



CEO CHARLES BUNCH
VIEWS COATINGS
AS "THE BUSINESS IN
WHICH PPG COULD BE
THE INDUSTRY LEADER."

THE COLORS OF PPG

CEO CHARLES BUNCH'S VISION FOR ONE OF THE WORLD'S LARGEST COATINGS COMPANIES HAS HIM LOOKING BEYOND BORDERS.

BY SUSAN CAMINITI

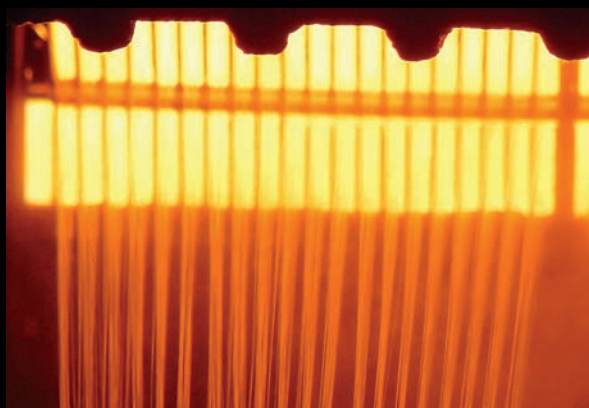
PHOTOGRAPHS BY MICHAEL LAVINE

The 40th floor at One PPG Place, the downtown Pittsburgh headquarters of PPG INDUSTRIES INC. (PPG), provides a stunning view. From that vantage point, you can see precisely where the Allegheny and Monongahela rivers flow together to form the mighty Ohio River. This crossroads is a fitting symbol for a company that reports it is a world leader in the coatings industry — the paints and sealants that cover nearly every item you can think of from golf balls, cell phones and houses to cars, airplanes and bridges, PPG says.

Yet it wasn't long ago, points out Chairman and CEO Charles (Chuck) Bunch, 59, that PPG was better known as a sprawling, diversified industrial company with operations that encompassed coatings, glass, chemicals and optical products. The now 126-year-old company had grown from its 19th-century beginnings as the

Pittsburgh Plate Glass Co. But such diversification no longer played to the company's strengths, explains Bunch, who joined PPG in 1979 fresh out of Harvard Business School. "We had businesses in lots of segments, but not all of them had the same growth prospects," he says from PPG's boardroom atop its glass and aluminum cathedral-like headquarters. "We viewed coatings as our strongest suit and the business in which we could be the industry leader."

When a wave of consolidation rippled through the global coatings industry in the late 1990s, PPG faced its own crossroads, says Bunch. It could continue to define itself as it had for well over a century, or it could map out a new destiny in the \$85 billion global paint and coatings industry. The business carries higher margins than any of PPG's other segments and isn't nearly as capital intensive, says Bunch. So the company embarked on a multiyear transformation to strengthen its coatings business >>



FROM THE TOP: PPG'S HEADQUARTERS IN PITTSBURGH, A MUFFLER WITH PPG COATINGS, MOLTEN FIBERGLASS.

and narrow its other offerings. Says Bunch: "We decided if we could be an industry leader and drive the consolidation trend, we could bolster our position as a coatings company."

By 2000, PPG had spent nearly \$2 billion snapping up about 20 of the most desirable coatings companies on the market, recalls Bunch. The company took the next few years to digest those purchases. When Bunch took over as CEO in 2005, he resumed PPG's buying strategy, spending nearly \$700 million in 2006 and 2007 on an additional 17 coatings acquisitions, according to the company. In January 2008, PPG completed what was reported as its biggest deal ever, paying \$3.2 billion for SigmaKalon Group, the Dutch-based coatings company, doubling PPG's European sales (see "Coating the World," page 34). Today, PPG's coatings brands include Pittsburgh, Olympic and Porter paints, as well as Sigma Coatings, Seigneurie, Johnstone's and others for the European market.

The acquisitions — and divestitures of parts of its slower-growth chemical and glass operations — have dramatically reshaped PPG. The company reports that nearly 70 percent of its \$15.8 billion 2008 revenues came from its coatings business, up from 42 percent of its \$7.2 billion 1997 revenues. Further, the company notes that more than half of its sales are from outside the U.S., compared with just 30 percent in 2002. According to Bunch: "We didn't want to wait for organic growth to get us a bigger piece of the market."

Despite the company's global footprint, most consumers would be hard-pressed to notice its products in their everyday lives, the CEO acknowledges. In addition to paint brands for houses and commercial buildings, PPG makes coatings for new cars and for

use by thousands of body shops that repair and repaint cars after they've been damaged, says the company. Dishwashers, washing machines, dryers and coffeemakers can come in colors other than white because of coatings PPG produces, it notes. Those eyeglass lenses that darken when you step into the sunlight? Their brand name is Transitions, and PPG says it makes them too. And the next time you grab a soda or beer, consider that PPG's coatings may have been used to give the can its sleek look and to help maintain the beverage's fizz.

"Our products go into lots of other things," adds Senior Vice President of Finance and CFO William Hernandez. In fact, he says, the company invests heavily to increase its presence across a wide variety of products. In 2008, PPG reports, it spent \$468 million on research and development.



FIBERGLASS YARN, HOUSE PAINTS AND OPTICAL LENSES, ALL MADE BY PPG.

THE ECONOMIC CHALLENGE

With the bulk of the dealmaking done (the CEO still envisions buying opportunities in Europe and Asia), Bunch now faces what may be his biggest challenge yet: growing his dramatically transformed company in the midst of what he calls "the toughest economic time I've seen in my career." Housing, autos, appliances, planes — all industries that are big users of PPG's paints and sealants — have been slammed by the global economic crisis that has frozen credit and "spread like a plague," he says.

While Bunch is surely concerned, he is confident that PPG can withstand the heat. He says the same financial discipline that the company used to evaluate and make acquisitions during the past decade is now at work as PPG integrates those businesses and runs them in this battered global economy.

For example, when U.S. automakers announced production cutbacks last year, PPG wasn't blindsided. The company had already been reining in capital expenditures and closing inefficient coatings plants, explains Hernandez. In September 2008, the company took a \$160 million restructuring charge to streamline PPG's operations and save \$100 million a year beginning at the end of 2009, he notes. PPG ended 2008 with \$1 billion in cash on hand and just \$116 million of debt maturing in 2009, Hernandez says. The company took a \$190 million restructuring charge in March 2009 to save another \$140 million. PPG "can weather this storm pretty well," says Hernandez.

For 2008, the company reported revenues of \$15.8 billion, up nearly 30 percent over the prior year. At \$538 million, net income was 35 percent lower than in 2007, the company reports, mainly because of interest expenses associated with the SigmaKalon acquisition and the restructuring charges announced in September. Frank J. Mitsch, an analyst who follows the company for BB&T Capital Markets,* part of **BB&T CORP.** (BBT), recently wrote that PPG's "portfolio is clearly transformed, and we were pleased to see the terrific cash generation capabilities even in these difficult times."



automobile production boom following World War II, and in the 1960s it changed its name to PPG Industries to reflect growing product diversity. By the 1990s PPG says it counted more than 100 manufacturing plants around the world.

At that point, says Bunch, who at the time was in charge of M&A, PPG saw its opportunity clearly. Moving swiftly into acquisition mode was not a green light to snatch up every coatings company on the block, he notes. The No. 1 criterion applied to each potential purchase — then and now — is whether the target has a stable, solid revenue source. "We want to know where the company is getting its sales from," Bunch explains. "Do they have a well-established brand or technology, or are they leaders in supply-chain management? Something has to keep that revenue stream alive and growing. Without that we're really not interested."

If the deal clears that hurdle, Bunch says, PPG can bring to bear whatever else the acquisition requires. For instance, if the target's product line is a good fit but it hasn't expanded globally because of financing, "that's not a deal breaker," he says. "We're big enough to compensate for whatever else it needs."

In addition to SigmaKalon, two other recent acquisitions greatly expanded PPG's coatings reach outside North America, says the CEO. He points to Brazil-based Renner Sayerlack SA, which has manufacturing plants in Chile and Uruguay and sells coatings products to Latin American customers through a number of different channels, including independent dealers, construction-material suppliers and home-improvement retailers. On the other side of the world, PPG's purchase of Barloworld Coatings Australia makes it the largest coatings supplier in that country, a new market for PPG, says Bunch. In fact, sales in Asia, Latin America and Eastern Europe each grew by at least 40 percent last year and now account for nearly 25 percent of PPG's combined total, the company reports.

Beyond making deals to expand its global reach, PPG also looks for acquisitions that will bring it environmentally friendly technologies. In 2007, for example, PPG bought Coatings Resource Corp., a small company headquartered in Huntington Beach, Calif.,



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that makes water-based and other environmentally friendly paints, lacquers and varnishes for use in products such as audiovisual equipment, sporting goods and car interiors. With customers increasingly interested in "green" products for their coatings needs, the purchase gives PPG a way to offer superior quality and environmentally safe solutions, explains Hernandez.

AN M&A MACHINE

PPG has its roots about 20 miles northeast of Pittsburgh in Creighton, Pa., where Captain John B. Ford and John Pitcairn started the Pittsburgh Plate Glass Co. in 1883. By the turn of the 20th century, the partners had acquired an interest in the Patton Paint Co. According to PPG, the company shared in the housing and

COATING THE WORLD

One could say that all the acquisitions PPG made before January 2008 were preparation for the biggest deal in the company's history: the \$3.2 billion purchase of SigmaKalon.

The Dutch company was formed by the 1999 merger of Britain-based decorative paint maker Kalon Group PLC, a subsidiary of oil giant TOTAL SA (TOT; Euronext: FP), and Sigma Coatings, owned by PetroFina, which is now part of Total. Being the paint division of an oil company meant "we were never the core business of the companies we belonged to," says Pierre-Marie De Leener, SigmaKalon's former CEO and now PPG's senior vice president of architectural coatings for EMEA (Europe, Middle East and Africa) and president of PPG Europe.

In 2003 the oil companies sold SigmaKalon to Bain Capital LLC. In the next few years, the coatings company got a handle on costs, improved its operating efficiencies and, perhaps most important, began to make small, selective acquisitions in Europe to grow the business, De Leener says. By the time Bain came to PPG in the summer of 2007 with news of its intent to sell the company, SigmaKalon had annual sales of \$2.7 billion and was Europe's second largest coatings company. Buying SigmaKalon would give PPG a presence in new markets and bolster its share of the worldwide coatings industry.

Even so, PPG CFO William Hernandez recalls being skeptical about the deal. But after visiting SigmaKalon's facilities in Europe and Asia, he was impressed by how well they were maintained and by the money Bain had poured into the business.

Convinced that it was a good fit for PPG, Hernandez worked the numbers. He reduced PPG's debt-to-total-capital ratio to 30 percent, from 54 percent, by paying down some existing debt early in anticipation of the purchase. ("We like it to be no more than 40 percent on average," he says.) The company set the same 12-month review period that every acquisition undergoes and targeted \$50 million in cost savings during the first year by reducing overlap in personnel and manufacturing facilities.

At the one-year review meeting, PPG "had exceeded that target," Hernandez indicates, emphasizing that the acquisition is performing ahead of plan. "Just like every other deal," the CFO says, "this one has to do what we said it would for the company."

The scrutiny of each acquisition, says the CFO, doesn't stop when the deal gets done. Each purchase is evaluated 12 months out to make sure the financial metrics established at the outset are being met. Managers running the newly integrated businesses make presentations to management and the board. "I don't want to hear that the deal will pay off in two or three years," says Hernandez. "It's got to work within the first year, or else the managers have to negotiate harder in the beginning or be more realistic about what they can accomplish in that time frame. We've never had to report an acquisition yet that's been dilutive."

Once the acquisitions are in the PPG fold, managers running the various business segments stay close to customers. William Wulfsohn, senior vice president of the industrial coatings group, which includes the paints and sealants sold to car makers and consumer-packaging companies, says customers look for solutions, not only product. "We don't just sell an appliance manufacturer or an original equipment manufacturer paint," he says. PPG employees work in customers' manufacturing facilities, he explains, to figure out the most cost-efficient way to apply its products without sacrificing quality or appearance.

For instance, the traditional painting process for a new car takes eight to 10 hours and five layers of paint. By listening to and working directly with automakers in their factories, PPG was able to reformulate their coatings so that the process now takes up to 25 percent less time and uses four layers of paint to produce the same quality finish, explains Wulfsohn. This not only saves customers money in material costs, but also reduces the cash spent on electricity, natural gas and labor. Similarly, Rich

Alexander, senior vice president of performance coatings, which includes paints for commercial and residential use, the automotive aftermarket and aerospace, says that to stay close to large customers such as **THE BOEING CO.** (BA) and Airbus SAS, a division of **EADS NV** (Euronext: EAD), the company locates its distribution centers near the manufacturers both in the U.S. and abroad. "Being where the customers are is a huge competitive advantage for us," he says. "We're very customer-friendly."

Such time and attention is a big reason PPG won the contract to supply electronically dimmable systems for the passenger windows of Boeing's 787 Dreamliner commercial jet, scheduled to begin flying next year, says Alexander. According to PPG, passengers will be able to control how much heat and light come through their windows with the press of a button, thereby increasing comfort and improving energy efficiency for the aircraft.

A PPG CAREER MAN

Born in Philadelphia, Bunch moved with his family whenever his father, a military officer, was transferred to a new city. Although he graduated from Georgetown University with a degree in international affairs, Bunch says he wasn't so sure he wanted to spend his life as a foreign services officer. A few years of work in local government in Washington, D.C., followed by a stint at the U.S.

Department of Housing and Urban Development, convinced Bunch to return to school to change his career path, he recalls.

Upon graduating from Harvard Business School, Bunch was recruited by PPG's finance department. During the next two decades, he



PPG PAINTS, COATINGS AND STAINS ARE FOUND IN WRENCH SETS, DECK FLOORING, HOUSEHOLD WALLS, THE TRUCKING INDUSTRY AND INDUSTRIAL APPLICATIONS (BOTTOM TWO PHOTOS).

says, there was hardly a PPG job he didn't have. He worked in the company's manufacturing plants in both the U.S. and Europe. Positions in finance, marketing, planning and M&A preceded his appointment as head of PPG's coatings business. In 2002, Bunch was named president and COO, and in March 2005 he was appointed CEO, with responsibilities of chairman added later that year. "I liked that I was able to switch jobs every few years," Bunch says, smiling. "It always helps you learn when you get thrown into something new."

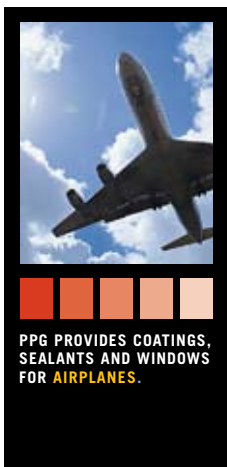
Bunch and Hernandez believe in keeping and promoting the talent that comes with purchases they make. "Chuck is a good assessor of people's character," says Hernandez, a compact, energetic man who joined PPG in 1990 from **BORGWARNER INC. (BWA)**. "He doesn't believe it's the PPG way or no way. He just wants the best people in the right jobs."

When the SigmaKalon deal was completed in January 2008, Bunch convinced Pierre-Marie De Leener, the company's CEO, to stay on to run the architectural coatings business in Europe — and even named him head of all of PPG's European business. "If the best candidate is the person from the acquired company, let's give that individual the responsibility," Bunch says.

The transformation of PPG has also involved scaling back or entirely exiting some businesses. During the past two years, it has sold its fine chemicals business and opted out of several joint ventures in its glass operations. Bunch says the recent sale of PPG's automotive glass business reduced the glass segment to just 10 percent of revenues, with a concentration in the commercial and residential markets. "It's a very cyclical, capital-intensive business where we would have to make \$200 million bets on new plants in India and China in order to be the global leader," he says. "We have the advantage of having an existing U.S. glass business, but taking that on the road to other parts of the world wasn't going to be great for us."



With PPG focused squarely on coatings and specialty products, the company now considers some of its businesses "noncore," says Bunch. The commodity chemical business is a healthy cash generator, says the CEO, but it too is a slow-growth, mature segment. "For the right deal, chemicals can belong to someone else," he says. The hard part involves finding an attractive buyer. Because the business has belonged to PPG for so long, it's been fully depreciated. "Unless we get a really good price, we would be giving most of the proceeds to the government in the form of taxes," Bunch says, "which is not the greatest deal for shareholders."



TODAY'S CHALLENGES

In the meantime, Bunch says, running PPG in today's economic climate is tough enough. "Everyone is looking to you to make the decisions, to lead the company through this crisis, and you don't get many days off from that responsibility," he says. With two grown children now embarking on finance careers, the CEO says everyone is getting a reality check. "My kids see the consolidation and restructuring going on in banking," he adds. "They see their friends getting laid off. I keep telling them if they can survive this, they'll get through anything." Words of comfort to the twentysomething generation — and no doubt, to a Fortune 500 CEO such as Bunch. ■

*BB&T Capital Markets says it expects to receive or intends to seek compensation for investment banking services from PPG Industries Inc. in the next three months. An affiliate of BB&T Capital Markets received compensation from PPG for products or services other than investment banking services during the past 12 months.

