business, that it's showing some good growth in Asia Pacific as well as US market share gains. Can you provide more color regarding that?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Well, we continue to be very pleased with the performance of our Asia Pacific refinish business. Those are the fastest-growing, not only automotive OEM markets, but also automotive after markets in the car park, and in China and India is growing at rates unlike anything that we see in the more mature markets in North America, and in western Europe. We have the number-one automotive refinish business in China. We are very well positioned in automotive refinish in India, and those markets have continued to provide us with a good growth, and our teams are executing very well.

Here in North America, the biggest difference for us has been in the success of our water borne automotive refinish systems. We think we have an excellent performing product, and even in areas where there are air quality compliance issues, we're seeing the customers and the body shops embrace our product, and even in areas that are not yet in compliance regions, those distributors and automotive repair shops who are trying to get a little bit ahead of the curve in terms of conversion to water-based systems have been driving our growth in this market, so good performance in both regions for our refinish business.

Frank Mitsch - Wells Fargo Securities - Analyst

So technology is the key factor, then, in your ability to pick up market share in the US?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Yes.

Frank Mitsch - Wells Fargo Securities - Analyst

All right. Obviously you're talking about spending \$0.5 billion to \$1 billion the balance of the year for earnings accretion either share buyback or acquisitions. Can you talk about the pipeline that you see out there, the valuations that are out there, and how confident are you that you're going to be able to execute on some of the M&A that you are targeting?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

We have a robust pipeline. We have had -- we continue to work our acquisition pipeline throughout the world. I would say that from a valuation standpoint, China is a little on the pricier side, because as we have talked in earlier conversations, there is an active IPO market in China, even for smaller companies on these secondary exchanges, so we are competing in some cases there, with the opportunity for these companies to IPO, but I would say in Europe, in eastern Europe, in other emerging regions,

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

in the Middle East, Africa, Latin America, we think we'll be able to execute several of these transactions that we have been working on, and we hope to announce several of them, certainly as we go through the second half of the year.

Frank Mitsch - *Wells Fargo Securities - Analyst*

Terrific. Thank you.

Operator

Gentlemen, your next question comes from the line of Don Carson of Susquehanna Financial. Sir?

Don Carson - *Susquehanna Financial Group - Analyst*

Yes, thank you. A couple questions in the commodities side. What did the outages and extra maintenance costs run in the quarter? What were your operating rates in the quarter, and you talked about, I guess an outage at Lake Charles or planned maintenance turn around this quarter. Wondering what impact that will have and, Vince, can you give us the delta in pricing? I know you don't like to give the absolute number. How much was ECU pricing up sequentially?

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

Don, the maintenance was certainly more than \$5 million year-over-year. Our operating rates were below 90 in the quarter, which is below industry rates as you know. We don't give pricing, but we got our fair share of the price increases that were announced, and pricing was up sequentially, and obviously year-over-year as well. In Q3, we do have a fairly -- our largest unit is out and that will probably result in a similar sequential production rate, but it will be down again year-over-year.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. And is there maintenance charge associated with that and also how about Equa-Chlor, is that accretive in the quarter and should it be again this quarter?

Vince Morales - *PPG Industries Inc - VP IR*

Maintenance will be modestly lower in Q3 than Q2, Don, but still up year-over-year, and I will let Chuck talk about Equa-Chlor.

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

Equa-Chlor has been accretive since day one, so we had two months of Equa-Chlor operations, and the acquisition has performed well, above expectations, and accretive in May and June, the two months that we owned the property, so we're off to a great start.

Vince Morales - *PPG Industries Inc - VP IR*

And I am sure, Don, you saw the gain we recognized in the quarter from, we bought the assets at below fair market value, so we had, the accounting requirements required to us write those up to fair market value, so that was a gain in the quarter.

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Don Carson - *Susquehanna Financial Group - Analyst*

Chuck, was that a one-off opportunistic acquisition or do you want to continue to grow your chlor-alkali business?

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

I would say it was -- it certainly wasn't part of and it is not part of our core strategy to make these types of bolt-ons. It made a lot of sense for us in terms of our overall operating footprint, and the things that from an asset value, that the transaction brought us. We are not, though, we have not significantly changed our strategy in chlor-alkali, and we're not looking to make any significant acquisition plays in that business.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you.

Operator

Gentlemen, your next question comes from the line of Kevin McCarthy of Banc of America-Merrill Lynch. Sir?

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Yes, good afternoon. In terms of raw material costs, the frequency and magnitude of these titanium dioxide increases continues to escalate, can you talk about your raw material basket, how much you think it might rise, and how the delta between your selling price realizations and that inflation is likely to trend in the back half of the year in the Coatings businesses?

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

Well, as I mentioned earlier, we think the overall basket of raw materials for PPG is going to flatten out here in the second half. We may see some increase on the inorganic side, but we think that is going to be balanced out by decreases on the organic side, in both our resin solvents and the like, we have seen some of the building-block chemicals going down in price here, and in Asia, so we're looking for a moderation or flattening out in the second half of the year, and we think we have been capturing about 75% of the raw material impact in our prices.

We still think that we're catching up with our prices and as we go through the year we think we're going to be able to offset more of that increase in the second half of the year, than we have seen here in the first half, as we have been chasing a moving target and so I am confident that our team is going to continue to execute on pricing where necessary, and we're continuing to focus on operational excellence, cost reduction, so we can try to minimize the impact of these increases on our own businesses and our customers.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Chuck, just to follow up on that, of the 75% of cost inflation that you are capturing, would that number vary meaningfully by distribution channel? Maybe you can talk a little bit about your experience in Company-owned stores versus big boxes and smaller dealers.



Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Chuck Bunch - PPG Industries Inc - Chairman & CEO

I would say that it hasn't varied significantly by channel. I think the issues are -- that we're facing, are also being faced -- we're participating in all three channels, so we're seeing similar issues that are facing our customers, and all of those channels I think the competitors are facing similar issues, so I would say that recapture of the raw material price increases is probably similar by channel.

Vince Morales - PPG Industries Inc - VP IR

Kevin, the difference is by business, so architectural is similar by channel, but by business, some businesses are better equipped to offset it than others based on contracts, et cetera.

Kevin McCarthy - BofA Merrill Lynch - Analyst

Understood. Final question if I may on US architectural. I saw you characterized April as off 25%, due to the adverse weather, and I understand that it would have come back in May and June, so if I net all of that out, how would you characterize the net impact of weather on that business in the quarter?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Well, weather, I think you saw maybe the weather impact in April. Overall we were the volume was down just slightly on -- in the business in the second quarter, and I would say that is low-single digits volume, and that's probably slightly better than what we have been seeing over the last several quarters in the business, so I think it is an indication that the market has bottomed, and may be starting to improve slightly.

We had a stronger quarter in the second quarter of 2010, I think because of that first-time buyers' mortgage credit and the like, but I see some still sporadic and there is mixed data, but by and large I would say the information around the housing market, even though it is not, I would say, ecstatic is slightly positive, and so I continue to remain optimistic that we're not going to have a robust recovery.

I think we have seen the worst and we're going to continue to see very modest volume improvements as we go through the year. The second half of last year was quite weak in the architectural market here, so I would expect that things will be slightly better, although we haven't seen a significant change in the trends. They're not deteriorating, certainly.

Kevin McCarthy - BofA Merrill Lynch - Analyst

Great. Thank you very much.

Operator

Gentlemen, your next question comes to you from the line of PJ Juvekar of Citi. Please proceed.

PJ Juvekar - Citigroup - Analyst

Good afternoon, Chuck.

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Chuck Bunch - PPG Industries Inc - Chairman & CEO

PJ.

PJ Juvekar - Citigroup - Analyst

Absolutely talked about consumer trading down in paints, and given that you sell a lower price point paint at Lowe's, I am wondering if you have seen any benefit from share gains there?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

I would say we have not seen that trend significantly here in the North American market. In the European market, where we have a good position, I would say it has not been significant. We feel like we don't have up to date share information on a quarterly basis, but we have held our own in Europe, if not slightly improved our share position, so I wouldn't think it is a significant trend for us, and obviously as with many of our customers, we're trying to sell the highest-quality products, even if sometimes we know that the consumers are looking in this economy to maximize value.

PJ Juvekar - Citigroup - Analyst

Okay. And can you give us any update on your efforts to reduce TIO2 intensity in paints? Have you had any success with any of your trials?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

We feel pretty good about a couple of the initiatives that we have had to improve the productivity or the efficiency of TIO2 usage in our paint formulations. We think that the results look promising, although I would tell you that we don't expect a significant improvement in the second half of this year. We have a good inventory level of both TIO2 and paints, but I think it is going to be a 2012 and beyond number. But everyone in the industry both I think the other Coatings companies and the non-TIO2 producers in the chemical industry, everyone is working to either improve the substitute products or improve formulations or the productivity of those molecules in our formulation, so I think you will see a bending of that demand curve over time, as we all try to use more efficiently this increasingly expensive raw material for Coatings.

PJ Juvekar - Citigroup - Analyst

Thank you. And finally, you said that trends at your own stores as big boxes were similar, which I thought was surprising given DIY was gaining share from contractors. Is that not the case any more?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Well, I would say that we haven't seen any big change in trends in the market this year. Obviously, share data is still early in the paint season. We haven't seen the reporting from all of our retail customers. I would say there is not a significant change in the trends from what we see.

PJ Juvekar - Citigroup - Analyst

Thank you.

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Operator

Gentlemen, your next question comes to you from the line of David Begleiter of Deutsche Bank. Please proceed, David.

David Begleiter - *Deutsche Bank - Analyst*

Thank you. Thank you, Chuck. Back to TIO₂, you mentioned bending the demand curve. Have you been able to use and incorporate more Chinese TIO₂, and in terms of your efforts in the lab, what are you most excited about, and could that be material in terms of TIO₂ reduction in perhaps three to four years on the order of magnitude of maybe 15 to 20%?

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

I would say that we have been using more Chinese TIO₂, both in Asia-Pacific as well as in our developed markets, so that continues to be an opportunity for us, and as we made acquisitions, including the most recent one in China, we found them using Chinese TIO₂ effectively. There was an additional processing step, so we have been, I think actively trying to improve our utilization of Chinese TIO₂ and it is increasing. Now, in terms of bending the demand curve, let's call it, for TIO₂, in any of the paint formulations, I would say that looking to some of the numbers you were talking about are probably on the high-end of 20% change in TIO₂ loading or usage in our paint formulations, is probably on the high-end.

I think traditionally, we have said it is going to be in the near-term somewhere in the order of mid-single digits, if we're all successful in some of these initiatives, and so I would still be targeting that over the near term, three or four years out. I think you should -- you could see some bigger changes, and I think we all are working hard to improve not only the quality of paint, but the formulating around the raw materials, so I think you are going to see a change over time, and I don't know that in the near term you are going to see a change as to the magnitude that you are talking about, David.

David Begleiter - *Deutsche Bank - Analyst*

And, Chuck, one more thing. A lot of M&A in chemicals the last six months. In Coatings both you and AXO have digested the recent large acquisitions. Are we coming to another point of large-scale M&A in Coatings from your perspective, in the next perhaps one to two years?

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

I am not sure. I can't answer that specifically. There has been more consolidation, so there are fewer big players. I think you're still going to see a very active small to medium-sized acquisition market. The bigger transactions are more complex in today's environment, but there are some opportunities, so I think it is possible, although I am not sure that it is the most likely segment of the chemical industry to undergo some big M&A.

David Begleiter - *Deutsche Bank - Analyst*

Thank you very much.

Operator

Thank you. Gentlemen, your next question comes from the line of Dmitry Silversteyn of Longbow Research. Dmitry?

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Dmitry Silversteyn - Longbow Research - Analyst

Good afternoon, gentlemen. Nice quarter, and most of my questions have been answered, but I do want to follow up on a couple of points. The protective and marine business, which was flat in the quarter, was there anything specific about you or your comps or is it an indication of perhaps that market is slowing down secularly?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

There is some -- as we look at the cycle in new builds for marine, we have said that this was going to be a flat to down year for new build activity in Asia Pacific, so I would say that the volumes that we report are more of a reflection of that. I think that's more in the marine segment, and what we have seen in the protective area, which is more infrastructure-related has been good, and the maintenance and repair side of the market has been solid, so it is more a reflection of new builds in marine in Asia Pacific.

Dmitry Silversteyn - Longbow Research - Analyst

The first quarter we saw a little positive volume I believe in that business, and now it is flat in the second quarter. If you expect it to be flat to down for the year, should we expect the second half of the year to be down for this business?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

I would say that the volumes we're expecting would be, I think somewhat flat here, Dmitry. I don't think we're looking for dramatic change in either positive or negative, again with the balance of protective plus maintenance or repair being up, new builds being down, and overall volumes being fairly flat.

Dmitry Silversteyn - Longbow Research - Analyst

Second question, you mentioned that on the slides or at least there was a callout of that, that you expect the fourth quarter 2011 to hit a little bit of a catch up on the automotive OEM side from the softness we have seen in the second quarter after the earthquake, so how should we think about kind of the seasonality in this business versus the typical seasonality, where you have a significant tail-off in the fourth quarter?

Vince Morales - PPG Industries Inc - VP IR

We expect 3Q to be a very typical quarter, and there is, we see the OEM assembly plants taking traditional down time for the most part, and we expect the majority, if not all of the lost sales we had in the second quarter, to occur or will benefit from in the fourth quarter.

Dmitry Silversteyn - Longbow Research - Analyst

Instead of taking kind of a Christmas shutdown you think that the plants will continue to work for another week or so to try to catch up with volumes they missed in the first half of the year.

Vince Morales - PPG Industries Inc - VP IR

Or accelerate their production pace, yes.

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Dmitry Silversteyn - Longbow Research - Analyst

Another question I have is on the Optical and Specialty business, you didn't give us any details in the breakdown on volume price mix but if I am just looking at the details that you did give us and the overall Company-wide price volume mix, it looks like most of the Optical growth came from currency and it looked like volume actually had been down a little bit, and pricing may have been down a little bit. Is that what happened?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Pricing was relatively flat. The volume was positive, and there was a positive currency impact, so I would say that's the equation to get to those sales numbers in Optical, the silica business was actually strong, both from a volume, pricing and currency standpoint.

Dmitry Silversteyn - Longbow Research - Analyst

Okay. You also mentioned the silicon business benefited from higher tire and battery markets. Is that a share gain situation or I mean or is it just the overall OEM -- what's driving the higher tire and battery sales this year versus last year?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

What's happening now, the tire market globally is very strong, especially here in the developed markets, so in North America, I think you have a situation where there was a lot of restructuring in the industry. There were some tariffs that were put up, so the North American tire industry as an example, is working full out, but the biggest reason behind this demand growth in silica is that silica is a specialty chemical additive in the tire manufacturing process, and it improves rolling resistance in tire performance, so what you are seeing today is the effect of what we would call the green tire, so you improve your miles per gallon performance with these higher silica-loaded tires, so I would say this is not necessarily a share play, I think all of the silica manufacturers are enjoying this improved volume, so it is more of the performance attributes of silicas, and the increased sensitivity for consumers, both at the OEM and the replacement market plus some of the CAFE standards and the other mileage standards that are being promulgated now, it is really requiring higher miles per gallon per vehicle and one of the least expensive ways to get that better mileage is incorporating more silica into the tire formulation.

Dmitry Silversteyn - Longbow Research - Analyst

Okay. Got it. That's very helpful. Thank you. Final question. Can you give us relative sizes of the US architectural business versus, I guess it is the Asian, that's the other part of the Performance Coatings, right?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Asia Architectural? Is that what are you talking about? In architectural today, represents about 25% of our performance coatings segment, and our North American business is the largest segment of that. We have, in Asia Pacific, we have a nice-sized business in Australia, New Zealand, a much smaller business in China, and those are the two main markets that we participate in Asia Pacific.

Dmitry Silversteyn - Longbow Research - Analyst

Okay. So most of that 25% that's actual paint is North America?



Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Yes. We have also South America business that's based in Brazil, that's a part of that as well, but the North American architectural is the biggest business in that business unit, within Performance Coatings.

Dmitry Silverstejn - Longbow Research - Analyst

Got it. Okay. That's very helpful. Thank you very much.

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Thank you.

Operator

Gentlemen, your next question comes to you from the line of John Roberts of Buckingham Research. John?

John Roberts - Buckingham Research Group - Analyst

Good afternoon.

Chuck Bunch - PPG Industries Inc - Chairman & CEO

Hey, John.

John Roberts - Buckingham Research Group - Analyst

Sounds like you're pulsing the advertising and merchandising in Optical that's there. Is there a follow-on acceleration in earnings because earnings growth was less than revenue growth, I think during the segment.

Vince Morales - PPG Industries Inc - VP IR

John, the biggest factor there is we did spend a considerable amount more for that strong growth we realize in emerging regions, and spend there modestly diluted the margins.

John Roberts - Buckingham Research Group - Analyst

Does it now flip in the next quarter where we have earnings --

Vince Morales - PPG Industries Inc - VP IR

We see good opportunities abroad, and our focus remains to secure higher growth rates and still have a very, I call it a strong margin performance.



Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

John Roberts - *Buckingham Research Group - Analyst*

Were you down in any of the developed markets in that segment?

Vince Morales - *PPG Industries Inc - VP IR*

Volume growth we had volume growth in all major regions.

John Roberts - *Buckingham Research Group - Analyst*

Thank you.

Operator

(Operator Instructions). Gentlemen, you have a follow-up question from the line of Bob Koort of Goldman Sachs. Bob?

Brian Maguire - *Goldman Sachs - Analyst*

Hey, it is actually Brian Maguire on for Bob. I think last quarter you said that you thought that you were confident you would be able to cover 90% of the raw material increase with price and after another quarter where propylene went up, and then came back down, and TIO2 is up, we have seen some puts and takes there, but I was wondering if you can update us on if you think that's still a good number to use or if there's a different number you're comfortable with now.

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

I think that's a good target for us. We didn't make as much progress as we have said we need, and we need one to more typically two quarters in order to fully-offset the raw material price increases. These were still coming in the second quarter, so we didn't have a significant catch-up for our prices versus the impact of the raw materials, but as I said in the second half where we're looking at flattening raw material costs, we expect now to realize more pricing here in the second half, so 90% I think over the next two quarters is a realistic target for us.

Brian Maguire - *Goldman Sachs - Analyst*

Just one housekeeping one. What do you expect the annualized interest expense savings to be on the \$400 million of debt you just repurchased?

Vince Morales - *PPG Industries Inc - VP IR*

That would be between \$1 million to \$2 million per quarter.

Brian Maguire - *Goldman Sachs - Analyst*

Okay. Thank you.



Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Vince Morales - *PPG Industries Inc - VP IR*

Thanks, Brian.

Operator

Gentlemen, your next question is from Robert Reitzes of Broad Arch Capital. Robert?

Robert Reitzes - *Broad Arch Capital - Analyst*

Hey, Vince, Chuck, just wanted a follow-up question on caustic and chlorine. How long is the plant down, number one, and number two, what does it represent of your total productive capacity in the industries if you know that?

Vince Morales - *PPG Industries Inc - VP IR*

(multiple speakers) Q3 you are talking about, Bob, just to clarify?

Robert Reitzes - *Broad Arch Capital - Analyst*

Yes.

Vince Morales - *PPG Industries Inc - VP IR*

Plant will be down we're talking a couple weeks, so the impact on again for PPG alone the impact is similar to what we experienced in Q2 and number of tons and I would say for the industry it is not significant other than inventories holistically in the inventory -- our inventories are very low, let's put it that way.

Robert Reitzes - *Broad Arch Capital - Analyst*

Thanks.

Chuck Bunch - *PPG Industries Inc - Chairman & CEO*

The whole plant is not down. It is just one circuit.

Robert Reitzes - *Broad Arch Capital - Analyst*

Thank you.

Operator

Gentlemen, you have an additional follow-up question from PJ Juvekar of Citibank.

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

PJ Juvekar - Citigroup - Analyst

Hi, Chuck. Can you talk about your strategy with the paint stores? Are you going to invest significantly in this channel, or is the focus going to be more international markets?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

We think that paint store channel for us has been stable in terms of store count, we're at 400 stores. We are waiting for signs of improvement in the market, in order for us to add to that store count, but we remain committed to the channel and to the business, and I think there are good opportunities for us around the world. Globally, we're pursuing a growth in architectural coatings, the Dye Rub acquisition that we announced, other initiatives in the emerging markets. We're committed to the architectural business, and we think that it represents a good opportunity, as do other end use markets for coatings in the emerging regions. But the store channel here, we think it's going to be a solid contributor, and we would like to see a little more market growth and we think if we're patient, we will see improving trends in that channel, and in the overall architectural market here in North America, in the quarters and years to come.

PJ Juvekar - Citigroup - Analyst

So you are not looking to add anything in the near term to the store channels?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

I think right now we're continuing to evaluate opportunities, but I would say those would be incremental and tied to whether we see improving trends in given regions or markets, but I would say over time we're going to add to our store count, but in the near term we haven't seen enough strength that would lead us to say we need to continue to move up our store count, in what has been a relatively weak market.

PJ Juvekar - Citigroup - Analyst

Great. Thank you.

Operator

Ladies and gentlemen, this concludes the question-and-answer portion of today's conference. I will now turn the presentation back to Chuck Bunch for his closing remarks. Sir?

Chuck Bunch - PPG Industries Inc - Chairman & CEO

I would just like to thank all of you for attending our second-quarter 2011 conference call and Q&A, and we appreciate the dialogue, and we're very pleased with our performance and the results, and we look forward to talking with you in October when we announce our third-quarter 2011 results. Thank you.

Vince Morales - PPG Industries Inc - VP IR

Thank you.

Jul. 21. 2011 / 6:00PM, PPG - Q2 2011 PPG Industries Inc Earnings Conference Call

Operator

Ladies and gentlemen, thank you very much for your participation in today's conference. This concludes your presentation, and you may now disconnect. Have a great day.

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