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PRELIMINARY TRANSCRIPT

PPG - Q1 2013 PPG Industries Earnings Conference Call

EVENT DATE/TIME: APRIL 18, 2013 / 6:00PM GMT

OVERVIEW:

Co. reported 1Q13 adjusted EPS from continuing operations of \$1.58.



CONFERENCE CALL PARTICIPANTS

TRANSCRIPT

TRANSCRIPT

Editor

Please stand by for a real-time transcript.

The PPG Industries conference call will start momentarily.

+++presentation.

Operator

Good day, ladies and gentlemen.

And welcome to the quarter 1, 2013 PPG Industries earnings conference call.

My name is Angela and I'm your operator for today.

At this time all participants are in a listen-only mode.

We will conduct a question-and-answer session towards the end of this conference.

(Operator Instructions).

As a reminder, this call is being recorded for replay purposes.

I'd now like to hand the call over to Mr. Vince Morales, Vice President of Investor Relations.

Please proceed, sir.

Unknown Speaker*

Thank you, Angela and good afternoon, everybody.

Again, this is Vince Morales, Vice President of Investor Relations for PPG Industries.

Welcome to PPG's first quarter 2013 financial teleconference.

Joining me from PPG on the call today is Chuck Bunch, PPG's Chairman and Chief Executive Officer, Michael McGarry, Executive Vice President, Dave Navikas, Senior Vice President, finance and Chief Financial Officer and I'd like to introduce Frank, Executive Vice President finance who just joined PPG this week.

Our comments relate to the financial information released on Thursday, April 18th, 2013. I will remind everybody that approximately one hour ago we posted the detailed commentary and accompanying presentation slides on our investor center at our website at PPG.com.



These slides are also available on the Webcast site for this call and provide additional support to our opening comments that Chuck will make momentarily.

Following Chuck's perspective on the Company's results for the quarter, we'll move to a Q&A session.

Both our prepared commentary and discussion during the Q&A 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 again are available on our website reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measure.

For additional information, please refer to PPG's filings with the SEC.

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

Unknown Speaker*

Thank you, Vince and welcome everyone.

We delivered another strong earnings performance in the first quarter with adjusted earnings per share from Continuing Operations of \$1.58, up 12% versus the prior year.

We achieved these results despite notable differences in demand levels by region with strong North American demand continuing, growth resuming in most Asian end use markets, and broadly weaker activity in Europe.

We were able to deliver higher earnings due principally to our proactive cost management actions, coupled with continued strength of several end use markets, including automotive OEM, aerospace, and US construction.

A few key business highlights from the quarter were the aggregate Coatings segment earnings growth we achieved of 13%.

In addition, our Coatings earnings grew in each region, including Europe, despite the persistent economic weakness in that region.

This performance was delivered despite volumes that were down about 3% versus the prior year, although the prior year period included two additional sales days which impacted comparisons in several of our businesses.

From a strategic standpoint, we have also been very active.

We completed the commodity Chemicals business separation transaction in late July -- in late January.

As a result of that transaction, we received about \$900 million of cash, reduced our share count by 10.8 million shares or about 7%, and recorded a nonrecurring gain relating to the business separation of about \$2.2 billion in the quarter.

Additionally, on April 1, we completed the acquisition of AkzoNobel's North American Architectural Coatings business.



Since the acquisition was announced in December 2012, we have been very focused on a seamless int gas seamless integration for our customers and toen p sure we are creating shareholder value.

As a result of our progress to date, we have identified further synergy opportunities and have increased our three-year synergy target for the acquisition to \$200 million, up 25% versus our initial target.

This target includes \$60 million of cost reductions that we realized when the transaction closed.

Results for the acquired business will be incorporated into our second quarter financials and we look forward to updating you on the integration process in upcoming quarters.

Looking ahead, we plan to continue to build on our strong first quarter performance.

We remain optimistic about growth projects in several of our businesses.

This includes many of our businesses serving North America, where demand remains solid and consistent.

Such as the US construction market, where we have more than doubled the size of our US Architectural Coatings business with the addition of the acquired AkzoNobel business.

Additionally, . Also, many of our businesses in Asia and specifically China are expected to continue to grow as our products are focused primarily on serving local consumption and general industrial activities, and have only minor exposure to weaker end use markets such as construction.

Demand in Europe is likely to remain challenging, and we expect that the implementation of our restructuring program and our focus on aggressive cost management will continue to offset the impacts of these weak market conditions.

Our balance sheet remains very strong, with about \$2.4 billion of cash and short-term investments at quarter end.

One thing to note is that we paid just over \$900 million on April 1, for the acquired AkzoNobel business, which will be reflected in our second quarter financial statement.

During the first quarter, we repaid \$600 million of term debt that matured near the end of the quarter and was carrying a high interest rate, based on current rates, and we spent about \$140 million on share repurchases, primarily in the months of February and March, after the commodity Chemicals separation was completed.

We continue to analyze prudent cash deployment opportunities focused on growing our earnings and rewarding our shareholders including today as our Board of Directors approved a \$0.02 dividend increase, raising the quarterly dividend to \$0.61. Overall, I was pleased with our first quarter financial performance in the face of somewhat difficult and mixed economic conditions, and in comparison to a tough period last year.

However, given these diverse market conditions will likely remain, we will continue to demand operating and cost excellence from our businesses and apply the same focus on our customers as we have demonstrated in the past.

Thank you for your attention.

This concludes our prepared remarks.

Now, operator, would you please give instructions and open the phone lines for questions.



+++q-and-a.

Operator

Thank you.

(Operator Instructions).

Please stand by for your first question, which comes from the line of David Begleiter from Deutsche Bank.

Please go ahead, sir.

Unknown Speaker*

Thank you.

Chuck, can you update us on your discussions with Essilor on the joint venture.

Unknown Speaker*

Nice to hear from you.

No, we have no update today on the discussions other than the disclosure that we made early in the first quarter.

Unknown Speaker*

Very good.

Just as a follow-up, in terms of the Akzo business, talk about some profitability metrics you might look at for 2013, given these initial cost savings in there?

Unknown Speaker*

David, this is Michael McGarry.

In regards to that, the most challenging aspect of the Akzo business is the store.

Some synergy levels in a lot of the places overhead as well as other locations as far as how we operate the business.

We have a lot more rigor in our business.

That will be where we're focused.



Unknown Speaker*

Thank you very much.

Unknown Speaker*

Thanks, David.

Operator

Thank you.

Next question comes from John McNulty from Credit Suisse.

Please go ahead.

Unknown Speaker*

Thanks for taking my question.

With regard to the synergy target you've obviously -- you've had a chance, a little bit of time to actually look at them and obviously it's a pretty big increase to the \$200 million.

I guess I was wondering if you could give us some clarity which of the kind of major buckets you're seeing the biggest changes in. As the follow-up, if you could give us any color as to maybe any working capital opportunities you may see in the assets as well now that you've got a chance to dig into them.

Unknown Speaker*

John, this is Michael again.

The west coast is an opportunity.

A nice store network on the West Coast.

So we'll be shifting volume from their plants into our Reno network.

So that will be one.

We have a deeper understanding of logistics across both networks.

That will be one.

I talked about the store's opportunity in SG&A.

Those would be the other ones.



Unknown Speaker*

And other working capital side?

Unknown Speaker*

Working capital I would say they're fairly decent.

That's clearly an area of focus for the entire Company, not just for Architectural.

Unknown Speaker*

Great.

Thanks very much.

Operator

Thank you.

Next question comes from Frank Mitsch from Wells Fargo Securities.

Please go ahead.

Unknown Speaker*

Good afternoon, gentlemen.

I admit, Chuck, I admit I'm a little lost if I can't ask a question about cost of chlorine.

Unknown Speaker*

I'm sure you'll be asking those questions to axial and some of the other market participants.

Unknown Speaker*

I will get my fix elsewhere.

You know, you started on that share buyback in February.

You guys are targeting like 500 to \$750 million in 2013. I'm wondering if you could update on uses of cash, whether you think you'll proceed at that pace that you had in the first quarter on the share buyback side or what you're looking at in terms of M&A opportunities.

Unknown Speaker*

Well, I would say that that target range for the full year is still appropriate.



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Obviously, it's going to depend somewhat on acquisition opportunities and other potential uses of cash and right now, as you saw with our recent announcement concerning, we are still active in the marketplace.

We did announce as you know at the end of the fourth quarter the spray light.

We're continuing to actively look at acquisition opportunities and we hope we will have some further news as we go through the year.

Unknown Speaker*

Okay.

Great.

And your performance in auto OEM, particularly in Europe with the industry down and yet -- down double digits and yet you reported a volume increase there, how did you do it?

What can we expect there?

Because that was somewhat surprising.

Unknown Speaker*

it was an excellent performance overall for the business unit and especially in Europe and as you know, in automotive OEM these are longer term commitments, but we have several new products, what we call our compact process for the full Coatings materials on an automobile, as well as our new electro coat product that have been helping United States to us to gain new business.

We were with the right customers and the right plants.

That really helped us in Europe, offset some of the declines.

But we're very well positioned here and in China, as example, so I think it was an across the board excellent performance from the business unit in addition to very good cost management and we benefited obviously there from some of the restructuring activities that we started last year and actually during the previous recession in '08 and '09.

Unknown Speaker*

Terrific.

Thank you.

Operator

Thank you.

Next question comes from Robert Koort from Goldman Sachs.



Unknown Speaker*

Good afternoon.

I'm wondering if you might give us some granularity on the comments you made in the prepared comments about channel differentials in US Architectural, seems like you had different growth rates across the different channels, could you give us maybe some explanation of what was going on there.

Unknown Speaker*

We had what we felt were good growth rates in the storage channel, this is the PPG storage channel here in the US, as well as the home center channel.

Where we saw more weakness was in what we would call the independent dealer channel and there, because you're going through a two-step distribution process on occasion, especially when you straddle a quarter like this and seasonality is changing and some of the weather patterns, I think we saw some of our dealers just move purchases or inventory over the last month or two.

But that was definitely the channel that we saw some weakness to. But I don't know that it's a longer term trend.

We'll have to wait as we go through the second quarter to make sure that we're seeing a consistent pattern and I think that the dealers are well positioned, should be able to take advantage of this improving market, so at this point I wouldn't take too many conclusions from the weakness of that one channel, especially because of the two-step nature of the distribution.

Unknown Speaker*

And I think you just provided some commentary about the admirable results in your auto OEM, being on the right platforms and/or in some cases geographies.

Should we expect -- you gave commentary that you'll continue to outpace the industry but should we expect a more modest outperformance versus the industry going forward?

Unknown Speaker*

I think the second quarter, some of those trends should still be in place.

Obviously, the European market was very weak and we're seeing the lowest auto builds there in a generation.

But I would say that if you look ahead to the next quarter or two, the US and North American markets, very healthy and I think the production levels should be sustained versus prior year, if not slightly higher, and the China automotive market, very strong.

We're looking for 10% growth now in Chinese automotive and we're well positioned again with many of the best customers, best plants, new technology, so we're looking to continue the momentum that you saw in the first quarter.

Unknown Speaker*

Terrific.

Thanks for the help.



Operator

Thank you.

Next question comes from Don Carson from Susquehanna financial.

Unknown Speaker*

Chuck, question on gross margin.

You had a strong gross margin.

Just wondering how much of that was better than expected you raws, particularly with propylene coming down which I know you have a big exposure to, versus how much of that was productivity.

And then maybe if you could comment on your sort of raw material outlook for the year for Coatings and whether that's changed.

Unknown Speaker*

I would say the margin improvement was largely the result of the cost and restructuring activity.

Raw materials were just down slightly.

Overall, our inflation index, if you take all the transportation, distribution costs, was slightly up. And so I would say most of the improvement was again kind of mix and productivity and restructuring.

Raw materials for us, again, down slightly in the first quarter, primarily in Europe.

Europe has been, as you know from our results here, was by far our weakest region.

Volumes were down in almost every business and we saw some raw material price weakness in Europe that did help.

Our overall outlook for this year is flat to slightly negative raw material pricing.

What we are seeing, however, over the last few weeks, some more weakness in commodity prices with the exception of natural gas, but as you know, propylene for us is -- we're not usually buying it except in resin formulations and so we don't usually see the immediate benefit of declines in propylene prices.

So we may see that later in the year if these trends continue, but certainly we're not looking for it here in the near term.

Unknown Speaker*

Just as a follow-up, given your view that raw materials might come down, obviously some of your large customers in Coatings track that as well.

Do you see any pressure to reduce Coatings prices from the big boxes?



Unknown Speaker*

Well, as I said, most of the raw material weakness was in Europe, the raw material here, the raw material basket here in North America and actually in Asia as well, just slightly down.

It was close to zero but low single digit numbers.

So at this point our pricing is stable.

Unknown Speaker*

Okay.

Thank you.

Operator

Thank you.

Next question comes from John Roberts from UBS.

Please go ahead.

Unknown Speaker*

Thanks and welcome, Frank and David, good luck in your new role.

Unknown Speaker*

Thank you.

Unknown Speaker*

Is was I was a little surprised that the packaging business also I think was strong in Europe and then as a follow-up were you a little surprised that the industrial Coatings business in North America wasn't strong, given there's a fair amount of auto and other related things over in your industrial area in North America.

Unknown Speaker*

Well, you asked about a couple of businesses.

You I would say in packaging, the strongest regional market for us has been in Asia-Pacific.

I would say that volumes in North America and Europe for packaging are stable but the growth that we did experience was in Asia.

And in industrial Coatings, it is what I would call a mixed story by both region and end use markets.



Automotive parts being one of the strongest.

We've seen some weakness in consumer electronics, although it was moderated I guess on our industrial Coatings side, heavy duty equipment was I would say flat and some of the construction related -- the industrial markets that serve the commercial construction still -- it's still early days in any recovery and Europe overall was somewhat weak.

I think it's really a mixed story, but we've done well overall in industrial again, good restructuring, good support in Europe through productivity, some help in Europe on the raw materials.

But it's been a mixed bag.

Unknown Speaker*

And the four quarter seasonal breakdown for the gliden business that you gave in your handout, does that imply the first quarter which wasn't included in your results was a pretty normal seasonal quarter for them.

Unknown Speaker*

Yeah, John, this is Vince.

We saw normal seasonality in all of our businesses, essentially, including that business, based on what we have exposure to.

Unknown Speaker*

Thank you.

Operator

Thank you.

Next question comes from Jeff Zekauskas from JPMorgan.

Please go ahead.

Unknown Speaker*

Hi. Good morning.

Unknown Speaker*

Hi, Jeff.

Unknown Speaker*

Hi.



Unknown Speaker*

I went to my local Lowe's and I saw sort of shelves of Valspar's new propane.

And I saw very little Olympic.

Is it the case that your share at Lowe's is decreasing and is it perhaps the result of AkzoNobel acquisition?

And will losses of share at Lowe's offset the increased productivity that you see in buying the AkzoNobel business?

Unknown Speaker*

The new pro program at Lowe's is being supplied by Valspar.

That was a competitive situation that PPG did not win.

That decision was made prior to the Akzo announcement, so it was based on the merits of the bidding process and the decisions of the customer at that time.

And in our case, with the Akzo acquisition, we're looking at that as an opportunity.

We've again had good discussions with all channels, all customers, and we're confident that we will be able to perform well in the integration of these businesses, thus the increase in the synergy targets that you saw today.

Unknown Speaker*

Okay.

And then secondly, can you talk about the weakness in the domestic Optical business in a bit more detail?

Unknown Speaker*

The Optical business in North America from all our customer and ad market data was not just in our transitions business, but broader, whether that was due to changes in insurance reimbursement plans, weather, less -- the falling of Easter.

Not sure.

But there was more weakness in the first quarter in the at market sales in all products in the Optical industry, not just transitions.

At this point we're going to see how that performance manifests itself here in the second quarter going forward before we can really say that this is a longer term trend.

Unknown Speaker*

Okay.

Thank you very much.



Unknown Speaker*

Thanks, Jeff.

Operator

Thank you.

Next question comes from Kevin McCarthy, Bank of America-Merrill Lynch.

Please go ahead.

Unknown Speaker*

Yes, good afternoon.

Chuck, I thought your commentary on the Asian Coatings market was perhaps more positive than I might have anticipated.

I think you described notably improved activity in the region, mid to high single digit growth ex-marine.

Can you comment on what is driving that and what is your degree of confidence that Asia will continue to grow at that sort of pace or a different pace?

Unknown Speaker*

Kevin, if you look at the Chinese market in particular, obviously with the exception -- well, let's say by far the weakest market is the marine new build market and that affects our business in China and also Korea.

The first quarter was no exception.

We've been talking about this for the last year.

So those trends continued.

We think the comparable data in the second half of the year will improve there but right now we're still experiencing notable declines in the business.

In China, the construction market, let's call it the residential construction market was also somewhat weaker, although we have a relatively small business there.

We actually gained slightly in terms of volume, but off a very small base.

The big businesses for us in China, automotive OEM, they had an excellent quarter, a lot of momentum as we've talked about.

Automotive refinish, good volume growth as the car park continues to expand in China.

The industrial business was also solid again.



For the most part, the strengths that we saw in automotive parts actually our customer mix in consumer electronics was not too bad and the packaging business as I've referenced was also solid in China.

So if you look at our biggest market there, we had on balance a good support, again led by automotive OEM builds which are going to be up some 10%, and again, with some of the -- our new product introductions, our customer mix, we're poised to continue to deliver in Asia more broadly, but specifically in China.

Unknown Speaker*

As a follow-up, Chuck, when do you expect the marine business to hit a cyclical trough?

Unknown Speaker*

Well, I think the second half of this year, we're expecting this -- let's call it this precipitous decline to level off.

You haven't seen more broadly the industry start to recover.

China went down earliest, I guess in this new build cycle and Korea sustained its new build longer.

Now we've seen a little bit of more weakness in Korea as well but I think the second half is going to moderate in terms of the market declines.

But in terms of an upturn, we're probably at least a year away from seeing these things increase build rates for new ocean-going vessels in Asia.

Half of that business is protective Coatings.

Despite the weakness in new builds in Asia, protective Coatings is growing, it's doing well here in North America.

It is also growing in Asia and we're doing a good job in Europe from a restructuring and productivity standpoint.

So I don't want to paint too gloomy picture of the strategic business unit, because it does include half of that market is doing well.

But we have seen a sharp decline in marine new builds.

We're again leveling off second half of this year but probably won't start an upturn until next year.

Unknown Speaker*

Great.

Thank you very much.

Unknown Speaker*

Thanks, Kevin.



Operator

Next question comes from PJ Juvekar from Citi bank.

Please go ahead.

Unknown Speaker*

Good afternoon.

Unknown Speaker*

Hi, PJ.

Unknown Speaker*

You know, if I look at slide 16, Akzo had Glidden brand in pretty much every channel.

Is there potential brand row positioning you can do to avoid any channel conflict.

Unknown Speaker*

We're going to look at our brand positioning and I think we'll have an opportunity.

It's really early days and I think these -- the first thing that we're trying to do with this integration is make sure that all the current customers are being supported and supplied and so we think that we're not going to make any quick changes in terms of brand or channel, but it's certainly something that we're going to look at and there may be some opportunities to provide more clarity among the channels in the future, but right now if we're -- we're moving forward to protect all of the customers that we have in those channels.

Unknown Speaker*

Okay.

And then your Optical sales were down 6%. Is there more he competition for transitions coming in at the lower end from competitors like.

Unknown Speaker*

We've been competing with and in phototronics, in case for several years, as I started early in 2012 and actually in 2011. So I don't think that there's any new product introductions here.

We do see the Chinese market growing.

That's an opportunity for all the Optical manufacturers, although there is a manufacturing base in China that we will watch in the coming years, as they develop their capability.



Unknown Speaker*

Thank you.

Operator

Thank you.

Next question comes from Ghansham Panjabi from Robert B Baird.

Unknown Speaker*

Akzo this morning was calling out a tradedown effect in Architectural paints in Europe.

What you're seeing in the region there.

Unknown Speaker*

This is Michael.

Our numbers in Europe were negatively impacted by our trade business, the trade guys react very quickly to weather.

As you know, over in Europe we had the worst weather in a couple decades and so we were right in that minus 10 to 12% down range.

Unknown Speaker*

Okay.

So most of the weakness was just weather related versus any sort of tradedown, then?

Unknown Speaker*

We don't think we lost any share.

Unknown Speaker*

Okay.

And then just can you give us some more color on the Deft acquisition too, what was the attraction there, was it technology, customer alignment, et cetera?

Thanks.

Unknown Speaker*

The Deft acquisition, about 75% of Deft sales are in the aerospace industry and that's one we are the industry leader in air aerospace Coatings.



So we felt it fit nice.

Have some excellent products, especially water based primers.

We felt it fit some product niche opportunities for us, expanded our presence in the space and so we look forward to what we feel is going to be an excellent acquisition, not only for the aerospace, but we also have some industrial and Architectural products that are a part of that acquisition, but the primary driver was product opportunities in aerospace.

Unknown Speaker*

Okay.

Got it. Thanks so much.

Operator

Thank you.

Next question comes from Laurence Alexander from Jeffries.

Please go ahead.

Unknown Speaker*

Good afternoon.

This is Rob Walker on for Lawrence.

Unknown Speaker*

Hi, Rob.

Unknown Speaker*

As you think about volume trends this quarter US had a tough comp because of weather.

Europe had a tough comp because activity didn't fall off until Q2 last year.

Shouldn't the comp get easier noticeably in Q2 and do you expect volumes to be up slightly overall in Q2.

Unknown Speaker*

We think that we should face some easier comparables in the second quarter and I would say that in Europe, and we feel that the business will get better overall in Europe and that the first quarter was very weak.

But we don't feel that this trend is going to accelerate here in the second quarter and the comps should be favorable here and in Europe as well.



Unknown Speaker*

Great.

Thanks.

And then I guess could you update us on what you're seeing in the TiO2 market and your progress on the various initiatives you're doing there to continue to improve the situation?

Unknown Speaker*

Well, we hit our target last year of more efficiently using TiO2 in our formulas between 4 and 6%, so we were within the range, on the lower end of that.

We saw some continued improvement but not at the same pace here in the first quarter.

So we're continuing to derive some benefits from more efficiently using the raw material.

Pricing right now in TiO2, I would say that as I indicated earlier, Europe has been the weakest market.

We don't know exactly the trend for TiO2 in the second half of the year and we're discussing right now second quarter pricing, so I would say that the trends at this point seem to be slightly -- slight moderate, on a slight moderate decline on a global basis, again mostly in Europe, and I would say flat to overall in raw materials for first half of the year.

Unknown Speaker*

Thank you.

Operator

Thank you.

Next question comes from from SunTrust.

Unknown Speaker*

Just a couple of things.

You mentioned in your release about aerospace and the performance Coatings was doing well, solid demand.

Yesterday Textron mentioned the business jet market is weak right now.

I'm just curious if you're just really small supplier to the business jet market or is it more big jets?

I mean, why the difference there?



Unknown Speaker*

Well, I think there are several different market segments within business or general aviation and that segment has continued to do well for us. Again, some of our products are concentrated in let's call it the bigger iron, in that biz jet market, and overall we did see slight improvement in volume overall for our business and so commercial aviation has continued to be a strength for the business over -- it's been now on a one to two year up cycle and that continued, despite some of the qualification issues around the 787. So we're still seeing good support there in commercial aviation and business aviation.

We're not probably as big a player overall.

I think the market segments that we participate in are doing a little better.

Unknown Speaker*

Okay.

Unknown Speaker*

And Andy, this is Vince.

We also have a very big aftermarket presence that is much more stable.

Unknown Speaker*

Okay.

So that outweighs that.

Just one other question, if I could.

I know you're just still integrating Akzo, you're early days there.

If you look at your overall store count, perhaps you're going to rationalize some stores, if you think about your Company-owned stores over the next few years, what sort of growth rate should we anticipate there?

Unknown Speaker*

Andy, this is Michael.

If you look at it, they have a very good network in Canada so we'll be adding stores in Canada.

The overlap was primarily in the southeast and Southwest where we have the porter stores and the Monarch stores.

So that's where we'll be looking to optimize the network there.



Unknown Speaker*

Do you have sort of a growth rate in mind, how many new stores you want to add once you sort of get things to sort of steady state?

Unknown Speaker*

We don't have a figure that we're willing to share right now but we're certainly looking to improve this store network that we've gone 400 stores now to 1,000. It will be a focus area for us.

Unknown Speaker*

Okay.

Thank you.

Unknown Speaker*

Thank you.

Operator

Thank you.

Next question comes from Nils from CLSA.

Unknown Speaker*

Good afternoon.

Thanks for taking my question.

Quick one on Architectural Coatings.

Looks like year on year revenues were down \$60 million, and depending on how we do the cost savings numbers and allocation, cost savings I don't think explains all of that improved or excuse me the stability in the EBITDA part of that segment.

So would you help me understand what the other offsets might be in the Architectural EMEA business that's contributing to this pretty good result despite very tough headwinds?

Unknown Speaker*

Michael?

Unknown Speaker*

I'll take that one.



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If you look at Europe, we had very strong cost down performance, we also had the restructuring gains.

In North America we also had a wee bit of price and if you look in other markets, we did pretty well in that regard.

So cost is certainly a significant driver.

Unknown Speaker*

And Nils, the cost again as Michael mentioned is really two buckets.

It's the restructuring savings that we've been implementing over the past 12 months.

We haven't anniversaried last year's savings as of yet.

As well as what I would call discretionary costs that -- some of that, given the volume drop that Chuck mentioned, more than 10%, we were able to pull the lever on some of that discretionary cost.

Unknown Speaker*

Got it. And just on the Architectural in the US, I mean, mid to high single digit in Company-owned stores, that sounds like some share gains compared to competitors.

Are you taking share in the Company-owned store business or is there something else going on there?

Unknown Speaker*

I don't believe we're taking share in that segment.

Unknown Speaker*

Thanks very much.

Operator

Thank you.

Next question comes from Charles Dan from Morgan Stanley.

Please go ahead go good afternoon.

First, could you give some sense of the magnitude of the increase in your US Architectural business?

I know you mentioned it was up but a bit more detail there.



Unknown Speaker*

Magnitude, you mean sales?

Unknown Speaker*

Yeah.

Unknown Speaker*

We were up collectively in the US business about 3%, which included higher growth in stores, comparable growth in our national accounts and as Chuck mentioned earlier a dealer network was down.

Unknown Speaker*

And in your general and industrial business, can you give us a sense for the breakdown sort of by geography in terms of trends.

Unknown Speaker*

Asia was up mid to high single digits.

Europe was down mid to high single digits and the US was essentially neutral.

Unknown Speaker*

Thank you.

Operator

Thank you.

Next question comes from Ivan Marcuse from QB bank.

Unknown Speaker*

Just had a quick question.

On US commercial, which one of your businesses do you typically see as a leading indicator that gives you a sign it's coming back?

Are you seeing any signs that commercial construction or nonresidential construction is coming back in some way in the US?

Unknown Speaker*

Well, the business unit that has the clearest indicator of commercial construction activity is the Flat Glass business.



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That actually reports to Michael and there we've seen what I would call early signs that we are seeing improvement in US commercial construction because our business is primarily focused here in the US. If you look at the Architectural billing index, that's up slightly.

But I would say that it's still lagging the recovery that we're seeing here in the US in residential but we believe it's coming.

So we think that this commercial construction activity is building.

It was the last to go into the recession and probably went in maybe a year and-a-half to two years later than residential in the previous decade.

So we think it's following a similar pattern.

But we're seeing early signs of improvement.

Unknown Speaker*

Great.

Thank you.

Operator

Thank you.

Next question comes from Kevin from Northcoast Research.

Please go ahead.

Unknown Speaker*

Good afternoon, everybody.

Unknown Speaker*

Hi, Kevin.

Unknown Speaker*

Could you give a little more color on the introduction of the next generation transitions lenses in Europe, could you kind of elaborate on how that's been going compared to your expectations, better, worse or maybe compared to prior next generation lenses.

And also, when's kind of a roll-out date for the US with that product?

Unknown Speaker*

The performance in the first quarter for Gen 7 transitions in Europe was actually encouraging.



The overall European market for many of our other businesses, as you've heard on the call, was very weak.

So we were pleased that we saw strength in Europe from the introduction of Gen 7. We have better transmission, gets darker, better clarity, and less temperature sensitivity.

So we feel that the product has real features and benefits that we are encouraged that the market is recognizing.

The introduction in North America is scheduled for late this year.

So you will see we feel a good growth opportunities towards the latter half of the second half, so we're talking about the fourth quarter, where we should see some improvement from the introduction of Gen 7 here in North America.

So we're encouraged with what we've seen.

Unknown Speaker*

Okay.

And then just one quick follow-up.

You expect to save as part of your couple year \$140 million I believe is the number of cost savings, 60 to \$70 million of incremental savings this year.

How you have progressed toward that number and is there any additional possibilities especially given the prolonged outlook for European weakness to maybe even come at the high end or maybe even higher than those levels.

Unknown Speaker*

Kevin, this is Vince again.

Couple different numbers you threw out.

The 70 to 80 was the remainder we had on our restructuring program and that was a full year 2013 number.

We got just under 30 of that in the first quarter.

We expect similar but slightly larger amount in the second quarter and then we're going to start to anniversary some of our savings from last year, so we'll see lesser amounts later in the year and even a little minor spillover into next year.

The number you didn't mention was the \$60 million of annual synergies we get as we close the Akzo acquisition.

Those were primarily fixed costs so they break out evenly per quarter.

So that would be roughly \$15 million a quarter, beginning immediately.

And then we have \$140 million of for three year synergies from the Akzo acquisition.



As you can imagine, we'll get very modest amounts in the next quarter or certainly four or five months as we begin the integration process, then we expect those to ramp up thereafter.

So hopefully that's what you were looking for.

Unknown Speaker*

Okay.

Great.

Thank you.

Operator

Thank you.

Next question comes from Dmitry Silversteyn from Longbow Research.

Please go ahead.

Unknown Speaker*

Good morning.

Couple of questions.

If I may -- or good afternoon, I should say.

If you look at the cost savings, just look at the restructuring cost savings that you talked about that's benefiting a number of your businesses, Vince, you mentioned it's going to anniversary sometime in this year.

Sort of what is the run rate once it anniversaries that we should be looking for to carry over into 2014?

Unknown Speaker*

Well, from the time we started the process, we'll be looking at a run rate of about \$140 million a year.

As you can see, this past quarter it was about \$30 million, so that would be about a 120 run rate.

We still have a little bit more accretion per quarter.

But from beginning of last year, using that as the index, would be about \$140 million of savings.

Once we get let's say 2014.



Unknown Speaker*

Okay.

All right.

So there's still several tens of millions of dollars.

See in 2014.

Unknown Speaker*

We'll see some mild spillover into 2014.

Unknown Speaker*

The remaining quarters of 2013 that we'll see that incremental benefit but by the time we get to the first quarter of 2014, there will be only a small portion of that 140 cumulative savings yet to be realized for the first time.

Unknown Speaker*

I was coming up with about 25. All right.

Maybe it's smaller than that.

If you look at your -- the acquisition of Akzo, have you -- maybe you already shared this but I just don't remember.

Have you talked about what the incremental depreciation and amortization is going to be for you guys or put it differently what's the G&A for the year including this business?

Unknown Speaker*

We expect -- we're still working throughs through those numbers many we won't have those finalized until later this year.

If you look at the business we're looking at about 40 to \$50 million of D&A for the business on an annual basis.

Unknown Speaker*

After all the write-offs and everything, so that's going to be the net adder?

Unknown Speaker*

That would be the net D&A, gross and net D&A.

Unknown Speaker*

He very good.



And then you also mentioned some share gains in Europe in discussing your industrial Coatings business.

Can you talk a little about that and also have you seen any issues with heavy equipment or the ag equipment business that one of your competitors referred to seeing in the January quarter?

Unknown Speaker*

Well, the industrial Coatings segment that we referenced, the sales growth and the share gain has been in automotive OEM Coatings and, again, as we discussed, it was focused on new product introductions being with the right customers and the right plants.

So I would say that the sales growth momentum that we're seeing in the segment is primarily being driven by the automotive OEM segment.

Heavy duty equipment, that has been let's call it modest or flat growth.

So we've seen some weakness overall in the market.

In some regions, Asia, a little bit stronger, Europe a little bit weaker, very flat here in North America.

So again, not seeing that same kind of overall growth for the market that we're talking about in automotive in heavy duty equipment and we hope that that's a trend that reverses itself or we see a recovery of growth as the year goes on.

Unknown Speaker*

But you're not seeing a significant decline in demand in heavy equipment, particularly in Asia, you mentioned Asia was actually a little bit stronger for you?

Unknown Speaker*

Yes, we're not seeing a big decline.

There's been some discussions in the marketplace about will the mining or commodity segment be hurt by what we've seen over the last couple of months in the market for commodities or mining stocks.

The ag guys to me feel pretty strong right now.

But there's probably been a little more weakness compared to the ag guys in let's call it construction and mining equipment.

Operator

Thank you.

(Operator Instructions).

We have a question from Richard O'Reilly from associates.

Please go ahead go .



Unknown Speaker*

Good afternoon.

Thank you, gentlemen.

To help some of us with our commodity, can you talk about how much exposure you have now to natural gas without the chlorine business?

Unknown Speaker*

This is Michael, Richard.

Our exposure's down 75% and that leaves what's remaining, 75% is actually in our Glass business, Glass and fiberglass, and it's becoming a less and lesser important commodity for us.

Unknown Speaker*

Sure, sure.

How would natural gas compare with let's say the pie of stuff in the Coatings business?

Would it be as big as pigments or what would it be like?

Unknown Speaker*

It's a much smaller number than pigments.

Unknown Speaker*

Second, quick, just a math question.

I thought the Akzo business was acquired for 1 billion, 05, wrote you talk about cash of 900 plus.

Am I wrong or what's the difference?

Unknown Speaker*

Richard, the value of the deal was announced at a billion, 05. The expected cash had originally been \$875 million because of some deductions related to the pension plans in Canada that were being assumed.

So that would be the difference.

We ended up, they put some additional cash into the plan before we closed, so we ended up with overall cash out for the acquisition of about \$950 million.



Unknown Speaker*

That's it. Thank you.

Unknown Speaker*

Thank you, Richard.

Operator

Thank you.

I'd now like to hand the call back to Vince Morales for closing remarks.

Unknown Speaker*

Just want to thank everybody again for their time and if there's any further questions, please feel free to contact me at Investor Relations.

Thank you.

Operator

Thank you, ladies and gentlemen.

That concludes your call for today.

You may now disconnect.

Thank you for joining and have a good day.

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