PPG Industries, Inc.

Third Quarter 2016 Results

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CORPORATE PARTICIPANTS

Scott Minder - *Director, Investor Relations*

Michael McGarry - *Chairman and Chief Executive Officer*

Frank Sklarsky - *Executive Vice President and Chief Financial Officer*

Vincent Morales - *Vice President, Finance*

PRESENTATION

Operator
Good afternoon and welcome to the PPG Third Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. Please note this event is being recorded.

I would now like to turn the conference over to Scott Minder, Director of Investor Relations. Please go ahead.

Scott Minder
Thanks, Gary. Good afternoon. This is Scott Minder, Director of Investor Relations. We appreciate your interest in PPG Industries and welcome you to this teleconference to review PPG's third quarter 2016 financial results.

Joining me on the call from PPG are Michael McGarry, Chairman and Chief Executive Officer, Frank Sklarsky, Executive Vice President and Chief Financial Officer, and Vince Morales, Vice President of Finance.

Our comments relate to the financial information released on Thursday, October 20, 2016. I will remind everyone that we posted detailed commentary and accompanying presentation slides on the Investor Center of our website, ppg.com. The slides are also available on the webcast site for this call and provide additional support to the opening comments Michael will make momentarily. Following Michael's perspective on the Company's results for the quarter, we will move to a Q&A session.

Both the prepared commentary and the discussion during this call may contain forward-looking statements reflecting the Company's current view of future events and their potential effect on PPG's operating and financial performance. These statements involve uncertainties and risks which may cause actual results to differ. The Company is under no obligation to provide subsequent updates to these forward-looking statements.

This presentation also contains certain non-GAAP financial measures. The Company has provided in the appendix of the presentation materials, which are available on our website, reconciliations of these non-GAAP financial measures to most directly comparable GAAP financial measures. For additional information, please refer to PPG's filings with the SEC.

Now, let me introduce PPG Chairman and CEO, Michael McGarry.

Michael McGarry
Thank you, Scott, and good afternoon everyone. I want to thank you for your continued interest in PPG. Today, we reported our third quarter 2016 financial results. We achieved third quarter net sales of $3.8 billion and adjusted earnings per share from continuing operations of $1.56. Third quarter net sales in local currencies grew by more than 3%, including year-over-year volume growth of 1.6%. We achieved this growth despite a broad-based deceleration of volume growth rates in Europe this quarter, in comparison to the previous several quarters. Acquisition-related sales contributed about 2% in the quarter due to our MetoKote, IVC Industrial Coatings, and Le Joint Français acquisitions.

Unfavorable foreign currency reduced sales by about 2%, due to primarily the significant year-over-year declines in the Mexican peso and the British pound. The British pound was down about 15% versus the prior year period and the Mexican peso was down about 12%. With respect to the peso, as we have discussed in the past, the PPG Comex architectural coatings business is seasonally strongest in the back half of the year. Therefore, a weakened peso is more impactful to us at this time of the year.

From an earnings perspective, our adjusted earnings per share grew 1% versus the prior year. We had positive earnings contribution from the higher overall sales volumes, offset by unfavorable foreign currency translation and higher growth related spending.

What I just discussed were all year-over-year comparisons. As all of you know, we provided earnings guidance during the first week of October, as our EPS was short of our expectations leading into the third quarter. We haven't had to provide pre-guidance on earnings for quite some time, so let me quickly discuss what we experienced during the quarter.

The largest shortfall that we experienced during the third quarter was slower than expected volume growth in Europe. This region has been one of our strongest growth engines over the past year plus. Our year-over-year European volumes, which had been growing by low to mid-single-digit percentages, came in essentially flat for the quarter. While we have experienced some regional volume growth in certain businesses, such as automotive OEM and general industrial coatings, the rate of growth contracted in these businesses. In addition, we experienced a similar several hundred basis point decline in most of our other regional businesses. This broad decline was also evidenced across many countries within the region. This lack of volume growth, coupled with the fact that Europe currently has our highest regional incremental operating margins, these incremental margins reflect the significant cost rationalization we have done over the past five years. While there were other factors in the quarter, the absence of the European volume growth and the related benefits from higher incremental margins were the major factors in our below-expectation performance.

Looking at the other regions, we basically performed as expected. The Asia-Pacific region delivered solid mid- to high-single-digit percentage volume growth on a year-over-year basis, including strong gains in automotive OEM and refinished coatings. These increases were partially offset by continued declines in marine coatings, due to exceptionally weak and continuing declines in shipbuilding activity. The automotive OEM strength in the Asia-Pacific region was in comparison to a weak prior year period when regional automotive OEM industry production was down. In the fourth quarter, we will face significantly a stronger comparison period, as the industry production was up nearly 20% in the prior year.

Coating sales volumes were flat in the US and Canada, compared to the prior year. We experienced volume growth in our US and Canadian architectural coatings business versus a volume decline in the prior year period. Leading our growth were higher volumes at our company-owned stores, coupled with increased sales through the DIY channel, supported by our new products, and the associated higher launch-related promotional spending. Also, in the region, year-over-year sales volumes continued to expand in refinish and packaging coatings, but were offset by lower automotive OEM sales and declines in general industrial coatings, which mirrored weak industrial production in the region.

Latin American sales volumes expanded, primarily due to growth in the Mexican architectural coatings and OEM coatings markets, while most South American markets remain challenging.

Overall, I am pleased we were able to grow sales volumes and we did deliver modest earnings per share growth versus the prior year. However, I am disappointed by our earnings progression versus the prior two quarters of 2016, and our 1% year-over-year earnings per share growth is well below our expectations.

Looking ahead to the fourth quarter, we currently do not see any near-term evidence of improvement in global demand. We now have a strong sense of our October order book and, as many of you know, for business seasonality reasons, the month of October is typically the largest sales month within the fourth quarter. As a result of this continued tepid demand, we are reviewing various potential restructuring actions to reduce our structural operating and functional costs. With these actions, we will place increased focus on regions and end-use markets that are the weakest. We're still vetting these potential actions and we will provide an update once we are finalized. We plan on maintaining an appropriate level of investment and growth-related initiatives, including research and development, sales, technical support and product branding initiatives.

Also worth mentioning, during the quarter, we continue to execute on our strategic objectives, including a continuation of our portfolio actions. On July 1, we completed the MetoKote acquisition, a coatings services business with approximately $200 million in annual revenue. Also in the third quarter, we announced the sale of our ownership interest in our two fiber glass joint ventures in Asia. The sale of these two joint ventures is expected to close by year-end 2016. Lastly, we completed the sales of our flat glass and European fiber glass businesses, with both transactions closing on October 1. In addition to these portfolio actions, we completed $250 million in share repurchases during the third quarter.

Finally, we ended the third quarter with about a billion dollars of cash and short-term investments. This figure excludes about one billion dollars of gross proceeds from two recently divested businesses and the pending sale of our ownership interest in the two Asian fiber glass joint ventures. We expect only modest tax leakage from these business divestments.

We have ample flexibility and we will continue to deploy cash in an earnings-accretive manner. While we remain price-disciplined, our acquisition pipeline remains active. Additionally, our Board of Directors recently authorized an additional $2 billion repurchase program, which gave us, at that time of approval, about $2.5 billion of share repurchase capacity. We expect to deploy at least $650 million of cash in the fourth quarter on acquisitions and share repurchases, to reach the top end of our previously communicated cash deployment range of $2 billion to $2.5 billion in the combined 2015/2016 calendar years. We have deployed $1.85 billion toward the target to date.

To summarize, we grew our year-over-year earnings in the third quarter, but at a rate that was below my expectations. We are working on a variety of actions to improve our earnings growth rate, including an acceleration of cash deployment and further reductions in our overall cost structure, while preserving prudent growth-related investments.

This concludes our prepared remarks. Once again, we appreciate your interest in PPG, and now, Gary, would you please open the line for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. Please try to keep your questions to one and a single follow-up. At this time, we will pause momentarily to assemble our roster.

The first question comes from Robert Coort with Goldman Sachs. Please go ahead.

Chris Evans
Good morning, everyone. This is Chris Evans on for Bob. On the negative pricing you guys showed, could you break out exactly which end markets you saw this pricing, or kind of what the dynamic was across your portfolio?

Michael McGarry
Chris, this is Michael. We're not going to get into the specifics by business unit, but what I will tell you is that, typically, in our coatings portfolio, which you find is the larger, very sophisticated customers understand the raw material environment, and we always work with them in a collaborative and constructive manner, whether it's an up-pricing environment or a down raw material environment, and so the way to think about this is our larger customers might have seen a slight price reduction, whereas our small customers, the customers that go through distribution, would be in an overall flat environment, or slightly up. Overall, for the year, we had told you that we'd be in a flat pricing environment and for the full year we still expect that to be overall flat.

Chris Evans
Thank you for that. Then, I guess, as raw materials move, sort of inflate, what are your expectations and how do you think pricing—you know, your ability to get pricing kind of next year, as TiO_2 and propylene derivatives, and a few others, might work against you?

Michael McGarry
So, right now, Chris, the tail winds have certainly diminished. However, we have not really seen any real inflation yet, except for a small pickup in TiO_2. Certainly, a lot of the feedstocks are up since January 1, but, again, we don't price in real time, so we don't always get all the benefits on the way down and we don't get all the prices on the way up. So, again, we will work with our customers. We typically lag on the way down and lag on the way up, and I don't expect that this next cycle will be any different than what we have seen in the past.

Vince Morales
This is Vince. I'm going to add one comment. If you look at our supply chain, many of our suppliers have expanded their margins over the past couple of years. So, if we do see inflation in oil or oil derivatives, we would expect the first cut to come out of their pocket.

Chris Evans
I appreciate the commentary, guys. Thank you.

Operator
The next question comes from John Roberts with UBS. Please go ahead.

John Roberts
Good afternoon.

Michael McGarry
Hey, John.

John Roberts
Were there any significant deals that you had hoped to close in the quarter, but maybe they fall into the fourth quarter?

Vince Morales
John, we don't provide speculation on deals or potential deals. I think Michael said we have an active M&A pipeline. We think, for the industry, it's very active. Hopefully, we can continue to use our cash in a constructive manner with reference to acquisitions, but if not, the fly will be share buybacks.

John Roberts
Okay. Then, we've come to think of cost-cutting at PPG and productivity as sort of evergreen here. Do you think after so many years of being so successful in your cost-cutting and productivity you're just so lean at this point that we're kind of reaching the end of the ability to bring additional cost cuts to the earnings bottom line?

Frank Sklarsky
John, this is Frank. It's a good question, but the way we look at it, there are always opportunities for rationalization of our cost structure. As we continue to move more administrative costs into shared service environments, as we look at our overall supply chain footprint, as we continue to integrate both recent and legacy acquisitions, and look at our total administrative cost structure, we think there are still additional opportunities for the broad-based and significant cost actions which we would like to embark on over the next year. While we don't have a specific number for you right now, we're looking at that very carefully, analyzing all the details, and we'll get back to you in the near future in terms of what the exact numbers are and the benefits associated with any rationalization actions, but we still think there are ample opportunities for continuing to rationalize costs.

Michael McGarry
John, this is Michal. As you know, having productivity initiatives is a DNA of PPG, and every business unit is expected every year to come forward with productivity initiatives. So, this isn't anything new, but we are certainly ratcheting up the attention in this area.

John Roberts
Thank you.

Operator
The next question comes from Frank Mitsch with Wells Fargo. Please go ahead.

Frank Mitsch
Good afternoon, gentlemen. Michael, you referenced that this is the first time in a long time that you folks had to pre-announce. I think '08 was the last time, and obviously we were in for a really big rough patch in '09, as well. Given your results here in Q3 and given the outlook for 1% or 2% growth in Q4, do you have confidence in 2017 being a materially better year, and if so, why?

Michael McGarry
Well, Frank, as you know, this is something that we haven't had to do in a long time. I appreciate you actually picking up on the exact year, 2008. But, I feel confident, and when I look around the global economies, I don't see anything ready to fall off the table. I mean, we still see some of the same weaknesses that we've seen in the past. Brazil continues to be challenged. Russia continues to be challenged. There are continued weaknesses in other economies. Certainly, Korea remains challenged. But, when I look across the big industries, like automotive, we're still expecting automotive next year to be marginally up. Certainly, the US is moving into the ninth inning, but Europe still has room to go on that. So, no, I don't see anything like what we experienced in the back half of 2008. So, I'm confident that we will see improvement in 2017.

Frank Sklarsky
Frank, this is the other Frank. There are really three major factors as to what really is going to drive our earnings growth going forward. It's some level of organic growth, and we've mentioned the fact that it was a very modest macro-environment recently, and that may continue, but to the extent we have some level of organic growth similar to what we've seen—hopefully a little bit better, as Michael mentioned, you know, GDP, or at least—the cost rationalization that we just referred to, as well as the accretive deployment, whether that be M&A or share purchase, the combination of those, some combination of those, gives us confidence that we'll continue to grow earnings at a reasonable level.

Frank Mitsch
All right, that is helpful. I think you were referring to something like $60 million incremental additional costs for growth spending in the quarter, something of the order of magnitude. How long do you anticipate the incrementally higher growth spending to occur and at what point do you anticipate realizing a return on that added investment?

Michael McGarry
So, Frank, I don't think I'd be plugging $60 million into your model. These spending initiatives are directly tied to product launches. As you know, our product at Home Depot was first put out, the Glidden Diamond, and was fully set the 4th of July weekend, so we're certainly behind that product, it has started out very well. The Menards product, as well, the Super Premium price point there was also set. That's our Pittsburgh Paints Paramount. Those spendings are directly tied to the new product launches, so you won't have that in the fourth quarter. We're working with our partners on the launches for 2017, and we'll be back to you if we expect to see those kind of spendings going forward, but we are going to continue to invest in growth-related initiatives.

Frank Mitsch
Should we factor something like a $0.20 incremental benefit by the absence of those added costs, something of that order of magnitude?

Vince Morales
Well, again, Frank, that's on a full-year basis and we only had this cost in Q3, so I think if you're annualizing that, as Michael said, this is only one quarter's worth, which was probably $0.04.

Frank Mitsch
Very helpful. Thanks so much.

Operator
The next question comes from Christopher Parkinson with Credit Suisse. Please go ahead.

Christopher Parkinson
Perfect. Thank you very much. Just digging down a little more on what you're seeing in the global auto OEM businesses, can you just comment on your expectations for geographic growth mix between Mexico and the US, as well as any regional trends intra-Europe that you've seen? Then, also, just given some uncertainty regarding the Chinese auto market reaction to any changes in consumer incentives, can you just quickly comment on what you're seeing in small vehicles versus small CVs, and your relative exposures there? Thank you.

Michael McGarry
Yes, so, Chris, let's start with Mexico. As you know, there are a number of new automotive plants in Mexico that will be coming up in the next—well, starting now through 2018, and those plants will obviously drive a higher growth rate in Mexico than historically. That may or may not necessarily detract from the US, but the overall US market, we expect to be relatively flat next year. We're watching it closely, the incentives that the automotive manufacturers are putting out there, and I think we'll just continue to watch that closely. Europe, at 14 million builds, still has room to run. Southern Europe continues to perform very well. So, if you look at what's gone on in Spain, it was up double digits. Italy was up double digits. Germany was still up 5%. We're starting to see a little life in France in the automotive side. Unfortunately, not in the architectural side, but the automotive side. So, that's all good. So, I would think that that's going to be a positive number next year in Europe.

Then, back to your question about China, first of all, you know, China has a reduced tax out there through the end of 2016. There's no indication on whether or not they're going to make a change on that. I do believe, from a personal perspective, that China wants their automotive business to be a champion. They are just now starting to export a very small amount of cars out of China. We would expect them to continue to support them. So, I am not looking for a material change in the China automotive growth rate. In fact, I would say it's going to grow again next year, and I won't be surprised if it has many, many years to run, because if you look at the number of cars per person in China, it's still very, very low, and it is a big status symbol when you buy a car in China. So, that's going to continue.

Christopher Parkinson
Perfect, and just a very quick follow-up. You mentioned $75 million in sales at the low average segment margins in industrial, so can you very quickly comment about the cadence of your efforts pertaining to these businesses getting up towards your target, as well as any broad—key word broad—confidence you have on how we should think about the M&A pipeline going forward in the context of margins? Thank you very much.

Vince Morales
Thanks, Chris. This is Vince. As is typical, when we acquire, especially smaller bolt-on-type transactions, they're not at our segment margin levels, whether it be performance or industrial coatings segments. It typically takes us a minimum of year to start to extract the full synergies from those transactions, and so that's the normal cadence we would see on a traditional transaction.

With respect to the acquisition pipeline, I think Michael mentioned it earlier, we do have a very active pipeline in the industry. I think Michael said a quarter ago one of the most active we've seen, which is, I think, helpful for us as we look into late 2016, early 2017, for potential consummation.

Christopher Parkinson
Thank you very much.

Operator
The next question comes from Ghansham Panjabi with Robert W. Baird. Please go ahead.

Ghansham Panjabi
Hey, guys, good afternoon. First off, on auto refinish and the decline in 3Q volumes in Europe, Michael, do you sort of view this as an inventory correction in the supply chain and did you see it in any particular sub-region within Europe?

Michael McGarry
Ghansham, I think that overall, by and large, Southern Europe is outperforming Northern Europe. Obviously, Russia remains weak. Eastern Europe is not as strong as we'd like to see. But, overall, I think, as I said earlier on the call, that this 14 million build rate that they're at can grow significantly higher. If you think about the number of people in Europe versus the Europe, there's no reason why it can't climb up to a substantially higher number, and they have historically been at a higher number, if you go back to the 2006 and '07 timeframe.

Frank Sklarsky
Ghansham, just one other point on refinish, and I'll relate it back to the China discussion that we just had. We saw very nice growth, mid- to upper digits, on refinish in Asia, primarily China, and that goes back to the dynamic of the car park being relatively low per capita, that Michael referred to, and it bodes very well for future growth of refinish in China as that car park continues to grow. So, we're seeing nice uptick there despite some of the slight softness we saw over the European market.

Ghansham Panjabi
Okay, that's helpful, and just as a follow-up on the protective coating, I know marine has been quite weak across the board, particularly in Asia, but you called out some volume improvement in North America. Can you just sort of expand on that? Thanks so much.

Michael McGarry
Sure. The volume improvement is all in the protective area. What's interesting is that we've seen a moderation in the decline now in oil and gas. We haven't seen any significant pickup. But, I think they've done a significant amount of capital project cutting, and so I think over the next couple of quarters that's going to moderate and then start to turn up. So, on the protective side, quite good. We're also seeing people doing the dry docking, you know, they're going to try to make the ships a little longer, so dry docking is up.

Vince Morales
If I could add, Ghansham, this is Vince, we had, you know, based on our estimates, above-market growth in the US and Canada in protective. This is a business that two years ago we started talking about trying to build additional growth actions on, and I think you're seeing today some of those benefits from those growth actions.

Ghansham Panjabi
Good stuff. Thanks again.

Operator
The next question comes from Arun Viswanathan with RBC Capital Markets. Please go ahead.

Arun Viswanathan
Great, thanks. Good afternoon. I just had a question, I guess, on volume growth. You did 1.5%, 1.6% here in Q3 on a relatively, I guess, easy comp, minus 0.7% last year. You're coming up on a tougher comp here in Q4. So, what's your expectation on volume growth in Q4?

Michael McGarry
Well, Arun, I think the volume growth has continued to remain muted. We're not seeing any changes in the environment out there. As I mentioned in my remarks in the beginning, we've already seen most of our October order book. The fourth quarter is typically a seasonally weaker quarter. So, I would tell you it's just going to be more of the same that we saw in the third quarter and earlier this year.

Arun Viswanathan
That's fair, and just, I guess, looking out into 2017, I remember last year at this point, you know, you guys were thinking that maybe you could push volume growth up into the low to mid-single digits for '16. Is there any possibility that we could get there in '17, despite the market, or is it still going to be dependent on your individual end markets?

Vince Morales
Well, again, aspirationally, we try to grow at GDP or GDP plus. We haven't done that this year, which is disappointing to us, Arun, but as we look at next year, we're going to need certainly good performance execution-wise internally, but we also need a little bit of growth uptick in the different verticals we play in. So, I think we're still aspirationally striving to get to what you're talking about and we'll have to see how the environment plays out.

Arun Viswanathan
Just as a last quick follow-up, the OEM performance in the Americas was slightly—you characterized it as below market. What would you say lead to that and is that unusual, or do you see kind of a change in that going forward?

Michael McGarry
No, Arun, I think we covered this in the prior two conference calls.

Arun Viswanathan
Right.

Michael McGarry
At that time, if you go into 2016, you know, we had opportunities to try to take business in certain parts of the world versus others. We preferentially wanted to gain share in Asia. Obviously, we've gained share at a significantly higher rate than the rest of the industry for 2013, 2014, 2015, and so the customers were getting uncomfortable given our growth rate, so we preferentially gave up share in the US where we saw that growth rate slowing and continued to grow in Asia. So, overall, despite the decline in the US, we are performing at market, and then we expect to be outperforming the market starting the first quarter of next year.

Arun Viswanathan
Great. Thank you.

Operator
The next question comes from Jeff Zekauskas with JPMorgan. Please go ahead.

Jeff Zekauskas
Thanks very much. When I look at your industrial business, your revenues were basically flat from the second to the third quarter, but your operating profits were down $43 million and your margin contracted about 300 basis points. What exactly is going on there? Is it lower prices? Is it mix? This degree of margin change doesn't seem to be accounted for by volume.

Vince Morales
Jeff, if you go sequentially from 2Q to 3Q, we have a dramatically different business mix by industrial segment, such as automotive versus general industrial. As you know, a lot of the auto companies take significant outages in July or August, depending whether it's US or Europe, as opposed to 2Q where they're running at peak production. So, the business mix differs tremendously. We see a similar margin erosion each year sequentially 2Q to 3Q in that particular segment.

Jeff Zekauskas
I think last year the margin deterioration sequentially was about 60 basis points and that was on much lower sequential sales. Did it turn out that—were there any management compensation changes either for the third quarter or the fourth quarter prospectively, because you're probably not on the plan that you originally were guiding toward?

Vince Morales
Jeff, this is Vince again. We readjust our management compensation each quarter, based on our quarterly and full-year outlook, as well as our stock-based comp is impacted by the stock price itself. There were no significant—in Q3, excuse me, there were no significant noteworthy changes on those two line items. Hopefully, that answers your question, if I addressed it properly.

Jeff Zekauskas
Does it benefit you in Q4. Is there a meaningful change or there isn't?

Vince Morales
Well, unfortunately, the stock price is down. The stock price fell, along with our with our pre-announcement, so that'll affect stock-based compensation. We'll evaluate the businesses, as we do every year, at the end of the year on the various metrics that we have for each of them.

Jeff Zekauskas
Okay, great. Thank you so much.

Operator
The next question comes from David Begleiter with Deutsche Bank. Please go ahead.

David Begleiter
Thank you. Michael, looking at M&A and consolidation coatings, is there potential for large-scale M&A still left in the coatings industry globally?

Michael McGarry
Yes, David, definitely. I think you saw that with the fact that Sherwin made their announcement

earlier this year. There are still number of fair-sized acquisition opportunities out there. I don't want you to walk away thinking that there's anything different. I think if you parsed the global data really finely, you'll see that there's been about 20 companies that have added or have been listed at over $0.5 billion in the past three or four years, so there's continued global growth in coatings companies, and of course you know the top 10 are out there, too. So, there's still more opportunities, so I would just encourage you to be patient.

David Begleiter
Just on that point, in Q4, Michael, the $650 million of cash deployment, is that likely to more buybacks or more M&A?

Frank Sklarsky
David, this is Frank. As we've always said, our preference would be to do accretive acquisitions, but in any quarter where there would not necessarily be an acquisition closed or completed, we would still be sure to reach our goals for cash deployment. So, I think it's premature to say exactly what the mix will be for Q4, but we are committed to reach the top end of our previous guidance of $2 billion to $2.5 billion. At least $650 million is a good number, whether it be a share purchase or acquisition.

David Begleiter
Very good. Thank you.

Michael McGarry
Thanks, David.

Operator
The next question comes from Kevin McCarthy with Vertical Research Partners. Please go ahead.

Kevin McCarthy
Yes, good afternoon. I was wondering if you would comment on how you see your capital expenditures trending through 2017, in light of your updated macro-outlook, and also recognizing the glass businesses you're moving out of the portfolio.

Frank Sklarsky
Kevin, this is Frank. We have said in the recent past that our capital expenditures as a percent of revenue would be in the 3% to 3.5% range. With the glass business, flat glass business coming out and European fiber glass coming out, those were typically more capital-intensive businesses, albeit on a periodic basis, but this gives us confidence that the trend going forward will be more in the circa 3% range of revenue, and along with looking at the macro-environment that you referred to, we're being very disciplined in terms of deploying the actual individual projects, whether they be for cost savings, capacity, growth, whatever, so gating the CapEx in a very, very careful way so we do not get ahead of the market. You might interpret that by meaning the fact that our previous outlook in terms of percent of revenue for CapEx in 2016, we're hoping to come in at the low end of that percentage range and be very efficient how we deploy that on a just-in-time basis.

Kevin McCarthy
Okay, and then a second question, if I may. I wanted to clarify what might be going on with regard to your corporate expense. There was a fairly large sequential drop last year. When that happened, I think the variable comp was part of that. I'm wondering if you can elaborate on

what happened here in the quarter you just reported and what the outlook might be for 4Q.

Frank Sklarsky
It's probably a little more normalized this quarter than it was last year in Q3. You were right in saying it was unusually low last year, and some of that was driven by the share price in Q3 last year. We do the measurement on the stock-based compensation, including the share price, at the end of the quarter. So, we had an uptick in that stock-based compensation expense in Q3 versus Q3, and of course when we look out to Q4, that will depend upon how that particular factor plays out, but the remainder of the corporate expense bucket going forward, that would be obviously one area, along with all other areas of cost, that we'll be assessing as we go forward in terms of our rationalization program. So, the goal is to structurally be as efficient as we possibly can and then the stock-based compensation and other performance-based compensation will be based upon the share price, as well as our financial results.

Kevin McCarthy
Very good. Thank you.

Operator
The next question comes from Don Carson with SIG. Please go ahead.

Don Carson
Yes, thank you. I have a question on architectural coatings, both your performance and the overall market. In Q3, you had some easy year-ago comps, so I'm just wondering, you know, if you look at volumes that went out the door, gallons to customers, was that actually up year-over-year, or what impact did this inventory destocking by customer have on year-over-year comparisons. Then, in your outlook, you talk about architectural coatings in the US and Canada, that end-use demand remains modest. Coming into the year, everybody thought there would be a demand snapback back because of tough whether comps last year. I just wonder what your latest assessment of the overall US architectural market is.

Michael McGarry
Don, this is Michael. Let's start with the assumption. All year, we've been saying that it would be in the 2% to 4% range, so I think our assessment has been relatively accurate. This past quarter, overall, we were up low single digits, and that was over, obviously, a quarter the prior year that was a little bit weaker than we expected, and we did have some bright spots. Certainly, the home centers did very well, from that standpoint. All of our retail partners had a good quarter, from that standpoint, as far as paint sales were. Our trade business was up also. Our company-owned stores continued to perform better, so we think we're closing the gap in that regard, and we're seeing a modest improvement in Canada, as well. So, I would tell you that the industry has been about where we expected, in that 2% to 4% range, and we expect to see next year in a similar type fashion.

Don Carson
Thank you.

Operator
The next question comes from Ivan Marcuse with KeyBanc. Please go ahead.

Ivan Marcuse
Hi, thanks for taking my questions. Real quick on the refinished, and if you commented, I apologize, but in Europe, it contracted a little bit. It tends to be a pretty—historically, a pretty

consistent business. Was there any sort of pre-buying that maybe benefited the second quarter and hurt you in the third quarter, or is there something else going on there?

Michael McGarry
No, for refinish in Europe, the only thing that we really noticed was that the insurance companies in the UK have been getting tighter and tighter on claim management. Other than that, I would say there was nothing significant. Certainly, our waterborne products continue to take share over there, and we did have a nice win that we'll be talking about, I'm sure, in the first quarter call, when it starts to add to the bottom line.

Ivan Marcuse
Okay, thanks. Then, in terms of cash flow, a couple-part question, I guess. What was your cash flow from operations for the first nine months, and then when you look out in 2017, what do you expect your environmental—how much lower do you expect your environmental spending and pension spending outflow, when you look out to 2017?

Vince Morales
Hi, Ivan. I'll take the cash flow question and I think Frank is going to address the other two. We're going to put out our 10-Q in the next few days. The cash flow is a little bit murky, simply because we have a significant amount of pension-related specials, we have some asbestos payments that are reflected as liability reductions. So, the numbers—you'll need to see the pieces, which will be very well articulated in the Q. We're up about—on an apples-to-apples basis, excluding some of the specials, we're up just below 10% year-over-year on a cash flow basis, but you'll need to see the specials to fully understand that.

Frank Sklarsky
Yes, on the environmental spending, Ivan, we are planning to spend about half this year of what we spent in total environmental cash versus last year. Last year, we spent about $100 million. It'll be about half that this year. Obviously, the environmental spending has some level of unpredictability, based upon how the parcels are remediated and any additional work that we find. This is an ongoing journey that's been going on for a few decades. But, generally, we think that the run rate of cash spending environmental this year is more representative to what we see going forward, and hopefully, over time, it will continue to modestly diminish.

In terms of pension spending, we did say that we would have about $175 million of top-up of some of the plans that resulted from the annuitizations that we did on both the US and Canadian side. We put about $50 million of that into the plans in Q3. We've got another $125 million to do between Q4 and 2017, so that will occur over that period of time. Aside from that, there's some very modest, I'll say, high-single/low-double-digit millions of dollars that we've put toward the international plans on an annual basis.

Ivan Marcuse
Okay, and then the last question in terms of—and thanks for detail—on working capital. With raw materials, I guess, probably trending higher, from what we can tell, going into 2017, are you still going to be able to continue to work this 100-basis-point-type of improvement goal?

Frank Sklarsky
This is Frank again. I would say that working capital has been a real bright spot, particularly in Q3, where all three elements of working capital, receivables, payables and inventory, have improved in days. In fact, we took mid-single-digit days out of inventory in Q3. We need to continue to make some progress, because we still think there is a gap to our peers in that

respect. That will come from a combination of more rigorous S&OP process, but also complexity reduction, and we do continue to think that there will be additional, we'll call it, you know, a 100 basis points or so on an annual basis of improvement in working capital. We're pleased with the progress so far, but more work to do.

Ivan Marcuse
Great. Thanks for taking my questions.

Operator
The next question comes from Laurence Alexander with Jefferies. Please go ahead.

Dan Rizzo
Good afternoon. This is Dan Rizzo on for Laurence. You guys mentioned before that it sometimes takes a year to get the synergistic gains because of lower margins of the bolt-ons you guys are doing. I was just wondering, in light of of—like, with M&A activity, increased M&A activity and the higher valuations that we're seeing, if that's getting harder and harder to do, and if it's taking longer now as we move—I mean, looking to take more as we look forward?

Michael McGarry
Dan, this is Michael. There's been no change. We're very experienced in the acquisitions. We've done more than 50 acquisitions in the past 10 years. We have a very dynamic playbook that we consistently apply, and so we expect fully to, anybody that we buy that's our below system average, to get them up to our system average in a relatively simple period of time. I mean, we get the raw materials quickly, we move on to the best practices next, then we do the back office, and then we bring in our new products, PPG products. So, we expect to be there, we're not at all concerned. I mean, we just did MetoKote. We've already picked up $1 million of those synergies in the first 90 days. So, we're going to be okay in that area.

Dan Rizzo
Then, you also indicated on another question that there are a lot of—there is still a number of larger acquisitions out there in a few hundred million dollars range. I would just wonder if expectations again are too high, just given some of the larger purchases we've seen and what people are expecting going forward, so that while they're there, it's just not even—it's a non-starter in terms of what people are expecting at that level.

Michael McGarry
Well, I think it's a fair question and I would tell you that everybody starts with their own idea about what a fair price is. I would tell you that we're not paying 15 times, we're going to remain disciplined, but I don't expect that the current elevation of a couple of specific unique transactions drive the entire market. We didn't pay anywhere near that for MetoKote, and we have others that we're working on right now that aren't in that stratosphere. Certainly, we are going to have to react to the marketplace. I don't know whether some of our competitors are thinking that the zero rate interest environment is going to be here forever, but we certainly recognize that there are different expectations when you do an acquisition.

Frank Sklarsky
Just following very quickly on Michael's around discipline, that's a very important point. At the end of the day, we benchmark against the return that we get by returning cash to shareholders and what they can get on a risk-adjusted basis. If we can have an accretive acquisition that returns in excess of our weighted average cost to capital, that's really the benchmark, not necessarily comparing it to any other recent deal, and that includes any synergies that we can

get either on the revenue or cost side.

Dan Rizzo
All right. Thank you very much.

Operator
The next question comes from Dmitry Silversteyn with Longbow Research. Please go ahead.

Dmitry Silversteyn
Good afternoon and thanks for taking my call. Just a quick question. Looking at the margins of both performance and industrial coatings businesses, they were down year-over-year, I think for the first time since the fourth quarter of 2014. Can you talk about—you talked about raw materials still being a little bit of a benefit. I understand you didn't get the incremental margin on the volumes growth the you were expecting, but I'm still trying to understand why the margins comped down on a year-over-year basis.

Vince Morales
Hey, Dmitry, it's Vince. We'll take them one at a time. I think when you look at the performance coatings business, again, we did have additional growth-related spending that crimped our margins this quarter in that particular segment. Certainly, the margin growth was contracting, as you noted, due to the diminishing benefit of raw materials, but $15 million of additional growth-related spending was impactful in that particular segment. If you flip to the industrial segment, as Michael alluded to earlier, we did see—we are working with our customers in that segment on our selling prices to them, and that's the one factor I would point to in that particular segment. In both these segments, there's always puts and takes outside of those particular items, but those will be the two key items.

Dmitry Silversteyn
Okay, Vince, that's helpful, and thanks for making it so simple for me to understand. I've a question on the general industrial business, which was very strong in this quarter, I think you were up about 6%, including the specialty materials. So, my question is, was it mostly specialty materials which you had left over from optics, from Celanese, that were up, or did your general industrial business, in terms of coatings, really did see the sell-off growth, and if it's the latter, was there any particular markets or geographies where you've done this much better than the market?

Michael McGarry
Yes, actually, Dmitry, our specialty coatings materials was actually the weakest of the four that were in there. Automotive had a very good quarter, as we talked about, and our industrial team had a very good quarter. I mean, when you look at it, our automotive parts and accessories was up high single digits, our coil business was up high single digits, wood was up, transportation coatings were up. Heavy duty equipment was up for the first time in a long time. I'd have to guess, but at least two years. So, our packaging business continued their year-over-year growth. I mean, we're in the beginning of a secular growth rate for this. They were up high single digits, you know, the move to BPA-NI. So, really, when you look at it, specialty coatings materials, they were the weakest of the four. It was everybody contributing, though.

Dmitry Silversteyn
The heavy duty equipment is particularly noteworthy, as you pointed out. I mean, it's been a while since we saw strength in that business and there's certainly nothing from the Caterpillars and the other equipment suppliers of the world that would lead us to believe that this is a

recovering market. So, was this share gain? Was this kind of a one-time? I mean, what's behind this? Can we look forward to this growth, or at least non-decline, in this troubled industry continuing for you?

Michael McGarry
Yes, it was definitely share growth in that industry. We have worked hard to increase our share in that area. The customers are very comfortable with our ability to deliver more productivity in their shops, that's what they're looking for, and we've been able to deliver that productivity through value-added products, and that's what's driving us. The industry itself, as you know, you can read the papers, continues to be quite weak, but we're very pleased with our team's performance.

Dmitry Silversteyn
Excellent. Thank you very much.

Michael McGarry
Thank you.

Operator
The next question comes from Vincent Andrews with Morgan Stanley. Please go ahead.

Male Speaker
Thanks and good afternoon. This is (inaudible) for Vincent. I was hoping that you could clarify the progress on your current and ongoing cost programs, as well as the Comex cost synergy targets.

Vince Morales
Yes, this is Vince. The Comex cost synergy targets, we completed that fully by the end of last year, actually. We do have some sales synergy targets for Comex that were primarily related to PPG products going into Mexico, as well as Central America. Those are on track. They are slightly above track. The other restructuring program that we announced last year, again, diminishing benefits as we approach the fourth quarter, so very modest benefits in the fourth quarter and will be fully captured at that point.

Male Speaker
Great. Thanks.

Operator
The next question comes from Nils Wallin with CLSA. Please go ahead.

Nils Wallin
Yes, good afternoon, and thanks for taking my questions. When you talk about the M&A pipeline, a lot of opportunities in there, are you—could you just help us understand that a little bit better? Is that because there are fewer folks competing with you, there's more assets coming to market, or, in general, companies that you've been looking at over the last couple of years are getting close to the finish line?

Michael McGarry
No, I think, Nils, the way I would think about it is there are several properties that out there that are coming to the market because they see the prices that are out there, and so that makes more people think about whether or not this is the time to get out of some of their investments. I

would also tell you that we have, historically, worked with a number of these family-owned companies for many, many years, and it takes a long time on the sometimes to build that relationship, to get into the point where they feel comfortable and ready to pull the trigger, whether it's a generational change, whether it's been a dynamic where they're looking to reduce their focus on the coatings business, or whatever the dynamic might be. So, we're going to continue to work with our potential acquisitions, whether it's a family-owned company or some of these private equity-owned ones. So, I think the pipeline looks solid.

Nils Wallin
Great. Just on Europe, you've long said that you get some volume growth in Europe, you get very, very attractive incremental margins. When you have this sort of flat volume growth environment, does that mean you have zero incremental margins, or they might actually be detrimental?

Vince Morales
In general, Nils, what you said is correct. No growth, it doesn't matter what your margins are if you're not growing, but we do have some business mix differences in Europe, so we could have pluses or minuses just around business mix, but, generally, what you said is accurate.

Frank Sklarsky
It's Frank. Just to follow up quickly, you have detrimental margins at the profit contribution line, but that's another reason why we're looking at our total cost structure, so we can minimize any downside if the volume becomes muted in the near future. The team over there has done a very good job thus far, but there's some additional opportunities that we're going to be looking at in conjunction with this next set of initiatives we're talking about.

Nils Wallin
Great. Thanks very much.

Operator
The next question comes from Mike Harrison with Seaport Global Securities. Please go ahead.

Mike Harrison
Hi, good afternoon. Michael, you mentioned that your larger customers tend to get some of the more attractive pricing and the smaller customers would get better pricing, from your standpoint. I was wondering if your comment on heavy equipment manufacturers being stronger in the quarter, could that be another component of negative mix affecting the margin performance of the industrial coatings segment?

Michael McGarry
I would say that's a very, very small factor. When you think about—you know, heavy duty equipment has reduced the size and scope overall of our industrial coatings because of their decline, so it has no real material impact.

Mike Harrison
All right. Then, just looking at the decline of the Mexican peso and the impact on the Comex business, are all of the costs that you incur in that business peso-denominated or are you seeing some transactional impact because you're paying dollars for some of your raw materials or other costs?

Frank Sklarsky
This is Frank. Most of the costs are peso-denominated. There is a little bit of transactional exposure from buying some materials from outside of Mexico, but we do have the ability to hedge a portion of that. We don't get into details as to how much we do, but the limited transactional exposure there is, we do have the ability to mitigate that. Plus, there is also a pricing opportunity when you see these kinds of movements on currency, so that's also another mitigating factor, which is the reason that business continues to perform very, very well on both the top line and bottom line.

Michael McGarry
Mike, let me just add to that. From the Comex perspective, they continue to outpace our original target, which is two times GDP. We've opened up 67 new stores in the quarter. We're at 168 new stores through the first three months, so we're going to exceed our target. We're getting close to 4,200 stores in Mexico. So, we're going to have probably 190 stores. We also opened up new stores, which were not counting, in Lowes. So, we have a store in-store concept down there, as well. So, overall, even with the challenges to the peso, the PPG Comex team has been doing a phenomenal job.

Mike Harrison
All right. Thank you very much.

Operator
The next question comes from Duffy Fischer with Barclays. Please go ahead.

Mike Leithead
Hey, guys, this is Mike Leithead on for Duffy. Just one quick one following up on the restructuring actions you guys talked about today. Is it too early to try to think about the size of the potential program there? As we start thinking about our 2017 forecast, should we bake in kind of a more than negligible amount of restructuring benefit, or how should we think about that?

Frank Sklarsky
We don't want to go into the specifics right now and the exact amount, because we're still assessing all of the potential actions we're looking at. What we can say is it's going to be broad-based and significant and we will address all elements of the cost structure, and when we have the things kind of nailed down as part of our planning process, we'll update the market at appropriate time.

Michael McGarry
But, Mike, as we've said in the past, generally, you take a couple of quarters to phase it in and then you start to get more benefits at the back half.

Mike Leithead
Fair enough, and then if I could squeeze one more in on packaging. Can you talk about the kind of technology you guys have there and the transition to the non-BPA coating, and just kind of what inning we are there in that phase-in?

Michael McGarry
I think we're in inning three. BPA non-intent coatings really started in France. They have factored their way over to the US in some of the food applications. Now, California, in fact, their regs and the way they are going to force people talk about it kicked in actually October 18, so

that will be more pressure in the marketplace to shift to the BPA-NI coatings, and of course once that starts to happen—I always use tuna fish as an example. You pack cans in Thailand and those cans show up in Europe, they show up in the US, and they're not going to run two and three different formulations for some of those tuna fish runs, so you're going to have certain markets following later just because of where they export to. So, we're in the early innings and we're really pleased with the acceptance of our new technology.

Vince Morales
If I could add, this is one of the businesses, again, where we're stacking year-on-year growth rates of very high levels. We were up mid-single digits this quarter. That's on a very good comp last year. So, that stacking effect is very helpful for us.

Mike Leithead
Thanks guys. I appreciate the color.

Operator
We have time for just one more question and that will come from Jim Sheehan with SunTrust Robinson Humphrey. Please go ahead.

Jim Sheehan
Michael, of your nine core raw materials, about how many are rising and how many are still falling at this point?

Michael McGarry
Well, we only have one that's falling and seven are flat, and I talked about TiO2 being up. So, right now, it's a relatively benign environment going into the fourth quarter and we'll obviously have to wait to see how it looks with the first quarter, but that's how we stack them up.

Vince Morales
We do think, Jim, we do have a benign global economy here, so the push for raw material inflation shouldn't—there's not a demand-supported push for that.

Jim Sheehan
Great, and can you just tell us what is your base of earnings per share from continuing operations in the fourth quarter last year adjusted for the European fiber glass business?

Vince Morales
Jim, we put out an 8-K in mid-September that provided by quarter the last several years of our EPS from continuing, excluding flat glass in mid—again, let's call it mid-September. I think for the fourth quarter, that was $1.16. That European fiber glass business will remain in continuing. It wasn't a sale of entire business, so based on GAAP guidance, it remains in continuing.

Jim Sheehan
Thank you.

Operator
This concludes our question and answer session. I would like to turn the conference back over to Scott Minder for any closing remarks.

Scott Minder
Once again, I'd like to thank everyone for their time and interest in PPG. If you have any further

questions, please contact Investor Relations. This concludes our third quarter earnings call.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.