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PPG - Q4 2010 PPG Industries Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the fourth-quarter 2010 PPG Industries earnings conference call. My name is Towanda and I will be your coordinator for today. At this time all participants are in listen-only mode. We will facilitate a question-and-answer session towards the end of today's conference. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to Mr. Vince Morales, Vice President, Investor Relations. Please proceed, sir.

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Vince Morales - *PPG Industries - VP IR*

Thank you, Towanda. Good afternoon. This is Vince Morales, Vice President of Investor Relations for PPG Industries. Welcome to PPG's fourth-quarter 2010 financial teleconference. Joining me on the call today from PPG is Chuck Bunch, Chairman of the Board and Chief Executive Officer; Bob Dellinger, Senior Vice President, Finance and Chief Financial Officer; and Dave Navikas, Vice President and Controller.

Our comments relate to the financial information released on Thursday, January 20th, 2011. As a reminder to everyone, and as we communicated last quarter, we have modified our quarterly earnings call process. Approximately one hour ago we posted detailed commentary and accompanying presentation slides on our investor center at PPG.com. Slides are also available on the Webcast site for this call. We will not read those prepared remarks during this call. During the call, Chuck will share his perspective on the Company's results for the fourth quarter and full year, and then we will move directly to Q&A. The modified process will allow substantially more time for Q&A.

Both the prepared commentary and discussion during this call may contain forward-looking statements reflecting the Company's current view about future events and their potential effect on PPG's operating and financial performance. These statements involve uncertainties and risks which may cause actual results to differ from such forward-looking statements. 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 also available under 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, before we begin, I will remind you that we held a detailed capital markets Analyst Day in mid-December 2010. The presentation slides for that event contain further details about our industry, businesses and end use markets, and those slides, again, are available on our website.

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

Chuck Bunch - *PPG Industries - Chairman, CEO*

Thank you, Vince, and welcome everyone. PPG posted record sales and earnings per share this quarter, capping off an excellent 2010 full year performance. We achieved record fourth quarter sales on strong price and volume gains, and despite continued currency headwinds. Our sales in local currencies grew by 10% year-over-year. Our broadening businesses in emerging regions once again delivered double-digit sales growth, including in Asia, where our sales this quarter grew by more than 15%. Also, for the full year, I am very pleased to report that our Asia-Pacific region surpassed $2 billion in sales, up nearly 25%. With strong earnings growth approaching 50%. We leveraged the higher sales, delivering record fourth quarter earnings per share.

The global economic recovery began to gain traction during the fourth quarter of 2009, making this quarter's year-over-year comparison more relevant. So, our 50% year-over-year earnings per share increase is meaningful. In addition to the volume gains, another factor in the fourth quarter was higher selling prices. In the quarter, every one of our segments delivered higher pricing versus last year. In looking at the year in total, the Company's pricing has increased in each quarter during the year. In our coatings businesses, these higher prices offset or minimized margin compression from inflating raw material costs. Coatings raw material inflation began to escalate in the middle of 2010, and remained at persistently high levels through the fourth quarter. In our Commodity Chemicals and Glass Segments, pricing gains were a contributor to the segment earnings recovery trends, and were driven by higher demand as the end use markets continued to recover.

Also, despite the ongoing recovery, we have continued aggressive management of our operations and overall cost structure. In 2010, our operating segments reduced cost by $100 million from our prior restructuring actions, plus an additional $50

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million-plus, from other manufacturing and cost management initiatives. This $150 million of savings is in addition to the $350 million we delivered in 2009, resulting in over $500 million of lower costs in comparison with 2008.

Looking at our performance on a segment basis, we posted record fourth quarter segment earnings, easily eclipsing our prior record by more than 15%. Our combined Coatings and Optical and Specialty Materials segments also delivered both record sales and earnings in the quarter. Our broad geographic coatings footprint enabled us to take advantage of continuing improvements in overall global industrial activity and continued expansion in after-market activity levels. In Optical and Specialty Materials, we once again drove excellent top line growth, and maintained our trend this year of expanding year-over-year margins.

In what is typically a seasonally slow period, weak construction and maintenance markets continued to weigh on our Architectural Coatings business in Europe, although our Architectural Coatings volumes in our US and Canada business were essentially flat with the prior year. Our Performance Coatings and Optical and Specialty Materials segments, both top margin performers for PPG, also delivered fourth-quarter earnings records and have continued future growth prospects. Architectural Coatings EMEA earnings declined due to weakness in market demand. Also, our Industrial Coatings segment results were lower, as price, volumes and costs improved, but not sufficiently enough to fully offset inflation. As a benchmark, in past inflationary cycles in coatings, it has taken two to three quarters for our pricing initiatives to fully counter inflationary impacts. We have additional pricing increases being implemented in 2011, and I am confident we are on pace to fully counteract inflation in our coatings businesses in the first half of 2011.

Also, as in the past, our Commodity Chemicals segment is, once again, serving as a hedge to inflationary pressures impacting our coatings businesses. Segment margins grew to over 19% this quarter, as the earnings improvement trend continued due to higher pricing. In addition, our Glass Segment earnings also improved substantially, driven by higher end use market activity, coupled with our continued cost management actions. In 2011, these businesses should continue to benefit from tight market conditions and lower natural gas costs, as our prior year's higher cost hedges will roll off. Fourth quarter earnings for the Commodity Chemicals and Glass Segments combined improved by over $90 million versus last year. This performance, along with a the combined record Coatings and Optical and Specialty Materials segment earnings, were key factors in our record fourth quarter earnings per share. This is the second consecutive quarter that we delivered record earnings.

Overall for 2010, I was very satisfied with our performance. We fully capitalized on the partial economic recovery, maintained our sharp focus on cost management, and leveraged our global breadth and leadership positions in our businesses. Also, we extended our legacy of returning cash to shareholders by returning about 75% of our cash from operations, or nearly $1 billion, to shareholders in the form of an increased annual dividend payout and share repurchases. Our record second half earnings performance and near record full year earnings demonstrate how strongly we are emerging from the recession. This performance is despite full year volumes that were still $1.2 billion below pre-recession 2008 levels, including continued anemic activity levels in construction markets in the mature regions.

We are only now beginning to see the full earnings power of the Company, and we are carrying this momentum forward into 2011 when we anticipate recovery in the global economy to strengthen and broaden. This should drive volume increases for PPG, which we expect to leverage at high margins as we continue to manage our costs. We anticipate that our strong emerging regions' penetration and several of our leading businesses, like Optical products and Aerospace, will continue to serve as significant growth drivers.

Also, as I mentioned previously, at the outset of the year we are implementing a variety of selling price increases throughout our portfolio, with the objective of offsetting Coatings margin compression and furthering our Commodity Chemicals earnings improvement trend. Finally, we are working on initiatives to deploy the nearly $2 billion we have in cash and short-term investments, with a focus on growing earnings and increasing shareholder returns.

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

Thank you. (Operator Instructions). Your first question comes from the line of Bob Koort with Goldman Sachs. Please proceed.

Bob Koort - *Goldman Sachs - Analyst*

Thanks very much. Chuck, can you talk a little bit about the sequencing you see of raw material inflation? I know at the December event you talked about, particularly in coatings, the first half some supply availability issues, and in the second half, TiO2. But here in recent weeks we've started to see oil reaching some new highs, and maybe putting some more pressure on the raw material slate as you go into 2011. Can you just talk a little bit about the dynamics between price and cost as we go through the year?

Chuck Bunch - *PPG Industries - Chairman, CEO*

On the cost of raw materials, we averaged in coatings mid-single digit increases for 2010, Bob. But obviously that built so that as we were ending the fourth quarter year in 2010, those were in the higher single digits in terms of percentage increases. And we saw it across a broad range of products. And we didn't see quite as many, although there were still some supply disruptions, but you had it on both the organic and inorganic sides, TiO2 being one of them, other pigments. We had some of the metals which play a role in our formulations in protective and marine coatings, they were also up.

Now, starting here in 2011, we're seeing a little additional raw material pressure. I would say at this point this would be low single digit increases, but on top of where we finished at the end of 2010. So we are still facing some headwinds here on the raw material inflation for coatings. We have started raising our prices, starting in mid-year of last year, working through some of them, but actually the inflationary numbers have continued to move. So, in every one of our businesses today, we have additional pricing actions. In some, we have formal price increase announcements out. In others, we are actively negotiating with customers to pass these price increases on.

And as I mentioned in the remarks, typically it does take two to three quarters to fully capture all of these inflationary price increases. I think the fact that we have a little bit of a moving target means that we're still in price increase mode in our businesses. But we're looking, as we go through 2011, to fully capture those price increases.

And in terms of the current forecast, we don't think things are going to accelerate as aggressively as they did last year, but we are seeing the same trends that you mentioned. Oil prices are up, and we've seen recent increases in commodities like TiO2 or propylene. But on the other hand, we haven't seen as much recent increases in natural gas, in ethylene, as an example. So right now, we are expecting more inflation for our coatings raw materials, but not quite at the pace that we saw in the second half of last year.

Bob Koort - *Goldman Sachs - Analyst*

Okay. One quick follow-up, if I might. You had a slide in your deck that I thought was pretty compelling, showing how much earnings power there still is from a volume recovery, given you're still quite a bit below where you were before. Just curious, how do you internally measure cost versus that volume recovery as you look forward?

And maybe you could talk a little bit about how you would size the margin opportunity in your businesses, some of which are already pretty darn high. But it looks like there's a lot of volume leverage still in the pipeline.

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Chuck Bunch - *PPG Industries - Chairman, CEO*

For us, our variable cost margins typically run between 40% and 50%, depending on the business unit and the geographic region. So certainly we think that we have that kind of opportunity to improve as volume grows. But we don't think that we have significant cost to put back into our supply chains and our businesses. We are still running in many businesses, especially in coatings, with the exception of where we are today in China, for the most part we have capacity available in our coatings businesses to fully capture the incremental margins at variable costs. So we're relatively optimistic that this can be done as volumes improve.

Bob Koort - *Goldman Sachs - Analyst*

Thank you.

Chuck Bunch - *PPG Industries - Chairman, CEO*

Thank you, Bob.

Operator

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

David Begleiter - *Deutsche Bank - Analyst*

Thank you. Chuck, on raws, could you actually size the delta you think you might see in both Q1 and the first half of the year between raws and selling price increases you're putting forth?

Chuck Bunch - *PPG Industries - Chairman, CEO*

No, I would say, obviously, if you look overall at PPG, we don't think there is an issue at all with the increases that we're seeing across the board in all of our business units. And we're obviously going to outpace inflation in businesses like fiberglass or chlor-alkali. I would say that for the coatings businesses, we think it would be a relatively small number. We are obviously chasing some of the increases that we just talked about, but we feel fairly confident that as the year proceeds, we're going to be able to recapture a lot of these increases with pricing.

David Begleiter - *Deutsche Bank - Analyst*

And Chuck, just on glass, had a very strong back half of the year, is that $60 million EBIT number in the back half, is that a run rate going forward for the full year 2011?

Chuck Bunch - *PPG Industries - Chairman, CEO*

I would say that typically the fourth quarter is not the strongest quarter for the glass segment. We think that the earnings improvement that we've seen, especially in fiberglass, should be sustainable as we go into 2011. We've talked a little bit about some of the pricing opportunities. We haven't seen the same kind of raw material inflation impacting those businesses.

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The flat glass business, performance glazings, as we've called it, has not had the same recovery yet, because it is tied to the North American construction markets. But even there, I think we certainly view that we've hit bottom, and we think there may be some modest upside. So I think the run rate is actually a good number as we start here in 2011.

David Begleiter - *Deutsche Bank - Analyst*

Thank you.

Operator

Your next question comes from the line of Rex Ryan with BB&T Capital Markets. Please proceed.

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

This is Frank Mitsch sitting in for Rex Ryan. Chuck, I wish you well this weekend, but you know I don't mean it. But congratulations on a nice end to the year.

As PPG's progressed the year, obviously the comps have gotten more difficult. You started out with 12% volume growth earlier in the year, ending with 5% at the end of the year. As you look out at 2011, the commentary in the release was fairly upbeat in terms of the global economic environment. What sort of volume forecasts -- are you looking at something mid-single digits in terms of volume increases off of a decent 2010? How would you characterize that environment out there?

Chuck Bunch - *PPG Industries - Chairman, CEO*

I would say that's a good number, Frank, especially on the industrial production side. We're probably going to be here in North America at that level, certainly in Asia a little higher, maybe slightly lower on the industrial production side. So I'd say mid-single digits is a good number. The thing that's holding us back still has been the weakness in construction markets, both here in North America and in Europe. I'm getting slightly more optimistic, although I felt this way before and it hasn't followed through, but I think the North American businesses that have that construction exposure will actually, I think, begin to show some improvement as we go through the year.

Europe, it's a little foggier over there. We haven't seen much volume improvement, so I'm a little less optimistic that Europe construction will help us. But overall, when I look across the board, in our Optical segment, when I look at even chlor-alkali on the volume side, I think those are good numbers across the board for PPG.

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

All right. Great. And with respect to Europe, you indicated that it was stable in terms of the decline in volumes that you saw 2010 versus 2009. Would you think that we've stabilized here, or would you continue to see volume erosion in Europe?

Chuck Bunch - *PPG Industries - Chairman, CEO*

I don't think things are getting, let's call it worse, in terms of the rate of decline. But we still haven't seen this thing flatten out in terms of volume declines in Europe construction. We have in our other businesses in Europe. And in fact, in some businesses like automotive refinish in Europe, we had an all-time record year. So I don't want to overstate our reliance on the architectural EMEA business. It's an important business for us. It hasn't started turning yet, but I would say the rate of decline, I expect to improve in that business during the course of the year. And we are still seeing growth overall in businesses like refinish or

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aerospace or even protective coatings in Europe. So it's not all gloom and doom over there, but certainly that's the weakest region right now for us.

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

All right, great. Lastly, you did a transaction with Dominion recently at your Natrium, West Virginia, facility. Can you comment on what the benefits are to PPG with that transaction? And more broadly, what sort of transactions might you be looking at now that your balance sheet has really been shorn up here?

Chuck Bunch - *PPG Industries - Chairman, CEO*

The transaction with Dominion was really facilitating, I guess you would call it, their building of a natural gas liquids separation plant. And at the West Virginia Panhandle end of the Marcellus shale, as many of you know, this is the wet natural gas, let's call it. And we're hoping that this is an overall stimulus, not only for the economy down there, but I think there's some real opportunities to build on the low cost, cheap, natural gas in the region. We're going to get, I think, some small improvement in terms of providing services to them. We're going to sell some land that we no longer need. But we're also looking at other opportunities at that site, as is Bayer, who is our neighbor in West Virginia, for opportunities to capitalize on this Marcellus shale gas that sits underneath the region including our plant.

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

All right. Terrific. Thank you so much.

Operator

Your next question comes from the line of PJ Juvekar with Citi. Please proceed.

Dan Jester - *Citigroup - Analyst*

Good afternoon. This is Dan Jester sitting in for PJ. I was just wondering, architectural paint volumes were flat in the US. Are you seeing any differing trends in the contractor market versus DIY?

Chuck Bunch - *PPG Industries - Chairman, CEO*

I would say at this point, no. The fourth quarter is the seasonally low period. It's hard to discern a lot of trends, I would say. I wouldn't want to put too much on a segment by channel differentiation. But we are encouraged that overall the volumes were stable. And I actually think now that we may see some improvement in volume as we go through the year. Some of the housing data, although it's still mixed, is encouraging. The weather is going to be a little cold here starting off this year. But I'm getting a little more optimistic about the volume scenario right now.

Dan Jester - *Citigroup - Analyst*

Okay. And then, would you expect your store count to be flat for 2011, or maybe up or a little bit down?

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Chuck Bunch - *PPG Industries - Chairman, CEO*

I would say that our store count is going to be flat or slightly higher, but it won't be lower. So we continue to, I think, to right-size the footprint, and we think now going forward, especially as we get a little more confident that this housing market isn't going to get any worse, that we have the store count that will work for us as business improves.

Dan Jester - *Citigroup - Analyst*

Great. Thank you very much.

Operator

Your next question comes from the line of Douglas Chudy with KeyBanc. Please proceed.

Douglas Chudy - *Keybanc Capital Markets - Analyst*

Hi, good afternoon. Just first on the volumes, you mentioned that sales volumes still remain about $1.2 billion below the 2008 peak levels. Can you give us a sense of how this breaks down by the various businesses, maybe where you see the greatest near-term opportunities to recapture volumes?

Chuck Bunch - *PPG Industries - Chairman, CEO*

The biggest opportunities would be in the developed regions in the Industrial and Performance Coatings segments. Although we feel good about the growth in automotive builds here in North America, we still only got up to about 12.5 million builds in 2010. That's still about 20% below what was the run rate for most of this decade here in North America. So that's an example of an industrial market where there is more growth opportunities. Similarly, in Europe, we didn't go quite as low there, but there is automotive growth potential there, although we're not as optimistic in Europe in automotive as we are here in North America.

The other big sets of businesses would be those related to the construction markets. Obviously, we have exposure here in North America, in both residential and commercial construction, and also in, let's call it the residential repaint or the after-markets for maintenance and repair. We're still below the volumes that we experienced just three years ago. So that would be another opportunity where we see the volumes improving.

But in the short-term, it's going to be in the more industrial markets, plus those performance coatings like aerospace, which is, I think, ramping up now. Refinish, which experienced quite a sharp decline in 2009, is bouncing back. This winter weather that we're all experiencing these last six weeks should help us in terms of accident rates in the near term. So there's some things that give me confidence that we have plenty of opportunities, even here in 2011 to recapture some of this lost volume over the last three years.

Douglas Chudy - *Keybanc Capital Markets - Analyst*

Thanks. And then just secondly, did I hear you correctly that the incremental margins are somewhere in the neighborhood of 40% to 50%, depending on the businesses?

Chuck Bunch - *PPG Industries - Chairman, CEO*

I would say that's a good benchmark. It does vary, but typically most of our businesses are more what I would describe as material intensive. They're not as labor intensive, so we don't have to add big increments of labor costs as we increase production.

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Douglas Chudy - *Keybanc Capital Markets - Analyst*

Great. Thank you.

Operator

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

Don Carson - *Susquehanna Financial Group - Analyst*

Yes, thank you. Question on the Commodity Chemical business, and chlor-alkali in particular. Just wondering if you can be more specific on what kind of price increase you had in the fourth quarter, in particular how much of that last $50 industry price increase you realized, and what sort of price momentum you're expecting in the first quarter. And compared to your average gas acquisition cost of $5.50 in 2010, based on your current hedging position and the strip, where would you expect gas cost to come out in 2011? That is, what kind of benefit do you think you get from being less hedged than last year?

Chuck Bunch - *PPG Industries - Chairman, CEO*

First question, Don, on Commodity Chemical pricing, in particular caustic, we're working through the last industry price increase of $50. We captured some of that in the fourth quarter, and we think we will finish capturing that here in the first quarter of 2011. And there's momentum in the marketplace. Volumes have been good. Inventories are low. Several of the key end use markets like aluminum and pulp and paper, refining have all been picking up activity levels. We haven't seen any additional pricing from the end of the year increase that one of the competitors announced. But certainly the one that was the $50 that you referenced at the beginning of the fourth quarter, is still moving through the system.

Don Carson - *Susquehanna Financial Group - Analyst*

And gas costs?

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

Yes, our blended unit cost in the fourth quarter was about $5. If you look at our hedges for 2011, on average we have about 12% of our needs hedged, and that's greater in the first half, lower in the second half, and that hedge position is about $7.25. So make your assumption on the market price, and you can get pretty close.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you.

Operator

Your next question comes from the line of Kevin McCarthy with Bank of America-Merrill Lynch. Please proceed.

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Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Yes, good afternoon. You made a comment in the transcript on the website that you'd anticipate returning cash and short-term investments back toward historical levels in 2011 versus the December 31 level approaching $2 billion. I was wondering if you could just comment on, A, what that historical level is. If I look back to the 2006, 2007 timeframe, you were running the balance sheet with about $0.5 billion in cash, which would imply you could take it down $1.5 billion. And then, B, as you proceed down that path, how are you thinking about M&A versus the pace of share repurchases?

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

Kevin, I'll be happy to take that. I think $0.5 billion is a pretty fair view of historical. That's where we would like to get to over some period of time. Our first goal for deploying cash is obviously to drive earnings growth, and our preference would be mergers and acquisitions. And we've talked a lot in the past about bolt-on acquisitions in the, call it, $50 million to $250 million range. And I think as we regularly evaluate the pipeline, and probability of those deals closing and crossing the transom, we'll consider share repurchases if we don't see sufficient acquisition activity over time. We certainly don't have any predetermined goal by quarter of the targeted cash balance, or how quickly we're going to get back to historical levels, but that's the direction you should expect.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Okay. And then as a follow-up, with regard to capital expenditures, you spent $158 million in the first nine months of 2010, and then nearly that amount or $150 million just in the fourth quarter. You've always been somewhat back end loaded there, but this strikes me as perhaps more pronounced seasonally than usual. Would you comment on what's driving that, and what the outlook is for 2011 there?

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

I'll be happy to take the fourth quarter question. We made some progress in spending in China. As you know, we've been working on a resin plant in Zhangjiagang. We have production expansion going on in Wuhu, some transitions expenditures in China. And I think those are probably a pretty significant driver of the increase in CapEx in the fourth quarter. I think we talked a fair amount at the December investor conference about our outlook for capital going forward, and I would expect we're still in that range.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Okay. Very good, thank you.

Operator

Your next question comes from the line of Dmitry Silversteyn with Longbow Research. Please proceed.

Eugene Fedotoff - *Longbow Research - Analyst*

Thank you. This is Eugene Fedotoff sitting in for Dmitry. Could you comment on your outlook for your Marine business in 2011?

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Chuck Bunch - *PPG Industries - Chairman, CEO*

The Marine business for us, it's part of our Protective and Marine Coatings business unit. For us, the Marine OEM segment, which we're looking for a, what I would call, the first decline in this late cycle building, would be in that 25% of the SVU that is exposed to the OEM builds. The other half of that Protective and Marine Coatings business is infrastructure or protective coatings related. There, you're painting bridges, you're painting oil rigs and the like. We think that that business is going to be good.

And we also think the after-market business for Marine is going to be improved over last year. You have more of these ocean-going vessels in service now. They're requiring maintenance and painting. So I would say overall, we think that it's going to be a low growth environment in 2011, with the after-market and protective pieces overshadowing that Marine OEM build number.

Eugene Fedotoff - *Longbow Research - Analyst*

Thank you. And then my second question, you commented that cost savings were higher than $50 million for 2010. How much of that was in fourth quarter, and what are your expectations for cost savings in 2011?

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

I think the easiest way to think about our cost savings is if you compare full year 2010 to 2008. We would say our costs are down roughly $500 million. Half of that, so say, $250 million was driven by the restructuring projects, and that is permanent cost savings. So we'll experience that even as volume comes back.

A part of the remaining $250 million of other actions consistent with the decline in market, a part of that will come back as volume returns. Maybe in the neighborhood of one-third to 0.5 as volume returns to 2008 levels. And that's what you should expect going forward. Most of the cost savings we had realized before we got to the fourth quarter of this year, of 2010.

Chuck Bunch - *PPG Industries - Chairman, CEO*

In the fourth quarter, Eugene, our cost savings were still approaching $30 million, excluding a ramp-up we had of ad spending, and advertising and selling we had in transitions.

Eugene Fedotoff - *Longbow Research - Analyst*

So we shouldn't expect any cost savings in 2011, is that correct?

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

We expect further cost savings in 2011, as we do every year.

Eugene Fedotoff - *Longbow Research - Analyst*

Okay. Thanks.

Operator

(Operator Instructions). Your next question comes from the line of John Roberts with Buckingham Research. Please proceed.

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John Roberts - *Buckingham Research Group - Analyst*

Good afternoon, guys. The strong volume in Asia in Industrial Coatings, are there any initial fill effects of e-coat tanks? You have a lot of activity going on in terms of new auto build and stuff. Are there new tanks being added, or is that strictly a meter click type sale every time a car's coated?

Chuck Bunch - *PPG Industries - Chairman, CEO*

I would say that the business in Asia in Industrial Coatings, is fairly broad-based in terms of technologies or coatings layers, so it's not all driven by e-coat. We've had excellent growth in non e-coat or even automotive related businesses, like consumer electronics. And I would say that our success in the China automotive coatings market is broad-based. So it's not just e-coat. It includes the top coats and primers. And this is not a one-time pipeline fill for e-coat tanks, although we are doing that on a consistent basis in both automotive and some of our industrial application.

John Roberts - *Buckingham Research Group - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of John McNulty with Credit Suisse. Please proceed.

John McNulty - *Credit Suisse - Analyst*

Good afternoon. Just a quick question. With regard to the M&A pipeline that you're looking at, has it gotten any bigger recently? Or how does it look relative to where it's been over the last, say, couple of quarters? And then with that in mind, if you could also speak to maybe the competitive environment for those assets, and how you're thinking about that.

Chuck Bunch - *PPG Industries - Chairman, CEO*

I would say that our list -- and we talked a little bit about this at our capital markets presentation last month, the list is probably a little broader or longer. And frankly, we were able to do one deal in the fourth quarter last year. We would have liked to have done a few more. It's taking a little longer.

And I would say in regards to the list, it's probably longer, but they're probably more weighted to the smaller end of the spectrum in terms of the overall size of the acquisition. So that if we're going to maintain our target level of use of cash for good M&A, we may have to do more deals, but these deals would be at smaller levels than maybe we originally thought as we started ramping up at the beginning of 2010.

John McNulty - *Credit Suisse - Analyst*

And with regard to the competitive environment for those acquisitions, with rates where they are, are you seeing more bidders for these assets or is that not the case yet?

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Chuck Bunch - *PPG Industries - Chairman, CEO*

There haven't been that many overall deals. All of the major coatings players look like they're interested in doing deals. There were only a few deals last year that were completed. And I think, in some cases it's the sellers waiting a little longer for things to get a little better, if they think that they have some earnings momentum.

In other cases, as you go to smaller companies in some cases, there is a longer time period of getting to certain stages in the deals, getting people comfortable with the process. Whereas sometimes when we've done bigger deals, you have more sophisticated or experienced management teams on both sides of the table. And as you go into smaller opportunities, it is a longer process.

John McNulty - *Credit Suisse - Analyst*

Great. Thanks for the color.

Operator

Your next question comes from the line of Wesley Brooks with Morgan Stanley. Please proceed.

Wes Brooks - *Morgan Stanley - Analyst*

Hi, it's Wes Brooks from Morgan Stanley. I just had a question on the Optical business, just where you're thinking about margins for 2011. Obviously they've ramped up quite significantly in the last couple of years. And just your thoughts on, are they sustainable at these levels? Do they go up from here, on 2011 and on a more medium-term view? Thank you.

Chuck Bunch - *PPG Industries - Chairman, CEO*

The margins that we have now in the business we think are sustainable at these levels. We're not necessarily, though, looking to expand these margins significantly from this point. It is a business, especially on the Optical side, where we have driven growth over the years in a combination of new technology developments and branding activities, including a heavy component of advertising. So, as we look to how we're going to grow the business, I would say that we want to keep a certain level of advertising and promotional spending. We have to support these new product development and commercialization activities. So we feel the biggest opportunity for growth in the segment is growing that top line at the existing margin levels.

But likewise, we don't see a significant risk to these margins declining. We have seen it be sustained over the last few years. And we think that the Specialty Materials component of that segment, the precipitated silicas and teslin inorganic printing sheet materials have improved their performance significantly over the last two years, but we think to a sustainable level.

Wes Brooks - *Morgan Stanley - Analyst*

Thank you.

Operator

(Operator Instructions). And with no further questions, I would now like to turn the conference over to Mr. Chuck Bunch for closing remarks.

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Chuck Bunch - *PPG Industries - Chairman, CEO*

We want to thank all of you for listening in to our fourth quarter 2010 earnings call. I hope you feel as optimistic as we do about the performance that we turned in, in 2010, here in the fourth quarter, and our optimism as we go into 2011. So thank you very much.

Operator

Thank you for joining today's conference. That concludes the presentation. You may now disconnect, and have a great day.

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