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## PPG - Q4 2011 PPG INDUSTRIES EARNINGS CONFERENCE CALL

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### OVERVIEW:

PPG reported 4Q11 sales of \$3.5b and EPS of \$1.39.



## CORPORATE PARTICIPANTS

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

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

**David Navikas** *PPG Industries Inc - SVP of Finance and CFO*

## CONFERENCE CALL PARTICIPANTS

**Rob Walker** *Jefferies & Co. - Analyst*

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

**Gaji Balakaneshan** *Buckingham Research - Analyst*

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

**Bob Koort** *Goldman Sachs - Analyst*

**Saul Ludwig** *Northcoast Research - Analyst*

**Jim Sheehan** *Deutsche Bank - Analyst*

**Dmitry Silversteyn** *Longbow Research - Analyst*

**Ivan Marcuse** *KeyBank Capital Markets - Analyst*

**PJ Juvekar** *Citigroup - Analyst*

**Nils Wallin** *CLSA - Analyst*

**Gregg Goodnight** *UBS - Analyst*

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

## PRESENTATION

### Operator

Good day, ladies and gentlemen. Welcome to the fourth quarter 2011 PPG Industries earnings conference call. My name is Regina and I will be your conference operator for today. At this time, all participants are in a listen-only mode. (Operator Instructions) Today's conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Mr. Vince Morales, Vice President of Investor Relations.

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### Vince Morales - PPG Industries Inc - VP IR

Thank you, Regina. This is Vince Morales, Vice President of Investor Relations for PPG Industries. Welcome to PPG's fourth quarter 2011 financial teleconference.

Joining me on the call today from PPG is Chuck Bunch, Chairman of the Board and Chief Executive Officer, David Navikas, Senior Vice President of Finance and Chief Financial Officer. Our comments relate to the financial information released on Thursday, January 19, 2012. As a reminder to everyone, based on our modified quarterly earnings call process, about one hour ago we posted detailed commentary in the accompanying presentation slides on our Investors' Center at PPG.com. The slides are also available on the webcast site for this call. We don't read those prepared remarks during the call. However, during the call Chuck will make some opening comments reviewing the companies results and then we will move directly to Q and A.



Both the prepared commentary and discussion during the 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 the website reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures. For additional information please refer to our filings with the SEC.

And now let me introduce PPG's Chairman and CEO, Chuck Bunch.

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

Thank you, Vince, and welcome, everyone. Today we announced fourth quarter 2011 sales of \$3.5 billion, up 4% versus the fourth quarter of 2010. Our fourth quarter earnings per share of \$1.39 established a new fourth quarter record for the Company and was achieved despite moderating global growth rates during the quarter.

We delivered record earnings per share of \$6.87 in 2011 with new records established each quarter despite persistent raw material inflation, uneven economic conditions globally, and continued anemic construction activity in developed regions.

Our continued record financial performance reflects strong execution by our global businesses, aggressive cost management, and our amplified deployment of cash. Also, our end-use market and geographic diversity remained an important benefit during the year.

During the fourth quarter, overall sales volumes were flat as some customers curtailed inventory and remained cautious with their ordering patterns. This was most evident in our Commodity Chemicals segment where volumes declined 3%, and also in Europe, where we experienced a 1% volume drop.

Emerging region volume growth continued but was modest and tempered by lower Marine and Architectural Coatings volumes along with the negative impacts resulting from the Thailand flooding, which reduced our optical products activity levels. We continued to benefit from improving global demand in Aerospace, Automotive OEM, and several general industrial markets, and we supplemented this growth with PPG market share gains.

Also aiding our sales was higher pricing with improvements in each business segment marking the 7th consecutive quarter where the Company has delivered higher pricing. The higher pricing offset raw material cost inflation as inflation rates stabilized during the quarter. We are implementing further pricing in 2012 to offset inflation we absorbed in 2011.

Lastly, cash generation remained strong and was about \$1.4 billion for the full year, up nearly 10%. Throughout the year, we deployed our cash with a focus on earnings accretion and continuing our heritage of returning cash to shareholders. We purchased 2.7 million shares of stock in the fourth quarter and 10.2 million shares during the year.

We also raised our dividend marking 40 consecutive years of annual dividend increases. In total, dividend and share repurchases equaled \$1.2 billion or 85% of the cash we generated from operations. We ended the year with about \$1.5 billion in cash and short-term investments.

Looking ahead, we anticipate first quarter 2012 growth to remain uneven by region and vary by industry, similar to the fourth quarter of 2011. We expect Europe to remain the most challenging region. We anticipate moderate strengthening in the US economic recovery, supported by an enhanced global cost position in the industrial sector due to lower natural gas prices.

Aggregate emerging region growth rates are expected to remain high compared to developed regions, but more moderate and erratic than they have been in the past. As a result, we will be very proactive in managing our businesses as we deal with these uncertain market conditions. Also,



we intend to continue to prudently deploy our strong cash position towards earnings accretion and rewarding shareholders, and are targeting to end 2012 with a cash balance below \$1 billion.

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

Certainly. (Operator Instructions) Your first question today comes from the line of Laurence Alexander with Jefferies.

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### Rob Walker - Jefferies & Co. - Analyst

Hi, good afternoon. This is Rob Walker on for Laurence.

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

Hi, Rob.

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### Rob Walker - Jefferies & Co. - Analyst

I guess in terms of just getting your thoughts, between automotive and construction end markets, which do you expect to see a larger increase in volumes, just in order trends in Q1 and what you've seen so far?

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

Well, we see good momentum in the automotive OEM markets around the world, with the exception of Europe, so we're looking forward to good growth rates continuing in North America and Asia, in particular. Construction activity, however, I think there's some early signs in North America but, still, I would say modest growth as we start up here in 2012. And Europe, we finished on what I would say would be a very modest growth rates. We're all concerned with the macroeconomic environment in Europe. Right now, we haven't seen any significant downturns but we do not expect Europe to be strong in construction markets, nor do we think they're going to be particularly strong in Automotive OEM. That automotive OEM business will be stronger in regions outside of Europe.

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### Rob Walker - Jefferies & Co. - Analyst

Okay, thanks. Then if you could update us on consolidation pipeline and if you expect to use a larger portion of cash in 2012 for M&A than you did in 2011?

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

You said consolidation pipeline. You meant acquisition pipeline?

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### Rob Walker - Jefferies & Co. - Analyst

Correct.



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

We've closed this month on two acquisitions that we have previously announced. That was Dyrup, in Europe, architectural, and Colpisa which is a Colombian South America automotive OEM and refinish coatings company. So we are actively pursuing a number of small-to-medium sized bolt-on acquisitions. The pipeline, we think, is solid but we have to make further progress to bring them along to closure here in 2012.

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**Rob Walker** - Jefferies & Co. - Analyst

Okay, thanks. Then just overall in terms of the Chlor-Alkali outlook in Q1, and then if you can touch on whether you see further risk there, that pricing in caustic won't keep up with the price declines in chlorine, and whether you think that the restocking will come more in Q2 versus Q1, in terms of your general industrial outlook going forward. Thanks.

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

Well, why don't we answer the Chlor-Alkali question and then we'll open it up to some of the other questioners. But in Chlor-Alkali we expect a seasonal upturn here in the first quarter from what were some lower operating rates in the fourth quarter. We do expect price increases to move the average caustic pricing up in the first quarter. Although as you commented, chlorine prices remain weak, but overall, we think it'll be slight positive for the first quarter. So I think we're looking forward to some return to more typical seasonal patterns here in the first quarter, and obviously we're watching the natural gas markets which are right now encouraging for us.

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**Rob Walker** - Jefferies & Co. - Analyst

Thank you very much.

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**Operator**

Your next question comes from the line of Frank Mitsch with Wells Fargo.

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

Good morning, Chuck, how are you doing?

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

I'm doing fine, Frank, how are you?

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

Terrific. Congrats on a nice year. I want to throw that out there.

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

Thank you.

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

Chuck, you talked about pushing through price increases because of the inflation that you faced in 2011. Can you talk about, starting from January 1, how you see that price versus raw material balance playing out? If you say raws are in balance right now, it would suggest that you should see some margin improvement there. Can you talk a little bit about that?

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

We've been chasing, let's say, the raw material inflation, really, for about the last 18 months or so and that continued through 2011, but started to moderate in the second half of the year in the fourth quarter, Frank, with the exception, as we've talked about in the past, of the TiO2 pricing. So overall we think here as we went into the latter half of 2011, we have a moderating inflation outlook and we're still catching up, in terms of pricing for our products, so we think that we still have some catch up to do. We didn't fully offset inflation from raw materials in our coatings businesses and we are trying to now complete that catch up process because we really haven't completely offset those inflationary impacts. And so I think there is an opportunity for us, if we continue to see this moderating trend in raw materials, to show some margin improvement in coatings as we go through the year. Some of that will also depend on volumes. But if we continue to see the overall economic growth we think that will aid the margin improvement opportunities.

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

Okay, great. And speaking of TiO2, it was just over a month ago, I guess, that you talked about your ability to take 4% to 6% of TiO2 out in 2012. Now that we're a month further along, do your R&D people still feel confident in that regard?

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

Yes, they still feel this is not a challenge that we threw out lightly to our organization. We have all of the goals and objectives, metrics by function, by business unit, and we still feel that's an appropriate target level for us in our formulations. It's still early in the year but we are tracking it and we feel that we will hit those targets.

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

Terrific, thank you.

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

Thanks, Frank.

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**Operator**

Your next question comes from the line of Kevin McCarthy with Banc of America.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

Good morning. This is Alex for Kevin. Chuck, what is your outlook overall for your raw material costs and in the Coatings business, given higher TiO2 and lower petrochemical-based raw materials?

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

We think that the overall outlook is flat. What we've seen in terms of the declines in the organic side of the raw material basket will offset what appears to be some continued increases on the TIO2 side especially here among the western chloride producers.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

That's it, thank you. And then moving to Architectural Coatings. In your prepared remarks you mentioned that volumes in Asia were weaker. Do you think this is a function of where you are in China geographically, some sort of share shift mix, share shift, or this is a sign of cyclical problems in Chinese construction market that might persist?

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

Well, we think, overall, that the Chinese construction growth will be moderating and we've seen that here in the latter half of 2011. We think that will continue at least here in the near term in 2012. We have a relatively small business in Architectural in China. We are focused more in the eastern half of the country where growth rates are probably even more modest. More of the growth has been in the second- and third-tier cities and in the west. But I do think that there is a moderation of growth rates in the construction industry in China and certainly we felt that effect here in the latter half of 2011 in our business.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

And a final question, if I may, on transitions in the rollout of Vantage. With increased sales costs, do you think you can still increase margins year-over-year in 2012 or hold them flat, or down?

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

Well, for us, the Vantage product launch which, for those of you who aren't familiar, this is our clear to polarized new-to-the world technology. This will be the first time you've ever seen a product launch that will darken, and darken to a polarized state. We're very excited about it but it is, at this point, a rather limited launch; limited geographically, limited by channel. We are quite excited about it but I would say, overall, even though the margins here will be very attractive for us, we don't think that we'll have, overall, an effect that would lift up our margins more than what you've seen just because at this point, it represents a relatively smaller volume for our Transitions business.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

Okay, thank you, Chuck.

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

Thank you, Alex.

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**Operator**

Your next question comes from the line of Don Carson with Susquehanna Financial.

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

Hi, Chuck. Two questions, one is on the anticipated level of share repurchase in 2012. Do you think it will be as large as last year or do you have a specific amount targeted at this time?

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

We talked at our Investor Day in December. We got close to a billion dollars in share repurchases in 2011. Our target for this year, I would put in more in the range of \$250 million to \$500 million. That would be what I would project. Obviously, it depends on successfully finding additional uses of cash for bolt-on acquisitions, but I would expect that we're going to be aggressive with the share repurchases but not quite at the targeted, at this point, targeting that level from 2011. So half of that rate would be, I think, a good benchmark.

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

And a follow-up on Chlor-Alkali. What was your all in natural gas acquisition cost in calendar 2011, including the hedge you had. I think you had 12% of your needs hedged at about \$7.25.

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

All in was around -- a little under \$5 and so this represents I think an opportunity as here in the first quarter of 2012 will be the last of those earlier pre-shale gas hedges. So we were a little under all in costs of \$5 and obviously we're going to start out in 2012 here in the first quarter below \$4. We did put some additional hedges on but only over the last few months at relatively modest levels. So it does represent a nice opportunity for us, especially with further reductions we've seen over the last week to 10 days in the market.

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

Okay, thank you.

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

Thanks, Don.

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**Operator**

Your next question comes from the line of Bob Koort with Goldman Sachs.

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**Bob Koort** - *Goldman Sachs - Analyst*

Thanks. Good afternoon.

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

Hi, Bob.

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**Bob Koort** - *Goldman Sachs - Analyst*

Chuck, you made some comments in the notes here about that refinish demand suffering from some inventory management and I guess I was a little bit surprised. I didn't think that particular customer segment was as sensitive to those inventory and working capital adjustments, nor was the pricing volatile enough where they might be trying to gain some advantage in buying later. So am I wrong and that does tend to be a much more volatile purchasing decision there? What happened in the refinish market?

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

Typically, it's not as volatile. We saw some inventory management, if you go back over the last few years, there were inventory reductions, certainly, as we went into the recession in 2009 more so than we had typically seen. And I would say here in the fourth quarter, there was probably some. If you look at some of the markets in Europe, as an example, or even in some markets in Asia where there's some economic uncertainty, I think the distributors and the overall customer base were somewhat cautious, I would say, in terms of ordering patterns. So I wouldn't think it's anything, a noticeable trend, but it is something we felt we needed to comment on.

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**Bob Koort** - *Goldman Sachs - Analyst*

And is there something structurally different in the European markets that in a weaker environment, the ROI would go down instead of going up as it's done in the US, or was it just the jarring economic anxiety there that stifled demand?

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

Well, I think in Europe, you have also some customer issues and I think the big retailers are also being quite conservative about inventory levels and their outlook, especially the ones in the UK. I think we saw earlier this week, Asda in the UK, or Tesco and some of the home improvement chains, I think they have been somewhat concerned about the economic environment in the UK and have been, I think, quite cautious at inventory levels. But I wouldn't say it's a pronounced trend difference between here and the US at this point. It's still a little too early to tell, Bob.

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**Bob Koort** - *Goldman Sachs - Analyst*

Terrific, thanks.

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

Thank you.

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**Operator**

Your next question comes from the line of Saul Ludwig with Northcoast.

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**Saul Ludwig** - *Northcoast Research - Analyst*

Good afternoon, Chuck.

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

Hi, Saul.



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**Saul Ludwig** - Northcoast Research - Analyst

How much did FX help you in 2011 and what type of headwind are you at least thinking about as you put your 2012 plan together?

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

Saul, it's Vince. On the sales line, we provide that each quarter, as you know, in our distributed slides but it was up around, I'd say, \$400 million year-over-year on the sales line. On the earnings line, we typically drop say 7% to 10% of that to the bottom line.

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**Saul Ludwig** - Northcoast Research - Analyst

Okay, so call it \$30 million. Now does that become a headwind this year?

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

We're not currency traders. We'll leave that up to you but based on today's rate it's going to be a headwind. Primarily the rate we're talking about is the Euro.

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**Saul Ludwig** - Northcoast Research - Analyst

Right. Okay. In the US, you commented that your Architectural volume was flat, which I guess was pretty decent. Did flat volume and price cost give you better earnings or lower earnings in that segment of the Architectural business?

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

North American Architectural earnings were slightly lower in the fourth quarter on flat volumes.

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**Saul Ludwig** - Northcoast Research - Analyst

Okay. And then when you think about the dividend and your dividend pay-out policies, it's been pretty consistent for a lot of years now with the sharp increase that you have in earnings. Is the dividend going to move more commensurate with the earnings growth or will the modest rate of dividend growth likely to continue and thus be a lower percentage of your earnings?

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

Well, I think what you've seen us do, Saul, over the past couple cycles is we've actually reduced the amount of time between dividend increases. So I think the last three increases were either six or nine months so we've been trying to keep in lock step with the earnings accretion.

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**Saul Ludwig** - Northcoast Research - Analyst

But I was asking about the payout ratio.

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

Well I think we're committed to increasing the dividend and to be in line with what we think is -- we're already positioned at the high end of our peer group, in terms of overall yield dividend increases and pay-out ratio. Obviously, our cash flow has improved over the last few years as we've continued to move the portfolio. So our view is that we're going to continue to, I think, be consistent with the dividend, increase the dividend, and increase it commensurate with overall earnings growth and cash flow. So if this is sustainable, as we feel it is, you'll see us continue to increase that dividend and maybe at a rate that's higher than we've seen over, let's say, coming out of this recessionary period where we did try to be a little more conservative.

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**Saul Ludwig** - Northcoast Research - Analyst

And my final question, Chuck. As you look at the stable of plants that you have around the world, are you finished with the restructuring and is there going to be any further need for restructuring activity? And if so, how should we think about the cost of that as we put our model together for 2012?

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

As we look at 2012, it's obvious from our comments and how we saw the end of the year playing out that we have more concern over the course of the European recovery and we have made recently a couple of acquisitions. So we're going to be reviewing here as we go into the first quarter what we think we're going to need going forward. Are there any synergies, especially in Europe, with the acquisition that we've made and our overall array of facilities across our businesses with some, I would say, additional focus on Europe if in fact the growth trends or some of the concerns that have been talked about externally play out. And we're dealing with low or zero or potentially negative growth in Europe.

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**Saul Ludwig** - Northcoast Research - Analyst

Thank you very much.

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

Thanks, Saul.

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**Operator**

Your next question comes from the line of David Begleiter with Deutsche Bank.

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**Jim Sheehan** - Deutsche Bank - Analyst

Hi, this is Jim Sheehan in for Dave. Good afternoon.

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

Hi, Jim.



**Jim Sheehan** - Deutsche Bank - Analyst

Chuck, just wondering about do you have any update on the situation in Thailand, as far as when you think some of your suppliers will be up and running again? I know that you didn't have a lot of clarity on that back at the Investor Day.

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

Right now, our operations are in good shape, both on the Optical Materials side as well as Transitions. Some of our customers there were, or are, a little slower in getting up to speed but we think now that there's been good recovery across the Optical industry in Thailand. So if there are some lingering effects here in the first quarter, we think they're going to be minimal.

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**Jim Sheehan** - Deutsche Bank - Analyst

Okay, and just as far as caustic availability is concerned, I know that was an issue in the fourth quarter. How much longer will caustic availability be an issue? Where do you think operating rates will play out in Q1?

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

Well, caustic availability is a concern right now because of where the industry finished or operated in the fourth quarter. So you had lower operating rates, very low caustic inventories so things are tight. That's why I think I commented that the pricing for caustic is moving up in the first quarter. So I think we're going to see higher operating rates for the industry and that's a seasonal factor that may alleviate some of what's obviously now a tougher supply-demand situation. But if we can get the operating rates to come up and stay here in the first quarter, I think we'll be, as an industry, in pretty good shape. You still have this Japanese VCM plant outage that is affecting caustic supply globally. So there's a few other short-term effects that are, I think, serving to keep the market tight.

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**Jim Sheehan** - Deutsche Bank - Analyst

Okay, and then just with Architectural Coatings volumes declining a couple percent in the quarter and volumes seeming to be weak across-the-board on a regional basis, did you see any substantial inventory build of TiO2 in the quarter?

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

I can't really comment on what was happening with TiO2 inventories. I think I've commented in the past that probably many customers in Coatings or elsewhere were probably keeping inventory levels higher because of concerns over price initiatives from the producers. So at this point, I'm not aware of, certainly, any shortages or any supply concerns in TiO2 but overall inventory levels I really don't have any basis to give an opinion.

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**Jim Sheehan** - Deutsche Bank - Analyst

Okay, thanks a lot.

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

Thanks, Jim.



**Operator**

The next question comes from the line of Dmitry Silversteyn with Longbow Research.

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**Dmitry Silversteyn** - Longbow Research - Analyst

Good morning, guys, and congratulations on finishing the year on such a strong note. A couple of questions. First of all, the decline in operating margins and the performance in the Coatings business, you've been running at 15%, 16% pretty much for the past 6, 7 quarters and now we're down to just about a shade over 12%. Was that just a mix issue or are there some one-time costs that have fallen through the quarter that impacted the profitability of Performance Coatings?

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

Well, I think we indicated in our notes there are four businesses in that segment. Two of them performed well. Aerospace being one of them; extremely well. Refinish had a solid quarter. Protective and Marine Coatings had a weaker quarter and again that was focused on the Marine side of the business and the Marine business in Asia. This is China and Korea. Volumes were down on the OEM build side of the Marine sector. Price did not keep pace with inflation in that business and in the Marine segment, we have a slightly different raw material basket. We also include some metals that go into Marine OEM coatings, notably zinc and copper. So they had higher run up during the year. We were still working off higher cost inventories in that business and we had claim activity in Marine. So that was one of the business units that had lower earnings.

The other one was in the Architectural. Now within Performance Coatings, we have the Americas and Asia Pacific together in the Performance Coatings segment, so the European Architectural is in its own separate reporting segment. And there, in the Americas and Asia Pacific Architectural business, we had lower earnings. This was, I mentioned, slightly lower in North America, but lower in a smaller business and in South America and Brazil and Chile, again primarily, price not keeping up with inflation. And in Asia Pacific, similar challenges. I commented earlier on the China Architectural. So that had lower earnings again; price not keeping up with inflation and the volumes moderating. In Australia -- similar story, price and inflation. TiO2 is more important in these Architectural businesses, so there is, let's say, more inflationary pressure there. So if you have markets where the price initiatives aren't keeping up with what's been happening in TiO2, in particular, you're going to see some margin deterioration. So that's where I would focus your attention in terms of the Performance Coatings segment.

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**Dmitry Silversteyn** - Longbow Research - Analyst

Got it. Thanks. That's very helpful, Chuck.

You also, in your prepared remarks, said something intriguing that I want to follow up on. When you were talking about growing in some select segments or seeing good growth in some select segments of Industrial Coatings business. Can you give us more detail on what those segments are? What's driving them and what the outlook for 2012 is?

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

There are some good segments in the Industrial or General Industrial business outside of automotive OEM and two examples would be heavy duty equipment. So you've seen some of the results of some of the big players that are out in ag and construction equipment. These guys are, I think, booming in some respects, and so that heavy duty equipment segment is a very attractive one. Consumer electronics as well. Even if consumer electronics, overall, in the second half as an end-use market was maybe -- the growth rates weren't as attractive. We're seeing increased paint and coatings usage for a number of these devices, more devices being painted; color and design more important. So that would be another example of an end-use market in Industrial or General Industrial that's growing in addition to Automotive OEM.

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**Dmitry Silversteyn** - *Longbow Research - Analyst*

Got it. Okay, that's very helpful color. Thank you very much.

And then just a couple of bookkeeping questions. Your Commodity Chemicals business, I understand that you sell a lot of your chlorine as not chlorine but some sort of a (inaudible - technical difficulty) or another. Can you give us a rough idea of how much of your chlorine business, if you will, is sold as non-chlorine?

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

Dmitry, this is Vince. That's going to fluctuate, based on what's happening in the merchant chlorine market itself.

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**Dmitry Silversteyn** - *Longbow Research - Analyst*

For 2011, what was it?

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

I'll have to get back to you on the number. I don't have it at hand but I would consider it's chlorine just a pass-through to those derivatives.

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**Dmitry Silversteyn** - *Longbow Research - Analyst*

Right. I understand that but my point is that you aren't really shipping chlorine in a lot of cases. I just wanted to understand what the percentage of the non-chlorine business was. So that's fine. We can take it offline.

And then the last question, what kind of a tax rate should we be using for 2012? Its been coming down pretty significantly every year. Should we be looking at in the neighborhood of 25%? Or something lower than that?

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**David Navikas** - *PPG Industries Inc - SVP of Finance and CFO*

Yes, Dmitry, this is Dave Navikas. The 25% rate that we achieved in 2011 would be the rate we're looking to maintain in 2012.

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**Dmitry Silversteyn** - *Longbow Research - Analyst*

Okay. Thank you very much.

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**Operator**

Your next question is from the line of Ivan Marcuse with KeyBank Capital Markets.

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**Ivan Marcuse** - *KeyBank Capital Markets - Analyst*

Hey, guys, thanks for taking my questions. A couple of them, real quick. On Optical businesses, will you see some pent-up volume, do you think, in the first quarter from the orders and shipments that got delayed from the fourth quarter? Or do you expect it to just get back to more of a normalized type of business level?



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

I would say it's still early to tell. I would say that we're only two weeks into this, so I would say at this point, we're not seeing negative signs. So I would say normal activity levels, maybe a little bit higher, as there's a little catch up from some lower inventory levels and customer; a little bit of destocking there in the fourth quarter also tied to the Thailand floods.

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**Ivan Marcuse** - KeyBank Capital Markets - Analyst

Great, and then I think I missed it earlier in the call. On your 2012 outlook for raw materials, did you expect them flat from where they are right now to go across, or flat for on a year-over-year basis?

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

Flat from where we are now. Yes.

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**Ivan Marcuse** - KeyBank Capital Markets - Analyst

So where would you think about it on a year-over-year basis for 2012?

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**David Navikas** - PPG Industries Inc - SVP of Finance and CFO

From a year-over-year basis, Ivan, that would be mid-single digits in terms of inflation rate.

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**Ivan Marcuse** - KeyBank Capital Markets - Analyst

Okay.

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**David Navikas** - PPG Industries Inc - SVP of Finance and CFO

(multiple speakers) last year.

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**Ivan Marcuse** - KeyBank Capital Markets - Analyst

Okay, thanks. And then my last question is the Architectural coatings in emerging markets. Was it just in China where you saw a decline in demand? Or was it in other regions and what regions were there? And then in China, are you just primarily in the Tier 1 cities? Could you just tell me on a scale of how big is that business and where do you mainly sell into?

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

Okay, well you had about three questions in there. But I would say that China -- what I described was moderating growth rates and that would be the case in China, as well as Brazil, as an example. So growth rates were being lowered in our China business -- relatively small business, so less than \$100 million. And again, more concentrated as I explained to the earlier questioner in the eastern half of the country, more in the bigger cities. The growth rates have been higher in the Tier 2, 3 cities and in the western region.

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**Ivan Marcuse** - KeyBank Capital Markets - Analyst

Great, thanks.

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

Thank you.

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**Operator**

Your next question comes from the line as PJ Juvekar with Citi.

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**PJ Juvekar** - Citigroup - Analyst

Good afternoon, Chuck. Hi, PJ, how are you? Good. You talked about share gains in Coatings. Can you discuss which segments you gained share? Was it in autos, aerospace? And secondly, with your paint plus primer product at Lowe's, were you able to gain share there?

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

Well, as you saw from our Industrial Coatings segment, we thought we did well in that overall segment in Auto OEM. In General Industrial, Refinish, even if the market is, let's call it a more mature market, we felt we were well-positioned globally. And that's a more difficult market to get, especially, a near-term share picture but we thought we've been doing well in that market. Olympic ONE for us was a very good launch. We certainly exceeded our initial targets in Olympic ONE and we consider it a successful launch for us. And I think our customer for Olympic ONE, Lowe's, was also pleased with the performance of our product, both at the quality and the level of support that we were giving it, plus the reception on the part of the customers.

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**PJ Juvekar** - Citigroup - Analyst

Okay, and then secondly, quickly on TiO<sub>2</sub>. How much of the TiO<sub>2</sub> that you buy sulfate versus chloride-based and are you using more Chinese? Can you just qualitatively talk about what are you doing with the Chinese TiO<sub>2</sub> to counter the western producers?

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

Well, the overwhelming use of our products, especially in North America and Western Europe is chloride. We have introduced sulfate grades in those markets now and that's part of the targets that we have for improving our utilization of the TiO<sub>2</sub> in the formulas.

I would say that where you see much more sulfate usage for us is in the Asia Pacific region. Most of the Chinese domestic producers are sulfate producers and go through acquisitions on our own activities. We have learned how to work with those grades of TiO<sub>2</sub> much more effectively, so we have a higher usage of sulfate TiO<sub>2</sub> in Asia Pacific and in the developing or emerging regions.

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**PJ Juvekar** - Citigroup - Analyst

Would you say that sulfate is, maybe, 10% of your overall purchases? Thank you.

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

Yes, it's probably maybe higher than that, PJ.

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**PJ Juvekar** - Citigroup - Analyst

Okay, thank you.

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**Operator**

Your next question comes from the line of Nils Wallin with CLSA.

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**Nils Wallin** - CLSA - Analyst

Good afternoon.

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

Hi, Nils.

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**Nils Wallin** - CLSA - Analyst

One question about housing starts. They've had a fairly nice year, probably up low single digits and you've seen in the back half of the year some acceleration, yet Architectural volumes are kind of flat and Chlor-Alkali is negative. So are we seeing some sort of delay in order patterns? Has the overall picture of seasonality somehow changed? Or was there maybe a pick up in demand that was in 2010 that was really pulled forward from 2011? What's going on here? Why aren't we seeing higher volumes, given where housing starts are?

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

Well, housing starts in our view are still very depressed and we started to see over the last quarter or the last few months of 2011 a little more encouraging signs, but off some very low volumes from previous years. So I would say that we're still in the very early stages of a housing recovery and so it wouldn't be significant enough, at this point, to really see big volume increases, especially at this time of year where we're still in the winter and this is not a seasonally strong quarter. So I think if this nascent recovery continues, we'll probably see more volume improvements as we go through the year. I think all of us have been waiting for a housing recovery for a few years. I've predicted it incorrectly to have happened, certainly, last year, probably the year before. It hasn't. I'd like to be encouraged here as we see a few of these signs, but I'm going to probably wait until we get a little further into this thing before I declare that, yes, we're in the early stages. And we have to remember that these levels of housing starts and things are still very, very low. I think they'll come back.

We talked about automotive. People said, you know, automotive is never going to come back, 8 or 9 million builds is the new normal. I think now everyone believes we'll get back to the old levels in the automotive industry and I think we'll make more of those cars here and I think eventually, housing will correct. I think it will improve a little bit, but at this point, we're still at very low levels. So even if the increases are, let's say, a little more than they have been, we're still increasing off some very, very low levels. If you look at it overall in the industry, probably not yet significant.

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**Nils Wallin** - CLSA - Analyst

Okay. Your Architectural EMEA share gains; would you give us a little bit more qualification around what are the regions or particular end markets? And then, given that even with Dyrup you're still, perhaps, somewhat underrepresented in Germany. Is there any interest in growing there? Given that you still are seeing very nice rises in German housing prices?

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

Well, for us, most of the European market and our business in Europe as well is in what we would call the maintenance segment of both the residential and commercial maintenance. There's not as much of a new build or new construction market in Europe. So the improvements that we've seen have been in that segment. And we have some of our stronger businesses in countries that have held up better economically and the construction businesses have held up a little better, so that would be France and the Benelux countries, as we've described. But we don't have much exposure at all to the southern Mediterranean countries. We have a business in the UK that, I would say, is weaker than these western European countries. We've still been seeing, I would say, some slight growth in markets where we're pretty strong, like Poland, as an example in eastern Europe that haven't been affected too dramatically yet by all this weakness in the rest of Europe.

In the German market, we have a relatively small position. I don't follow the housing prices in Germany but overall the economy's been better there. They're well served in Germany. They have a number of small to medium sized German paint manufactures. It's a competitive market. We'll pick up a little more sales in Germany from the Dyrup acquisition and I think longer term it does present a growth opportunity for us. But we're looking in Europe, although we're cognizant of the fact that growth rates right now aren't that exciting and so, to the extent that we can find the right acquisition at the right value, we'll be interested. But we're in that market so we know growth is not going to be the big driver for earnings over the next year or so. So we're being, I would say, cautious and discriminating as we look at acquisition opportunities and there are some over there because the market is less consolidated than it is in North America as an example.

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**Nils Wallin** - CLSA - Analyst

Thanks, that's helpful. Just one final one, if I may. On Olympic ONE with introduction of that product, obviously there was some advertising costs. Are those costs going to continue through 2012 or do you have an opportunity to help some margins on that side of the business?

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

Well, we obviously supported Olympic ONE in the second half of the year and wanted to support the launch and I think that went well. We want to continue that. I think there's some momentum in the brand. Our customer has encouraged us to continue to support it. So at this point, we would like to keep that momentum going. We're just not going to strip out all the costs in order to drive, let's say, near-term margin improvement, although all of us realize the pressures in the Architectural business. But we're going to try to stay the course here.

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**Nils Wallin** - CLSA - Analyst

Thanks very much. Quite helpful.

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**Operator**

Your next question is from the line of Gregg Goodnight with UBS.

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**Gregg Goodnight** - UBS - Analyst

Good afternoon, gentlemen.

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

Hi, Gregg.

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**Gregg Goodnight** - UBS - Analyst

Your Industrial Coatings margins you mentioned were up 200 basis points and you mentioned a couple things. Number one is lower gas prices and you implied that you've also taken some actions in that segment. My question is, which was the bigger effect there? And if natural gas prices decide to go up, are you going to be able to keep most of that margin improvement?

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

Gregg, I think the factors in Industrial we cited were higher volumes.

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**Gregg Goodnight** - UBS - Analyst

Yes, 4% volumes?

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

Yes, and natural gas was not a factor in that. We got higher volume and higher price versus the prior period.

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**David Navikas** - PPG Industries Inc - SVP of Finance and CFO

And the manufacturing cost, Gregg.

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**Gregg Goodnight** - UBS - Analyst

Manufacturing cost? So it was some fundamental improvement that contributed to that also?

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**David Navikas** - PPG Industries Inc - SVP of Finance and CFO

Right.

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**Gregg Goodnight** - UBS - Analyst

Okay.

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

Natural gas has a bigger impact on our Commodity Chemicals and our Glass segments. It's not a direct raw material for our coatings business.

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**Gregg Goodnight** - UBS - Analyst

Okay, thanks. That makes sense. Appreciate the clarification. In the Performance Coatings area, you mentioned in Marine Coatings and there was some increase in customer claims. Would you characterize that as low- to mid-single digit type impacts and will this continue?

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

Yes. I would characterize it low-single digit kind of numbers and we wouldn't expect that to continue. You have this happen periodically in the Marine Coatings industry. These are products that are working in harsh environments and that fourth quarter item was triggered more to resolution of a longer standing claim. So you would expect that this is not a continuing quarterly item but you do get that from time to time in Marine Coatings.

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**Gregg Goodnight** - UBS - Analyst

Got it. Last question if I could. The \$1 billion end-of-year cash target, what is the assumption on your asbestos settlement? And if the asbestos settlement happens, does that impact your share repurchase targets that you mentioned a little while ago?

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**David Navikas** - PPG Industries Inc - SVP of Finance and CFO

Well, it would. It's a factor, Gregg, that goes into the calculus of how we're going to deploy the cash that we have available to us. So we're not trying to predict when that is going to occur, but certainly, would that occur and we have that use of cash in 2012, it would tend to push down what we spend on share repurchase. But then the other dynamic is the extent to which we're able to bring acquisitions to a conclusion, so we're really trying to balance those three factors as the year unfolds.

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**Gregg Goodnight** - UBS - Analyst

And what is your best guess in terms of the settlement? Will it happen this year or is there just no way to tell?

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

No way to tell, Gregg.

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**Gregg Goodnight** - UBS - Analyst

Thanks, Vince. Appreciate it guys.

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

Thank you.

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**Operator**

Your next question comes from the line of John Roberts with Buckingham Research.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

Hi, good afternoon. This is Gaji Balakaneshan on for John.



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

Hi, Gaji.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

Hi. Maybe to start off with a clarification. Are you guys thinking that the first quarter of 2012 is going to be equivalent to the fourth quarter, plus the seasonal change in demand? Or is it maybe a little better than that?

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**David Navikas** - PPG Industries Inc - SVP of Finance and CFO

I think what we articulated was the macro environment feels the same, with some seasonal uptick.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

Okay, got it. And then, given the destocking that you saw in the second half of 2011, have you seen an end to destocking or maybe even any restocking? Or possibly expecting that to occur in the near future?

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

It's still early in the quarter. We're only a couple of weeks into this. I would say in Europe, we're asking because we're trying to be very mindful of the situation over there. Right now, we have not seen any significant movements of destocking or restocking in Europe on top of what we saw in the fourth quarter.

Chinese New Year for the Asia Pacific region is early this year. It's coming up this week. It's going to throw off a little bit of our calculation, so we're going to have to wait until we move through the Chinese New Year and get further into the first quarter to see how activity and inventory levels are going to be in Asia. And I would say here in North America, most of the activity that we're seeing is normal seasonal activity and that means that there is some seasonal uptick in a normal pattern. So we have not seen anything that is out of the ordinary, in terms of the trends that we finish the year with.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

And then lastly, are there any businesses or geographies that have irrational levels of inventory, so maybe certain levels are too low, given the end demand that you're seeing?

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

Irrational levels of inventory. No, we don't have any irrational levels of inventories. We're watching and I would say from what I can see and our customers' inventory levels or suppliers, I think everyone has been fairly cautious but not overly so. So there is no either outright pessimism or unbridled optimism out there in inventories and I think it's more, steady as she goes.

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**Gaji Balakaneshan** - Buckingham Research - Analyst

All right, great. Thanks.

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

Thank you.

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**Operator**

Our final question today is from the line of John McNulty with Credit Suisse.

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**John McNulty** - Credit Suisse - Analyst

Yes, good morning. Or good afternoon, I guess. Just with regard to the pricing that you're going to be putting through in the Coatings space to catch up to the 2011 raw material moves that you saw, does that make any assumptions for the TiO2 prices, the hikes currently on the table, or would that need more incremental pricing from you?

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

Well, I would say at this point, we're still discussing TiO2 prices and trying to determine what's going to happen with the rest of our raw material basket. So we're still operating at this point off of the increases that we saw in the fourth quarter for TiO2, depending on where things go.

Overall for our basket, we'll have to develop our strategies once we see the general direction. It's not strictly from a TiO2 standpoint and we're still under discussion for impacts in 2012.

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**John McNulty** - Credit Suisse - Analyst

Okay, fair enough. And on your comments on the demand environment from the housing space, do you think the demand is strong enough there to warrant or support the TiO2 hikes that are out in the industry or is that up for debate at this point?

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

Well, I made some comments on that in the past that, overall, we haven't seen a big improvement in demand in the housing sector. It's still early in the season and certainly we haven't seen a lot of strength over the last couple of years. I've described today, moderating growth in markets like China or Brazil, concern about weakness in Europe. So I would say overall, the construction markets are still tepid overall, and we may see a little bit of improvement as we go through the year. But I think there's been a lot written about these nascent signs of improvement in the US, but from a volume standpoint, we haven't seen dramatic improvements here, just early here in January.

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**John McNulty** - Credit Suisse - Analyst

Great. Thanks very much for the color.

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

Thanks, John.

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**Operator**

Ladies and Gentlemen this concludes the question and answer portion of today's event. I'd like to turn the call back over to Management for some closing remarks.

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

Thanks, Regina. I just want to thank everybody for their time. Please feel free to contact the Investor Relations function and we'll answer any questions you have. Thank you.

**Operator**

Ladies and gentlemen, thank you so much for your participation today. This does conclude our presentation and you may now disconnect. Have a great day.

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