

# FINAL TRANSCRIPT

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## PPG - Q3 2011 PPG Industries Inc Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Vince Morales**

*PPG Industries - VP- IR*

**Chuck Bunch**

*PPG Industries - Chairman, CEO*

**David Navikas**

*PPG Industries - SVP- Finance, CFO*

## CONFERENCE CALL PARTICIPANTS

**Bob Koort**

*Goldman Sachs - Analyst*

**Frank Mitsch**

*Wells Fargo Securities - Analyst*

**P.J. Juvekar**

*Citigroup - Analyst*

**Saul Ludwig**

*Northcoast Research - Analyst*

**Don Carson**

*Susquehanna Financial Group - Analyst*

**John McNulty**

*Credit Suisse - Analyst*

**Ivan Marcuse**

*Keybank Capital Markets - Analyst*

**David Begleiter**

*Deutsche Bank - Analyst*

**Kevin McCarthy**

*BofA Merrill Lynch - Analyst*

**Dmitry Silversteyn**

*Longbow Research - Analyst*

**John Roberts**

*Buckingham Research Group - Analyst*

**Gregg Goodnight**

*UBS - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the third quarter 2011 PPG Industries earnings conference call. My name is Lacy and I'll be your Coordinator for today. At this time, all participants are in a listen-only mode. Later, we will facilitate a question-and-answer session towards the end of the presentation. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Vince Morales, Vice President of Investor Relations. Please proceed.

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**Vince Morales** - PPG Industries - VP-IR

Thank you, Lacy. Good afternoon, everybody, this is Vince Morales, Vice President of Investor Relations for PPG Industries. Welcome to our third quarter 2011 financial teleconference. Joining me on the call today from PPG are Chuck Bunch, Chairman of the Board and Chief Executive Officer, and Dave Navikas, Senior Vice President of Finance and Chief Financial Officer.

Our comments relate to the financial information we released today, October 20, 2011. As a reminder to everyone, based on our modified quarterly earnings call process, approximately 1 hour ago, we posted detailed commentary and accompanying presentation slides on our investor center at our website at [ppg.com](http://ppg.com). These slides are also available on the webcast site for this call. We do not read these prepared remarks during the call, however, Chuck will share his perspective during the call and 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 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.

Lastly and before we discuss the third-quarter results, I will remind everyone that PPG's Capital Markets Day will be December 5 in New York City. We will provide a strategic and financial update for our businesses and also discuss our coatings technologies. Please contact PPG's Investor Relations for additional details. And now let me introduce PPG's Chairman and CEO, Chuck Bunch.

**Chuck Bunch** - PPG Industries - Chairman, CEO

Thank you, Vince, and welcome, everyone. Today we announced third quarter sales of \$3.8 billion, up 11% versus the third quarter of 2010. Our third quarter earnings per share of \$1.96 were a record for any quarter in the Company's history and up 24% versus the prior year. This represents 5 consecutive quarters in which we have eclipsed our prior quarterly earnings record, including last quarter, where our earnings were also up more than 20%. This consistent improvement in performance, especially in light of today's economic backdrop, demonstrates our Management's aggressive focus on operations and the continuing benefit of structural changes that we have made to the Company the past few years, including a lower cost base and expansion in emerging regions. In addition, these results reflect the continuing benefits of our disciplined deployment of our strong cash position.

Our third quarter sales improved by about \$400 million versus the prior year. Year-over-year volumes for the Company were flat for the quarter, with differing results by region and end use market. Demand in North America was up about 1% versus last year, consistent with our second quarter volume change. However, these results included a large negative volume impact from several unplanned production outages in our Commodity Chemical business early in the quarter, which reduced the North American percentage volume change for the Company by a few hundred basis points. Emerging region volume growth continued, driven by higher Industrial and Automotive OEM activity levels. These results were tempered by expected declines in ship building activity as the lower production reflects a smaller marine original equipment order backlog. Most other emerging region end market growth remained consistent with the prior quarter.

The higher emerging region results offset declines in European volume, principally due to lower activity levels in several consumer-oriented businesses, including Optical products and Architectural coatings. Aiding our sales and record earnings performance was higher pricing in all 13 of our businesses, led by our Commodity Chemical business. This marks the sixth

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consecutive quarter where the Company has delivered higher pricing, reflecting our efforts to recover inflation we have already absorbed and counter flattening raw material inflation rates.

Earnings were also assisted by the benefit from higher global industry activity, including improving global auto production, along with continued strong performance in some of our top performing businesses, such as Aerospace and Automotive refinish, as we continued to benefit from our leading technologies.

Lastly, cash generation remains a key accountability and we have lowered our working capital as a percentage of sales versus last year's third quarter by over 100 basis points. Our year-to-date cash from operations is up 10% versus 2010, driven by gains in the third quarter. Also, we have continued our legacy of returning cash to shareholders, as dividends and share repurchases combined have totaled over \$900 million year to date, including \$350 million this past quarter.

Looking ahead, we anticipate current macro and regional economic trends to continue, supported to date by October activity levels in most of our businesses. The fourth quarter is traditionally our slowest quarter seasonally for several of our businesses, and in general, we anticipate normal seasonal fourth quarter patterns to occur. Raw material inflation rates are flattening, and we are in the process of implementing additional pricing in several businesses to counter the prior inflation impacts we have absorbed. We ended the quarter with \$1.3 billion in cash and intend to continue to deploy our cash with a focus on driving earnings growth. Finally, we are keeping a watchful eye on the global economy and are prepared to adapt to changing conditions. That concludes our prepared remarks. Now, Operator, would you please give instructions and open the phone lines for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Bob Koort with Goldman Sachs.

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### Bob Koort - Goldman Sachs - Analyst

Thank you very much. Good morning, Chuck. I was wondering if you could talk a little bit about this European Optical business. It seems like it was maybe a larger than normal erosion [maybe] if we look back to the recession, so is there something specific to health care spending, or what caused that sort of anomalous decline?

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### Chuck Bunch - PPG Industries - Chairman, CEO

We haven't -- there's been no overall change in health care remuneration systems in Europe. It has been weaker, however, for us in this past quarter. We have 1 new competitor entry in Europe in the German market principally, this is [Zice]. But overall we think that the impact in Europe for volume is minimal and we should be recovering, we think, over the coming few quarters our momentum in terms of positive volume.

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### Bob Koort - Goldman Sachs - Analyst

And could you touch on chlor-alkali, it seems like the death of chlor-alkali has been greatly exaggerated, but there's still concern out there about new capacity and obviously slowing chlorine demand? What's your crystal ball say for chlor-alkali in 2012?

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**Chuck Bunch** - PPG Industries - Chairman, CEO

In 2012, Bob, we're still optimistic for our chlor-alkali business. We are seeing in-- as we begin the fourth quarter, lower seasonal demand, some of that is anticipated. But we also have seen some weakness on the chlorine side, a little lower export activity in the PBC chain, a little lower activity in a number of our chemicals end use markets, like MDI, TDI. Pulp and paper, however, has maintained its momentum and we think that the offset of stronger pricing on the caustic side, which we're seeing here in the fourth quarter and is being supported globally by what we see as price improvements in caustic soda globally, we remain optimistic for our chlor-alkali business in 2012.

**Bob Koort** - Goldman Sachs - Analyst

And my last 1, Chuck, thanks for the time, the Dyrup acquisition, can you just sort of explain to us again the strategic rationale and getting bigger in Europe and/or wood coatings, why that seems to be more daunting to hear about, what are the positive reasons to get into that business?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well, we have what we think is a strong Architectural Coatings business in Europe today. The market has been weaker over the last 2 years than we anticipated. But we're trying to build on what we think are already strong positions for our Coatings businesses there, including the Continental Western Europe, even though the growth rates aren't, I would say, attractive here in the short term, we think we're going to get excellent synergies, position ourselves with we think a great brand in the wood care market. And I think this will allow us to improve our overall competitive position, our offering in the market. And even if the growth rates aren't exciting at this point, we think overall with the attractive purchase price, this is going to be an excellent acquisition for us.

**Bob Koort** - Goldman Sachs - Analyst

Great. Thank you very much.

**Operator**

Frank Mitsch with Wells Fargo.

**Frank Mitsch** - Wells Fargo Securities - Analyst

Good afternoon, gentlemen, and let me start with the obligatory congrats on a good quarter.

**Chuck Bunch** - PPG Industries - Chairman, CEO

Thank you, Frank.

**Frank Mitsch** - Wells Fargo Securities - Analyst

Transitions, Europe, what percent of your transition sales are in Europe?

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**Chuck Bunch** - PPG Industries - Chairman, CEO

About 20% to 25%, Frank.

**Frank Mitsch** - Wells Fargo Securities - Analyst

All right, and that's really the only area that you've seen the consumer slow down, is that correct?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Yes.

**Frank Mitsch** - Wells Fargo Securities - Analyst

All right, great. And then on chlor-alkali, obviously you gave us some details in terms of the capacity utilization impact to the unplanned outages and some volumes, but you also mentioned there were some added costs. Could you give us a sense as to what was the financial impact of all the outages taken together in the quarter on chlor-alkali?

**David Navikas** - PPG Industries - SVP- Finance, CFO

Yes, Frank, this is David Navikas. The higher maintenance costs associated with those outages was about \$10 million.

**Frank Mitsch** - Wells Fargo Securities - Analyst

All right, so potentially you guys could have posted something like \$114 million of EBIT if everything had gone smoothly, is that correct? Or it would have been higher than that, given that you would have also had more product to sell?

**David Navikas** - PPG Industries - SVP- Finance, CFO

Frank, the \$114 million is a good number.

**Frank Mitsch** - Wells Fargo Securities - Analyst

All right, great. And then, Chuck, you mention that you see raws moderating, I was wondering if you could add a little more color to that? Do you actually -- I mean it's not a secret that propylene prices have been cratering here of late and that obviously feeds into the acrylics chain. At what point would you anticipate that you would see your raws actually, instead of just moderating, actually moving down and does that suggest that you could see some margin expansion in your Coatings business?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well, I think right now we're starting to see in a number of the raw materials some price declines, and those have been primarily in the organic or petro chemical value chain. We are encouraged by what we're seeing on the pricing for propylene and ethylene. I think that will -- I think that foretells that we're going to see some further declines in those parts of our value chain. What's been offsetting that has been the inorganic chain, specifically pigments and TiO<sub>2</sub>. Right now, I think those 2, the inorganics and the organics, are balancing each other off, but we have seen some price declines now in the TiO<sub>2</sub> market in China. We've seen price decreases there. The Western or developed market producers are still announcing price increases and attempting to get further price increases in TiO<sub>2</sub>, and that's the offset right now. But I would say that we are encouraged over the nearer term



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that what's happening in Asia may also auger for improved pricing in terms of the coatings manufacturers anyway in TiO2 and other pigments.

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**Frank Mitsch** - Wells Fargo Securities - Analyst

All right very interesting on the inorganic side. And then lastly, obviously you did a good job buying your stock in the third quarter. You mentioned that you're looking to target \$250 million in Q4 in a combination of share buyback and M&A. Can you comment on the current M&A environment? Obviously you're going to complete a deal early next year, should we expect that there's some more things teed up at PPG?

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**Chuck Bunch** - PPG Industries - Chairman, CEO

We have 1 other deal that we announced in Colombia, Colpisa, which has not closed yet, and that will probably close also in the first quarter. We are working on a number of deals in the pipeline, but I would say in -- it is unlikely that we will be able to close any of the deals that we are working on, either the announced deals or the other ones that we're active on in the fourth quarter. So therefore I would say that our shareholder value creation will come more from the share buybacks here in the fourth quarter.

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**Frank Mitsch** - Wells Fargo Securities - Analyst

Terrific. Thank you, Chuck.

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**Chuck Bunch** - PPG Industries - Chairman, CEO

Thank you, Frank.

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**Operator**

P.J. Juvekar with CitiGroup.

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**P.J. Juvekar** - Citigroup - Analyst

Yes, hi. Good afternoon, Chuck.

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**Chuck Bunch** - PPG Industries - Chairman, CEO

Hi, P.J. how are you?

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**P.J. Juvekar** - Citigroup - Analyst

Good. So can you talk to us about how much volumes are down in your stores versus DIY? You said they were down slightly, can you quantify that?

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**Chuck Bunch** - PPG Industries - Chairman, CEO

Well, I would say very low single digits. So we're talking 1% to 2% here.

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**P.J. Juvekar** - Citigroup - Analyst

And in the DIY business, have you seen any trading down by consumers while buying paint, similar to I guess what your European competitor is saying today?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well what we saw on the DIY side is for us the most important event in the third quarter, was the successful launch of our Olympic ONE product. So we've been very pleased with what's happened there. And I would tell you that that's not the lowest priced product. That is a very high value, but mid-priced product in Lowe's and it's had excellent reception by the consumers. So I would say that the consumers are still going to be value oriented so they're going to look for the best product at the right value. But it's -- they are not trading completely on price alone. We've seen in other markets maybe a little more movement to lower price products, but I would say here in North America, that certainly hasn't been the case. We've positioned, we think, Olympic ONE nicely in the middle of the price range and it's doing very well.

**P.J. Juvekar** - Citigroup - Analyst

Right. And just lastly, you mentioned TiO2 prices declining in China, do you actually --how much of your TiO2 is purchased in China and how much of the US paint industry buys this TiO2 from China? Do you have a comment for PPG and the industry?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well, what I would say, P.J., is that as the market tightened up over the last 18 months, I would say the opportunity to purchase TiO2 from China either in the Chinese market or our North American or European regions, the delta in terms of pricing when you included shipping costs and the like probably wasn't as attractive. We talked about it on other calls, so that we were -- at one time, it was a very attractive trade to bring that product in, less so over certainly the first 2 quarters of this year. But I think with the gap that you're seeing that's opening up now, I think you're going to see more Chinese product available globally and I think you'll see more demand from the paint companies for the value that those products now in the current environment are offering.

**P.J. Juvekar** - Citigroup - Analyst

Thank you.

**Operator**

Saul Ludwig with Northcoast Research.

**Saul Ludwig** - Northcoast Research - Analyst

Hello, good afternoon, guys. In the quarter you got \$216 million benefit from price, what was your raw material cost hit, meaning so we want to say what was the recovery or what percentage did you cover raw material costs? And then looking to the fourth quarter, how would you see that gap playing out?

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**Vince Morales** - PPG Industries - VP- IR

Saul we recovered between 85% and 90% of our raw materials in the quarter, and we have more pricing coming in Q4 with this flattening inflation trend. So we'd hope to narrow that even further.

**Saul Ludwig** - Northcoast Research - Analyst

Could you think you could be sort of neutral in the fourth quarter, Vince?

**Vince Morales** - PPG Industries - VP- IR

We'll see how the quarter plays out. We're still negotiating some pricing on the raw material side.

**Saul Ludwig** - Northcoast Research - Analyst

Okay. And then, Chuck, you guys have done a fabulous job of building up your business in Asia and that's been very, very successful and I'm sure with that you've built out a good infrastructure in terms of base costs. We keep reading about slowing in Asia, slowing in China. You mentioned earlier that you would take action to mitigate that if it were to actually develop more severely, what are some of the steps that you could take to do that? And do you see-- is what we're reading in the paper represented by what you guys see in your business in Asia?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well, I would say first of all, that the Asian, the Asian markets for us are slowing, but it is a moderation of a very high growth rate. So we've been talking about growth rates, or GDP growth, of 12% to 15% in China as an example. So I think sometimes now, when we look at growth rates that maybe now in the kind of 6% to 9% kind of range, that people say, well, this is going to really require a lot of retrenchment. But for us, I, we don't see that moderation of growth rates in Asia triggering a, let's say an aggressive cost response from our standpoint. If it comes there the labor force, the cost structure in Asia is very flexible so that typically, we can react quickly, it's not as costly a process as it is in Europe or here in North America. So I would say that we are not overly concerned with, I, a moderation of the growth rates to the level that we've seen now. And if it happens at least in Asia, we think we'll be able to respond quickly.

I think what you see, however, in a market like Europe where there is a lot of concern, especially with the sovereign debt crisis and will that spill over into some of the consumer markets and the rest of Europe, and there it does, restructuring actions or costs reductions in Europe in particular, take a little longer to develop, are more costly to implement. And that's where I think we're being most vigilant right now in making sure that our businesses and the end use markets for our products are staying up. Typically for us, the automotive market is 1 of the first places where we see weakness. Historically, that's when we saw it at the end of 2008 and 2009. Right now, the automotive market here and in Europe has stayed up. We haven't seen any pronounced weaknesses, but this is 1 we are watching and I think we will react quickly in Europe when we see signs developing that this crisis is really affecting end use markets.

**Saul Ludwig** - Northcoast Research - Analyst

And just a quickie, what's the latest estimate for cap spending this year and next year?

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**David Navikas** - PPG Industries - SVP- Finance, CFO

Saul, this year, 2% to 3% of sales. We're running right now right at 2%. So 2% to 3% of sales this year, and 2.5% to 3.5% next year.

**Chuck Bunch** - PPG Industries - Chairman, CEO

So that's \$300 million, more or less.

**Saul Ludwig** - Northcoast Research - Analyst

Great. Thank you very much, guys.

**David Navikas** - PPG Industries - SVP- Finance, CFO

Thanks, Saul.

**Operator**

Don Carson with Susquehanna Financial.

**Don Carson** - Susquehanna Financial Group - Analyst

Thank you. Chuck, you talked about spending \$250 million this quarter, or redeploying that amount of cash principally on share repurchase, what might we expect as we go forward into 2012? I know you've talked in the past that you really only need a cash balance about \$800 million to-- is what you're comfortable with, so just wondering if we can expect more or perhaps even accelerated redeployment next year above and beyond closing on the Dyrup acquisition?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well I would say that actually we feel that we probably only need \$300 million to \$400 million in cash to operate the Company now. Now you have to have it in the right regions, and we do have some seasonality in our cash flow. So I would say that right now, the 2 announcements that we have made that will probably close in the first quarter are the only firm announcements that we have. So obviously if we don't develop initial, or additional prospects, you're going to see similar levels of buyback activity for PPG as we move into 2012.

**Don Carson** - Susquehanna Financial Group - Analyst

So basically you've got, even on this cash balance, which of course will grow with free cash flow generation, you've got almost \$1 billion more cash to redeploy then, is that--

**Chuck Bunch** - PPG Industries - Chairman, CEO

Yes.

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**Don Carson** - *Susquehanna Financial Group - Analyst*

Okay, and then just a question on Architectural Coatings in the US and the scope for price increase. I believe you've announced about 3 price increases totalling 15%. It looks like you've got about 10% of that so far. How much more do you need to restore gross margins in Architectural to where they might have been a year ago, and would you anticipate more pricing actions on the US Architectural front?

**Chuck Bunch** - *PPG Industries - Chairman, CEO*

Well right now, Don, we haven't recaptured all of the impact of price increases. And in Architectural, as you know, that's been 1 of the hardest hit businesses or markets for us with the preponderance of TiO<sub>2</sub> and the reliance on the propylene molecule. So I would say that we would -- we are not at this point working on a broad price increase announcement. We are in a market that I think is becoming somewhat frustrated with the raw material situation, both on the part of our customers and I think we have to be mindful of what we're doing with demand and actions by our competitors. So at this point, we are waiting to see what happens to the direction of the raw material increases and what's happening competitively in the marketplace.

**Don Carson** - *Susquehanna Financial Group - Analyst*

And 1 final question, just so you can clarify something on chlor-alkali. The industry operating area was about 86%, in July/August I sensed you were below that, does this mean that the normal seasonal Q4 decline in volumes would be fairly muted this year, or that you could even have flat volumes in chlor-alkali sequentially in Q4?

**Chuck Bunch** - *PPG Industries - Chairman, CEO*

Well, I think what we saw from a higher operating rates that we somewhat missed there in the third quarter, I think we're going to have the same sort of seasonal drop-off for the industry as a whole, and I think what happens from here till the end of the quarter is still somewhat in question. The export activities, if we can get some lower spot ethylene pricing for the industry, we may get-- see more activity over the course of the quarter. But right now, I think you're still going to see, for the industry anyway, a traditional seasonal drop-off. And for us, I think it's just too early to tell.

**Don Carson** - *Susquehanna Financial Group - Analyst*

Thank you.

**Operator**

John McNulty with Credit Suisse.

**John McNulty** - *Credit Suisse - Analyst*

Yes, good afternoon, just a few questions. First, with regard to pensions, we've seen the market's been relatively soft, the discount rate's relatively low. How should we think about your cash use going toward potentially firming up any under funding in the pension? And then how should we be thinking about the potential earnings hit for next year as well?



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**David Navikas** - PPG Industries - SVP- Finance, CFO

Well you're correct, John that, with where interest rates are today and where the equity markets have been year to date, we would be looking at some need for cash contribution in 2012. I think you can take that into something in the range of \$100 million, \$150 million at this point in time. And certainly that would have some upward pressure on our pension expense in 2012, and we'll be working on finalizing those estimates as we get additional information between now and the end of the year.

**Vince Morales** - PPG Industries - VP- IR

And John, I'll remind you we expect to put in about \$125 million into our pension plans in 2011 this year.

**John McNulty** - Credit Suisse - Analyst

Okay, great. And then just 1 follow-up question. With regard to, Chuck, your comments on there's being a lot of frustration in the industry both from I guess your side as well as your customer side with regard to pricing. It sounded like you may have been implying there may have been some lapses in discipline in the industry, is that the case in terms of what you're seeing and how you have to react to maybe what your competitors are doing? And then also can you give us any color as to whether you've seen really any demand destruction tied to some of the necessary price hikes or if it's still kind of relatively inelastic in terms of how we think about demand?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well I think the frustration level is traditionally in our industry, we have had pricing that was more stable, annual pricing, or pricing for the paint season, and I think this is how traditionally the industry operated with our customers. And I think in this environment, where we've had to go out multiple times to our customers across all end use markets and say we're sorry, but there's so much cost inflation in our raw material chain that we're going to have to go out of step with our historical practices and ask for additional pricing kind of in season or after they've set some of their annual pricing. So I think this is the frustration that many of us feel, and our customers, I think they're seeing in many markets the demand is still relatively weak. Volumes are low, as we've been talking about. And so there is, I would say frustration on the part of the customer saying, well, wait, if the market's so weak, why are we getting additional pricing request? So I think that's the frustration that we feel and that our customers feel.

Obviously in some of the commodities that we've talked about on this call, we're doing everything we can to improve our productivity to better utilize those products in our formulation so that we limit any increases in consumption for our products and we're working hard and now instead of working on a lot of new product developments or new technologies that will help our markets, stimulate demand, help our customers we're working on formulations that will just minimize the impact of some of these, of these price increases on the raw material side. So I think that's the frustration that I think that certainly I feel and that people in our Company, and I'm assuming that others in the paint industry would feel as well.

Demand destruction, hard to say at this point, that's a longer term issue. But there are probably for any product in today's world, including paints and coatings, there are product substitutions. And you can do things differently and we don't want to see our products obviously substituted in the marketplace or people trading down to a lower price or cheaper products because that will reflect on the image and the value that we historically or typically create for our customers. So I think that's the level of frustration that certainly we feel right now.

**John McNulty** - Credit Suisse - Analyst

Great. Thanks a lot. And if I can just ask 1 last question, with regard to Autos and Industrial Coatings, can you give us some color as to how far out your visibility is there?

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**Chuck Bunch** - PPG Industries - Chairman, CEO

Well traditionally, it's been a market that has reacted to sharp downturns in the economy and certainly I think what we saw at this time 3 years ago, we saw the impact of the recession and the credit crisis first in the automotive market, especially here in North America. Now, right now what we're seeing is somewhat different in the sense that we're still, as an industry, recovering from the Japanese earthquake and tsunami. We see a little out of traditional seasonal patterns here in North America with the improvement in production levels for the Japanese base manufacturers. Overall demand and sales have been good I think in part because the market was so weak 3 years ago and if you really get into some of the discussion about what happened in the leasing market when some of the financing dried up, there is now more strength than you would assume with the overall let's say dampened demand overall in the consumer economy.

The car market here in North America's pretty good. And in China, it's still been good, even though the sales levels have come down, it's still solid. And in Europe, volumes have been relatively flat, but we have not seen any decline. So I think overall, we're encouraged by what we've seen in the Automotive market. But it is typically one that will react if things get -- if the consumer sentiment turns negative. So we're very watchful here, but right now in the near term, we're encouraged. We do get some visibility and typically if they do start cutting back on production levels, they don't do it immediately next week. It'll be at the time of a traditional shutdown. But you usually have a couple of months to see that and you'll see probably the impact before that in sales levels and the like.

**John McNulty** - Credit Suisse - Analyst

Great, thanks very much.

**Operator**

Ivan Marcuse with Keybank.

**Ivan Marcuse** - Keybank Capital Markets - Analyst

Hi, guys, thanks for taking my questions. The first question I have is on your chlor-alkali, do you have any planned shutdowns or costs for the fourth quarter and how does that compare to the fourth quarter last year?

**Chuck Bunch** - PPG Industries - Chairman, CEO

We do have -- typically in any given quarter, we do have outages scheduled. We have 1 scheduled here in the fourth quarter, so that will have an impact. But that is something that normally we do have, we will have normally scheduled outages. We don't try to focus them in the summertime or at any particular season. So we'll have something. But we had something, I'm trying to remember if we had something in the fourth quarter of last year, but there is 1 outage scheduled here in the fourth quarter for our chlor-alkali business.

**Ivan Marcuse** - Keybank Capital Markets - Analyst

Okay, great. And my last question is on the DIY, do you think that it was more of an industry shift, you saw the DIY as an industry as a whole increase through on a year-over-year basis, or do you think that your product ONE and your other products are-- just it's more of a function of you gaining share?

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**Chuck Bunch** - PPG Industries - Chairman, CEO

I would say that we've reached a point in the housing market and in home improvement, that is, we have reached stability. I don't think things are going to get -- go dramatically or any lower from this point, but it's too early for me to say that there's any strength building. We're obviously pleased and we benefited from the launch of Olympic ONE, so I would say it's just a little too early for me to see whether this is just a share gain on our part or there's broader trends that DIY's going to pick up across the construction industry.

**Ivan Marcuse** - Keybank Capital Markets - Analyst

Great. Thanks for taking my questions.

**Operator**

David Begleiter with Deutsche Bank.

**David Begleiter** - Deutsche Bank - Analyst

Thank you. Chuck, just on TiO2, do you expect TiO2 price to be up in 2012 versus 2011, and if yes, by how much?

**Chuck Bunch** - PPG Industries - Chairman, CEO

I don't know the answer to that, David. Obviously we've absorbed pricing increases in 2010 and 2011, and we're discussing how things are going to end here in 2011. I would tell you if the current economic situation continues, the demand side may not be there to support further increases and with the things that we're seeing in Asia where some easing off or actually the prices are going down, I'm, let's say hopeful that TiO2 prices stabilize, but I can't speculate on whether or not prices will be higher or not next year.

**David Begleiter** - Deutsche Bank - Analyst

And Chuck, on your efforts to reduce TiO2 consumption, whether your own programs or the opaque polymers, will there be material impacts in 2012, or is it more like 2013 to begin to cut into how much TiO2 you guys do use?

**Chuck Bunch** - PPG Industries - Chairman, CEO

We'll we've been working on this now for the better part of a year now since this price trend started. So I think I've been very reluctant to say that it was going to have a meaningful impact this year and maybe not initially next year, but I think our programs are developing. We're seeing-- elsewhere you talked about some of the opaque polymers that are being developed. So I would say that by this time next year, we should start seeing some impact in terms of bending that demand curve. Some of that is going to depend also on how overall end use market demand and new capacity that may come on, whether it's in Asia, whether it's sulfate or chloride. But we think that there will be -- we'll start to see some improvement in terms of the supply.

**David Begleiter** - Deutsche Bank - Analyst

And Chuck, just lastly as propylene prices drop, do you think you'll have to give back any pricing to your customers, either next year or the year thereafter?

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**Chuck Bunch** - PPG Industries - Chairman, CEO

It depends on where things develop. Obviously, we're not -- we buy very little propylene, the actual propylene molecule we do for some of our resins. Most of it, we see through the acrylic chain. But if we see dramatic price decreases, we have obviously not even caught up as we've been discussing with all the raw material inflation that we've experienced over the last year and a half. So I think we would want to at least be in a position where we've recovered that inflation before we ever got into a discussion about where prices needed to go with our customers after that.

**David Begleiter** - Deutsche Bank - Analyst

Thank you.

**Vince Morales** - PPG Industries - VP- IR

Thanks, David.

**Operator**

Kevin Mccarthy with Bank of America Merrill Lynch.

**Kevin Mccarthy** - BofA Merrill Lynch - Analyst

Yes, good afternoon. Chuck, would you comment on the volumes that you're seeing in Aerospace Coatings, as well as your outlook there, especially on the OEM side now that the Dreamliners are rolling out?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Yes, volumes-- we're encouraged overall by what's happening, Kevin. And we're looking now for mid-single digit kind of volume increases overall, across all our product lines as we go into the end of this year or into 2012. So I'm really encouraged by not every segment of Aerospace is moving up sharply, military has flattened out, general aviation, I think on the whole is positive, but where we're really seeing strength is in the new products and our new wins in programs like the 787. So I would say mid-single digits is the right kind of volume increase that we'd be looking at.

**Kevin Mccarthy** - BofA Merrill Lynch - Analyst

Okay, and then switching gears to Protective and Marine Coatings, Chuck, you referenced lower OEM volumes related to depressed ship building activity in Asia. What does that trajectory look like over the next year or so, and when might we expect volumes to turn positive there?

**Chuck Bunch** - PPG Industries - Chairman, CEO

We're not looking for an upturn in 2012. So I would say that if we have continued global economic recovery, even at modest levels, we would look to see improvement in 2013. But right now in 2012, we're not looking for improvement in the OEM, Marine side of the equation. For the Protective side, which is still half of our business, we think has still continued opportunities, but certainly the OEM Marine activity is going to be down next year.

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**Kevin McCarthy** - BofA Merrill Lynch - Analyst

Okay. And then finally, if I may, what are your updated thoughts on potential timing of an asbestos settlement?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well at this point, we still have-- there are further hearings with the bankruptcy judge. We had several this summer, based on some of her direction over the first half of this year. We have another hearing scheduled towards the end of the year. So I would say that at this point any actual settlement or payment has moved into 2012 certainly and probably not in the early part of 2012.

**Kevin McCarthy** - BofA Merrill Lynch - Analyst

Very good. Thanks very much.

**Vince Morales** - PPG Industries - VP- IR

Thanks, Kevin.

**Operator**

Dmitry Silversteyn with Longbow Research.

**Dmitry Silversteyn** - Longbow Research - Analyst

Good afternoon, guys. A lot of my questions have been answered, but I just want to follow up on a couple of things. First of all, the first half of the year you saw some positive growth, albeit at low single-digit levels in volumes in Europe and then you've seen a decline in European paint business in the third quarter. Kind of what's the driver behind this inflection and as you look out a couple of quarters, do you continue to see, or expect to see European markets shrinking in terms of demand?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well for us, Dmitry, the weakest market in Europe has been the UK, in both an overall market, we're there in both kind of the professional trade segment, as well as the DIY. So the overall market in the UK for the construction industry has been quite weak. So I think that's been one of the reasons why volume has declined. We also lost 1 of our DIY customers and we commented on that, took a charge last quarter, this was Focus. And so that's impacted our volumes in the second quarter as well as here in the third quarter.

And I would say that the-- we're not exposed or very little exposure to let's call them the Mediterranean markets that have been quite weak. So our volume has been stable, but not growing in the Continental European market or even Eastern Europe. So right now, based on what we're seeing is that we're not looking for any volume growth. Now whether or not we're going to see any additional volume declines, the market there in Europe has been fairly stable, and so I would say that because that it's a market that's not driven by new home construction, that it is more a maintenance and repair market, that we're looking for stability. Now that may mean that we see a couple of percentage points of decline and we're not certainly anticipating growth at least in the, what we're seeing in terms of the economic outlook in Europe.

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**Dmitry Silversteyn** - Longbow Research - Analyst

That's helpful, Chuck. Just 1 clarification on Europe. In your comments, in your prepared remarks on the press release, did I understand you correctly that you expect foreign exchange to be a negative in European paints business in the fourth quarter? In other words--

**Vince Morales** - PPG Industries - VP- IR

Dmitry, right now, it'll be down versus Q3.

**Dmitry Silversteyn** - Longbow Research - Analyst

Down versus Q3, so not year over year, okay.

**Vince Morales** - PPG Industries - VP- IR

Yes, too early to make that call. But verse Q3 based on current rates, our Q3 conversion rate was 1.42. Q4 would be lower than that.

**Dmitry Silversteyn** - Longbow Research - Analyst

Got it. Okay. So this was sequential comment, not a year over year comment?

**Vince Morales** - PPG Industries - VP- IR

Correct.

**Dmitry Silversteyn** - Longbow Research - Analyst

Question on Glass. I mean you guys delivered 4 good quarters in a row of kind of double-digit operating margins in that business and then they slipped back down to about a-- a little bit over 8% in the September quarter. Was that entirely due to kind of volume declines and maintenance shutdowns that you have and we should expect you to return to double-digit operating profitability, or has something changed in the industry either from a demand side or cost side, where we should be looking at third quarter run rate as more typical?

**Chuck Bunch** - PPG Industries - Chairman, CEO

Well what you had in the third quarter in the Glass industry, or in this case in fiberglass in particular, we had what we call cold repairs or furnace repairs that we have to periodically take down the furnaces. We incur additional maintenance costs as well as lost production. So we had 2 of those in the third quarter that had more of an impact. So I would expect that we would improve seasonally in the fourth quarter versus what we saw seasonally in the third quarter of 2011. But I would say overall the volumes are probably not quite as strong either in the fiberglass market and more or less stable at a low level in the flat glass market. So I would say we're not going -- we don't expect any volume improvements. We'll have better costs, but that necessarily won't -- that will mean that things are going to fall somewhere between what we have seasonally in the fourth quarter and some of the weakness that you saw in the third quarter, if that's clear?



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**Dmitry Silversteyn** - Longbow Research - Analyst

That is Chuck, thank you. And then final question, on SG&A, just looking at the ramp-up in SG&A costs, it looks like it's going to be about 8% higher year over year in 2011 versus 2012, which is not as high as your revenue growth, which looks like it's going to be about 12%, but most of that, or at least half of that is pricing. So it looks like, if you exclude kind of pricing and foreign exchange, that your SG&A is growing significantly faster than your revenue. Is that in building out some kind of investing ahead of the market recoveries in some markets, or maybe becoming a little bit less restrictive as far as travel or show attendance or anything like that? Or kind of what's behind the faster ramp-up in SG&A costs almost back to 2008 levels?

**David Navikas** - PPG Industries - SVP- Finance, CFO

Dmitry, some of that increase would be in some areas like some brand building in the Architectural business. So some of that would be ahead of anticipated volume improvements in the future. But otherwise, as we would look at it, we've been working hard to keep the rate of growth of the overhead costs in line with the volume improvements that we have seen. And so where we have seen some of that growth in overhead costs in the third quarter were in those businesses where we've also seen some recovery in their volumes as well.

**Dmitry Silversteyn** - Longbow Research - Analyst

Okay.

**Vince Morales** - PPG Industries - VP- IR

I'll remind you, Dmitry, that those expenses are impacted by currency translation as well.

**Dmitry Silversteyn** - Longbow Research - Analyst

Right, right.

**Vince Morales** - PPG Industries - VP- IR

Year over year they're up 6% or 8% just from translation perspective for those non-US expenses.

**Dmitry Silversteyn** - Longbow Research - Analyst

Oh, so they're up more than the 4% foreign exchange impact you're seeing in your sales then?

**Vince Morales** - PPG Industries - VP- IR

I'm sorry. Should be 4%, I misstated.

**Dmitry Silversteyn** - Longbow Research - Analyst

Okay. All right. Thank you, Vince.

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**Operator**

(Inaudible) with CLSA.

**Unidentified Participant** - - *Analyst*

Good afternoon.

**Chuck Bunch** - *PPG Industries - Chairman, CEO*

Hi, [Neals].

**Unidentified Participant** - - *Analyst*

Question on Chinese TiO2. Obviously it's becoming more attractive, are there any issues in terms of requalification or specifications, if you are going to use more of it and what type of issues would you have in terms of your customers taking product that might have Chinese TiO2 versus TiO2 sourced in North America?

**Chuck Bunch** - *PPG Industries - Chairman, CEO*

Well in any of our formulations for our end use markets, we will not introduce new suppliers or new types of raw materials without thorough testing. And so in these cases, we have been working for the past several years across a broad array of suppliers, not only in TiO2 but in a lot of commodities in Asia, because we've been experiencing up until the last quarter or so inflation across the board. So if we were to use more TiO2 from the non-Western sources, most of this is sulfate technology that requires differences in processing, qualification, testing.

So these -- that's the reasons why these things are not -- from month to month, you can't change the suppliers to these new products, new technologies, new suppliers. So that's why you haven't seen as much substitution short term in the industry. Plus when things tightened up in the first half, there wasn't the financial incentive to utilize these products more broadly. Now I think you're going -- that's opened up the opportunity, but it will still take some time in our formulations, in processing, in working with the customers where we do need broader discussions or approvals to change raw materials. So I think you'll see some of that coming, because we've been working on it for a while, but it is not instantaneous.

**Unidentified Participant** - - *Analyst*

Okay, got it. On the M&A, a lot of the public valuations have certainly come down. We don't know whether private valuations have come down. Are you seeing anything that's particularly more attractive either in particular end markets or particular regions that you weren't seeing maybe 6 months ago?

**Chuck Bunch** - *PPG Industries - Chairman, CEO*

Not necessarily. I would say that as we've discussed, a lot of the valuations in Asia have been quite high. And that's limited some of the acquisition activity certainly on our part, and I don't think you've seen as much as historically in the industry in the emerging regions. Now we're hopeful that if the growth rates do moderate or if some of the opportunities for these smaller companies to go to the IPO or secondary exchanges at high valuations, we hope that this will open things up and will have more attractive valuations in these markets.

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But right now, I would say we haven't seen a lot of acquisition activity in the industry. And we didn't see it as much in 2008 and 2009 either because the industry actually held up fairly well. So it's unclear to me whether these moderating growth rates will cause a lot more M&A activity. I think you just have to work the-- work all of the possibilities and the companies and find situations where the owners feel that they're longer term are better off in part of a bigger company than going independently. But right now, haven't seen a big upswing in opportunities or a big change in valuations.

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**Unidentified Participant** - - Analyst

Got it. Thanks very much.

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**Vince Morales** - PPG Industries - VP- IR

Thanks, Neals.

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**Operator**

John Roberts with Buckingham Research.

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**John Roberts** - Buckingham Research Group - Analyst

Good afternoon.

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**Vince Morales** - PPG Industries - VP- IR

Hi, John.

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**John Roberts** - Buckingham Research Group - Analyst

Chuck, I think you had a weak April in North American Architectural paint and then actually had up volumes in May and June and started this quarter with up volumes. Did it tail off late in the quarter so that you ended up more flat for the full quarter?

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**Chuck Bunch** - PPG Industries - Chairman, CEO

Well, I think we -- actually we had-- we didn't have a strong start to the third quarter either. We had some -- there was some, at least here in North America, weather patterns were a little bit unusual. There's been some inventory rebalancing on the part of a number of the channels, and so I would say that the volume was pretty choppy there in the third quarter, and we didn't start off great. I didn't think we'd finished great, but it probably wasn't as weak as what we saw in April, which on a 1-month basis was certainly on a year over year or seasonal basis, was our weakest month.

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**John Roberts** - Buckingham Research Group - Analyst

Okay, and I got a little confused about the price/cost discussion earlier. Do you need to actually announce more price to get caught up, or do you need to just realize what's been announced to get you caught up?



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**Chuck Bunch** - PPG Industries - Chairman, CEO

Well we have not caught up on-- we have not offset the impact of raw material inflation with our pricing. Now we've-- we're working on productivity costs, all these other things. So we're not there yet. And -- but I expressed that at this point we're not broadly having initiatives here in the marketplace on pricing until we see the direction of the economy and have further discussions with our customers.

**John Roberts** - Buckingham Research Group - Analyst

Thank you.

**Vince Morales** - PPG Industries - VP- IR

Thanks, John.

**Operator**

Gregg Goodnight with UBS.

**Gregg Goodnight** - UBS - Analyst

Good afternoon, gentlemen.

**Vince Morales** - PPG Industries - VP- IR

Hi, Gregg.

**Gregg Goodnight** - UBS - Analyst

I notice your tax rate continues to run below historic levels. Is this the new normal? Can you give us some updated guidance for 2011 and perhaps a peak at 2012?

**David Navikas** - PPG Industries - SVP- Finance, CFO

Well yes, it is down 1% from the tax rate in 2010. We've been holding constant as we continue to re-estimate that rate for 2011. And I would say I feel pretty good about that rate for this year. Certainly that is impacted by the regional mix of our earnings. And at this stage as we look out into 2012, I think something in that 26% to 28% kind of range is still a reasonable estimate.

**Gregg Goodnight** - UBS - Analyst

Okay, thanks for that. A question, you've prepaid some of next year's debt. I notice that there's like a \$600 million tranche of 2013 debt, is that -- would there be any penalty on prepaying that? Would you be disposed to prepaying that if you could, or do you think your net debt to total capital's about where you want it?



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**David Navikas** - PPG Industries - SVP- Finance, CFO

There would be a penalty associated with prepaying that and at this time, we're comfortable with leaving that ride and dealing with that as it comes due in 2013.

**Gregg Goodnight** - UBS - Analyst

Okay, great. Last question, if I could, 1 of your competitors reported, and I noticed their margins for European Architectural were down a bit more significantly than yours were on a year-over-year basis, does a potential explanation of that pop out to you guys? Are you more aggressive in Europe on pricing, or is there something else I might be missing?

**Vince Morales** - PPG Industries - VP- IR

Probably, Gregg, the thing I would look at is geographic mix is different for all the competitors we have in Europe. That'd probably be the first place I'd look.

**Gregg Goodnight** - UBS - Analyst

Okay. No, that makes a lot of sense. In fact, their margins are a little higher on an absolute basis, so that's-- Okay, thanks, guys.

**Vince Morales** - PPG Industries - VP- IR

Thanks, Gregg.

**Operator**

Ladies and gentlemen, this concludes our question-and-answer portion for today's call. I would now like to turn the call back over to Vince Morales for any closing remarks.

**Vince Morales** - PPG Industries - VP- IR

Just want to thank everybody for their interest again on our third quarter call and just remind everybody our Capital Markets day is again December 5. Please contact me with any interest for that day. Thank you.

**Operator**

Thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day, everyone.

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