PPG

Fourth Quarter 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

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 Industries Fourth Quarter 2016 Earnings Conference Call. My name is Rocco and I will be your conference specialist today. 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 you question, please press star then two. We also ask that you please limit yourself to one question and one follow-up. Please also note today's event is being recorded.

I would now like to turn the conference over to Mr. Vince Morales, Vice President, Finance. Please go ahead, sir.

Vincent Morales
Thank you, Rocco, and good afternoon, everyone. Once again, thanks for joining PPG's fourth quarter and full-year 2016 financial teleconference. Joining me today from PPG is Michael McGarry, Chairman and Chief Executive Officer, and Frank Sklarsky, Executive Vice President and Chief Financial Officer. One item of note is Scott Minder, our Director, Investor Relations, is not able to join the call today due to a death in the family. Our thoughts and prayers go out to Scott and his family during this difficult time.

Returning to today's call, our remarks today relate to the financial information we released this morning, Thursday, January 19, 2017. I will remind everyone that we have posted detailed commentary and accompanying presentation slides on our Investor Center at www.ppg.com. The slides are also available on the webcast site for this call and provide additional, supporting information for the opening comments Michael will make momentarily. Following Michael's perspective on the company's results on the quarter and full year, and a brief financial assumptions update from Frank, we will move to Q&A.

Both our prepared commentary and discussion and Q&A during the 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 may 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.

Today's presentation also contains certain non-GAAP financial measures. The company has provided in the appendix of the presentation materials reconciliations of these non-GAAP financial measures, the most directly comparable GAAP financial measures. For additional information, please refer to the company's filings will the SEC.

Now let me turn the call over to PPG's Chairman and CEO, Michael McGarry.

Michael McGarry
Thank you, Vince, and before we start with my prepared remarks, I'd like to take a minute to recognize the announcement today that we made that Frank Sklarsky will be retiring March 1. Frank joined us four years ago and came to us with a very diverse background serving as CFO for several companies in different industries. Frank has applied that past experience since he's arrived and has been truly a great thought leader, change agent, and steady hand that has guided us through financially very strategic actions. Both internally and externally, including with our shareholders, Frank has brought a tremendous amount of skill and energy to the job.

Frank, thank you for your many contributions to PPG and congratulations on your well-deserved retirement.

I also want to congratulate Vince on his announcement appointing him as CFO, March 1. Vince has been an integral part of the PPG family for more than 30 years, served in a variety of internal and external facing financial roles. Over that time he has proven to be a broad thinker, leader, and valuable contributor to the executive team as we transform the company. His deep knowledge of PPG and our businesses, the coatings and chemical industries, and the capital markets will serve him well in the new role. So, once again, congratulations to both of you.

And so, now I want to talk a little bit about our fourth quarter performance. Today we reported fourth quarter and full-year 2016 results.

For the fourth quarter our net sales were $3.5 billion and our adjusted earnings per diluted share from continuing operations were $1.19. This represents an EPS growth rate of 3% for the quarter and we achieved an EPS growth rate of 7% for the year. While these figures fall short of our EPS growth goals, both numbers were noticeably impacted by persistent unfavorable currency translation.

For the fourth quarter, our reported net sales were down 1.5%, while our sales and local currencies increased by more than 1%. Supporting a higher local currency, sales were increased volumes approaching 2% in our coating segment. This figure matched our highest quarterly growth rate in 2016. Also minimally impacting our net sales in the quarter were our portfolio optimization actions, as acquisition-related sales modestly exceeded the absence of sales from the divested businesses we are still including in our continuing operations.

As I mentioned, foreign currency translation remained a significant factor affecting our financial results with fourth quarter net sales unfavorably impacted by approximately $100 million and pre-tax income impacted by about $25 million. For the full year this impact was about $400 million US dollars on sales and about $70 million on pre-tax earnings.

Looking at some business trends in the fourth quarter and from an end-market perspective, our highest volume growth rates were achieved in our industrial coating segment with each business unit meeting or exceeding industry growth rates by delivering at least a mid-single-digit percentage volume growth. Sales volumes continue to expand in automotive OEM coatings and were consistent with overall mid-single-digit percentage global industry build growth.

Our above-market performance in the faster growing regions of Asia Pacific, Europe, and Latin America was then contrasted a lower industry and PPG volumes in the US and Canada.

We also continue to grow sales volumes in general Industrial Coatings, delivering our fourth consecutive quarter of above-market growth rates with positive year-over-year contributions from each region. In addition, packaging coatings growth volume remained strong as customers continue to adopt our interval INNOVEL interior can coatings products around the globe. In performance coatings, automotive refinish volumes grew a low single-digit percentage as growth returned to Europe, following lower year-over-year demand in the third quarter, and volumes continued to expand in Asia.

Aerospace and architectural coatings EMEA sales volumes were in line with prior year as industry growth remained tepid for both businesses. Specifically, in architectural coatings, sales volumes grew in Europe with the strength in the UK, Ireland, and Benelux countries, but was offset by the clients in Africa, where many economies are closely linked to the depressed commodity prices. Sales volumes improved in architectural coatings in Americas and Asia Pacific as gains as the US and Canada company-owned stores was partially offset by lower demand in the independent dealer network and uncertain national retail accounts. Sales growth in Mexico continued despite comparison to strong prior year growth. Sales volume growth was also positive year-over-year in the smaller markets in Central America, Australia, China, and Brazil.

In contrast, significant low double-digit sales volume declines occurred in protective and marine coatings, as further weakness in marine ship building activity more than offset PPG's specific growth and protective coatings. We are continuing to aggressively manage our costs in this business to neutralize the earnings impact of these expected market-based activity level declines. Glass segment volumes declined 3% in North American fiberglass business, principally due to lower wind energy product demand.

From a regional perspective, sales volume growth was led by emerging regions. Asian demand growth was broad-based across many of our businesses, but was partly offset by significant declines in regional ship building as previously mentioned. Volumes in Latin America were also positive despite comparison to strong prior year growth in several businesses, including PPG Comex. Volume growth also improved in Europe after a relatively flat comparison to prior year in the third quarter 2016. Growth in this region was also broad-based, which was more comparable to the growth patterns we experienced for most of 2015 and the first half of 2016, when our volumes expanded for six consecutive quarters.

From an earnings perspective, our fourth quarter adjusted earnings per diluted share at $1.19 improved by 3% versus the prior year quarter. Aiding our earnings growth were higher sales volumes and lower overall costs, which included a positive impact from our prior year restructuring program. In addition, earnings per share benefited from our ongoing cash deployment actions. This included the impact of our repurchase of $650 million of PPG stock in the fourth quarter, bringing our full-year 2016 share repurchase to $1.050 billion, or nearly 11 million shares. In the quarter, average diluted shares outstanding were 2.8% lower versus the fourth quarter of 2015.

Now, I'd like to comment quickly on our full-year results from continuing operations. These results do not include the divested flat glass business financial results which have been classified as discontinued operations.

On a full-year basis, our sales from continuing operations were at $14.8 billion, consistent with the prior year despite an unfavorable foreign currency translation impact of approximately $400 million, or about 3%. Our full-year sales volumes grew about 1%. Our adjusted earnings per diluted share was $5.82, up 7% versus the prior year. We were able to grow our full-year earnings despite modest and uneven global economic growth for the second consecutive year.

We accomplished this by another strong year of operational excellence. Our more significant actions included commercialization of new products and technologies, allowing us to deliver above-market growth in several of our businesses, continued successful integration and earnings accretion from prior and current year acquisitions, completion of our previously announced restructuring program, including achievement of savings commitments, and lastly, a hallmark of improved productivity and aggressive cost management in our manufacturing operations and within our overall administrative and business support cost structure.

In addition to these operational items, we allocated more resources and investments toward growth-related opportunities and expect that this will continue to yield dividends in our organic growth rate going forward.

Over the course of the year, we continued to execute on our strategic objectives to strengthen the company. We further optimized our business portfolio with the acquisition of MetoKote, a global leader in coatings applications, and Univer, an Italian architectural coatings company. In addition, we closed on the acquisition of Deutek, a Romanian architectural coatings leader in early January 2017.

We were equally active in addressing the non-core part of our portfolio as we completed the divestitures of our flat glass business, our European fiberglass business, our ownership interest in two Asian fiberglass joint ventures, as well as our minority interest in Pittsburgh Glass Works. These divestitures, which most occurred later in the year, provided us with almost a billion dollars of gross proceeds. We fully intend to deploy these proceeds in accreted manner that will create value for our shareholders.

As a result of these portfolio actions, 97% of our 2016 net sales was composed from revenue from our core coatings services and specialty material businesses. Our revised business portfolio has a broader geographic reach, more opportunities for enhanced customer intimacy, and technology dependency. It also delivers strong and consistent operating cash flow, requires less capital intensity, and we expect it to be more resilient to overall shifts in the economic activity.

In addition to the portfolio moves, we continue to reduce legacy-related risks by fully funding our portion of Pittsburgh Corning Asbestos Trust and by annuitizing a significant portion of our US and Canadian pension obligations. We are pleased to have put some of these significant non-core obligations behind us, thus reducing volatility in future earnings and cash flow.

We also continue our strong cash generation with about $1.2 billion generated from continuing operations for the year. This included a reduction associated with the net after-tax cash flow related to the full funding of Pittsburg Corning Asbestos Trust. Excluding this impact, cash flow from operations was almost $1.9 billion for the year.

One of the key enablers of this cash performance was our continuing effort to be more efficient with working capital. This year we reduced our working capital by another 120 basis points as a percentage of revenue, including noteworthy improvements in inventory efficiency. The company has averaged more than 100 basis point annual improvement in this metric for the past four years.

In addition, consistent with our capital allocation philosophy, we continued our legacy of returning cash to shareholders with nearly $1.5 billion in share repurchases and dividends. Regarding dividends, 2016 marked the 117th consecutive year of dividend payouts and the 45th consecutive year of annual payout increases after an 11% per share increase in April 2016.

As we look ahead to 2017, we are operating in an evolving macroeconomic and regulatory environment. Our expectations are for improved momentum in the overall global economic growth including gradually higher growth rates in developed regions and continuing, but uneven, growth in emerging regions. We anticipate economic growth rates to improve in the US and Canada, including a modest acceleration in industrial production and GDP rates versus 2016. We expect construction markets to expand at a continued measured rate. Lastly, we believe that regional automotive industry builds will be flat or decline modestly year-over-year after several years of post-recession expansion.

In Latin America, we anticipate economic expansion in Mexico, and in South America we expect to return to flat or slightly positive year-over-year economic growth following a multiyear contraction in economic output.

Growth rates in Asia are expected to remain generally consistent with 2016, with continued industrial production growth in China, as well as gains in Southeast Asia and India. Automotive build growth is expected to remain positive in the region, but at more modest growth rates in comparison to 2016.

Economic growth in Europe is expected to continue but remain varied by sub-region and country.

Favorable in-use market trends are expected to continue, particularly in automotive OEM coatings, as industry build growth rates are expected to remain positive.

Despite our cautious optimism for 2017 economic growth, the timeline for this growth remains uncertain. As such, we will aggressively manage all elements of our business within our control to ensure that we remain competitive regardless of economic conditions. We recently initiated an almost $200 million business restructuring program focused on reducing our costs where business conditions remain the most uncertain and will continue to support the momentum of our recent growth-related initiatives. Additionally, we have initiated targeted selling price increases to combat recent inflationary cost pressures in several markets and regions. We will continue to closely monitor our input costs and will work with customers in a collaborative and equitable manner.

Finally, we remain in a position of strength as we ended the year with nearly $1.9 billion of cash in short-term investments, and this provides us with significant financial flexibility going forward. Supported by our strong cash generation, we reached the top end of our cash deployment range for 2015 and 2016 combined by deploying over $2.5 billion on share repurchases and acquisitions.

Today we announce the new two-year cash deployment range of $2.5 billion to $3.5 billion for acquisitions and share repurchases for the years 2017 and 2018 combined, reflecting our continuing focus on shareholder value creation. We continue to believe the coating space remains a consolidating industry and our acquisition pipeline remains active across geographies and in-use markets. And, of course, share repurchases will also remain an important element of our capital allocation strategy.

I will conclude by saying that 2016 was a good year for PPG. We delivered record adjusted EPS despite uneven economic conditions and against a volatile currency backdrop. We completed many strategic actions to make the company stronger and more resilient in the future. We look forward to another successful year in 2017.

Now, I will turn it over to Frank who will cover some 2017 financial assumptions.

Frank Sklarsky
Thank you, Michael. Thanks for your kind words, and good afternoon, everyone. I'm going to cover several items that will assist in modeling PPG's 2017 sales and earnings. We have included in today's presentation materials a summary of these financial assumptions on slide 12.

Before we get to the discussion of 2017, however, let me briefly cover one housekeeping item and provide you with our total 2016 sales and adjusted EPS figures from continuing operations for each quarter in 2016. These figures have all been adjusted to exclude the flat glass business, which is now being presented as discontinued operations. These have previously been reported in our SEC filings or earning reports, but I quickly want to summarize them for you.

For the first quarter of 2016, net sales were $3.544 billion and adjusted earnings per share from continuing operations was $1.27. For the second quarter, sales were $3.921 billion with EPS at $1.78. For Q3, net sales were $3.789 billion with EPS at $1.56, and Q4, as you know, was $3.497 billion with EPS at $1.19, for a total year of $14.751 billion and earnings per share of $5.82. Please note that the EPS of $5.82 for 2016 compares to $5.43 for 2015 on a comparable basis, and as Michael pointed out, that represents an increase of $0.39 or 7% year-over-year.

Turning now to 2017, the first item relates to the impact from the MetoKote and Univer acquisitions that we completed in 2016, and the full-year impact of the Deutek acquisition that we finalized in January of 2017. These acquisitions are expected to achieve full-year sales of about $270 million in 2017. Since we realized about $90 million in sales in 2016, we expect an incremental $180 million in sales from these three acquisitions in 2017. This incremental revenue will be classified in the acquisition category until each acquired entity reaches its respective acquisition anniversary date, after which time the results will be included in normal organic revenue results. These acquisitions will typically achieve at or below segment average margins early on as we work to fully integrate their operations into PPG. Additionally, the company divested its European fiberglass business in October 2016. The divested business had sales during the first three quarters of 2016 of approximately $140 million that will not recur in 2017.

Next, we will continue to experience the impact of foreign currency translation headwinds as measured against the US dollar. As a result, for the full-year, the company expects that year-over-year currency translation will unfavorably impact sales by a range of $375 million to $425 million, and impact pre-tax earnings by about $70 million to $90 million. For the first quarter, we expect an impact to the top and bottom lines similar to what we experienced in the fourth quarter of 2016. These figures represent our current assumptions based on exchange rates as of early this week. Again, these impacts are for currency translation-related impacts. Given the nature of our business, we typically do not incur significant transaction-related currency impacts.

We also initiated a restructuring program in December 2016 targeting $125 million in total run rate savings annually once fully implemented. We anticipate that this program will generate $40 million to $50 million in savings during 2017.

The next item relates to the company's pension and other post-retirement benefits or OPEB expenses. We are expecting these expenses to decrease by about $15 million to $20 million in 2017. This decrease stems from a US post-retirement medical plan design change made in the third quarter of 2016. We expect slightly higher net interest costs in 2017 of about $5 million year-over-year.

Next, we anticipate that the company's 2017 tax rate on ongoing earnings from continuing operations will be in the range of 24.5% to 25.5%. The comparable rate for 2016 was 24.5%. The increase relates primarily to a shift in our regional earnings mix.

Finally, as Michael mentioned, we announced a new two-year cash deployment range of $2.5 billion to $3.5 billion for the years 2017 and 2018 combined after dividends and capital expenditures dedicated to acquisitions and share repurchases.

Once again, a summary of these financial assumptions is contained in the presentation materials provided for today's call.

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

QUESTIONS AND ANSWERS

Operator
Absolutely. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone at this time. If you are using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Once again, that is star then one to ask a question, and as a reminder we ask that you please limit yourself to one question and one follow-up.

At this time, we will pause momentarily to assemble our roster.

Today's first question comes from David Begleiter of Deutsche Bank. Please go ahead.

David Begleiter
Thank you, good afternoon. Mike, just on this targeted selling price increases, can you discuss where you're getting them or targeting them, what regions, what product lines? And what portion of the portfolio are you thinking you recapture price over the next six months?

Michael McGarry
So, David, we've announced price increases in a number of regions, so just Canada, US, Mexico, Brazil, Central America, UK, Ireland, the Benelux, as well as select countries in Central Europe. So, we've been aggressive in doing that. As you know, historically, we've always told people that we work with our customers on a proactive basis. We expect that as they start to see the price increases coming through they can expect us to come and talk to them. I think they can see it coming now, and so, we're in discussions with a number of our customers.

David Begleiter
And Mike, just on gross margins, how do you expect gross margins to trend throughout the year? Can you see some gross margin expansion by Q3, Q4, do you think?

Michael McGarry
Well, I think gross margins are—you can see that we went down a little bit in industrial. I'm sure somebody will ask a question about that. And then, raw materials will have some pressure. If you think about where we were in the first quarter last year with oil at $35, now we're at oil, let's call it, $55 to round it up. So you can expect that even though, sequentially, raw materials are going to be rather flattish from fourth quarter to first quarter, on a year-over-year basis raw materials are up. So, I would say margins are going to be challenged in the beginning, but we have our restructuring program we announced, and that will certainly provide us some benefit in the second half of the year.

David Begleiter
Thank you very much.

Operator
And our next question today comes from Frank Mitsch of Wells Fargo. Please, go ahead.

Frank Mitsch
Hello, good afternoon gentlemen, and, Frank, congrats on your pending retirement. I'll never forget your first PPG conference call when Chuck had laryngitis and you took over like a champ during that call, so, certainly, big shoes for Vince to fill, and, of course, Vince, congrats. Looking forward to working with you in your new role, etc.

Vincent Morales
Thanks.

Frank Mitsch
Michael, I know that organic volume growth is an important metric and has become a more important metric for you, and you've got two quarters now in a row of 1.5% organic volume growth. What should we be thinking you can do in the early part of '17 here in terms of volume and, perhaps, for the year as a whole?

Michael McGarry
Yes, Frank, clearly we're still not happy with—you know, it may be our best quarter yet, call it slightly

under 2% for our coatings portfolio. So, we've told people that we expect to be GDP and when we're performing at a high performance, we would be GDP +. So, you probably saw on the corporate line that corporate costs were down. That was partly driven by us not hitting our volume goals. So you could expect to see us continue to push organic growth as a key lever for us in 2017. And I think we will continue to get better as the year goes by.

Frank Mitsch
During your commentary, you mentioned—you gave the phrase of improving momentum in terms of economic activity, so that would almost imply that we're going to start seeing that 2%+ type organic volume growth sooner rather than later. Is that not the way for us to think about that?

Vincent Morales
Yes, Frank, this is Vince. If you look at our coatings volumes, as Michael mentioned, they were actually higher than our total company volumes. Coatings volumes were 1.7%,1.8%. That's our best mark of the year and that's part of the reason why we feel there's some improved momentum. We did see a recovery in volumes in Europe as well. So, those are pieces to the puzzle as to why we're hoping and continuing to see improvement as we go into '17.

Frank Mitsch
Thank you.

Operator
Our next question today comes from Kevin McCarthy of Vertical Research Partners. Please, go ahead.

Kevin McCarthy
Yes, good afternoon, gentlemen. So, you announced a capital deployment program of $2.5 billion to $3.5 billion over the next two years. I was wondering if you could elaborate on the thought process behind establishing the bookends of the range. And, Michael, I welcome any thoughts that you might have on the mix of likely repurchases versus what you're seeing in the M&A pipeline, maybe not over the next two years, but perhaps over the next couple of quarters. Thank you.

Frank Sklarsky
Kevin, I'll start out and then turn over to Michael. So, the bookends—if you look at the center point, there's $2.5 billion to $3.5 billion. You think, we're the end of the year at $1.9 billion in cash and generate over a billion dollars each in 2017 and 2018, that would still leave us a reasonable amount of cash on the balance sheet at any given time through the seasonal quarters, and, of course, in the recent past we have been under a billion in cash. So, what we want to do is deploy cash as we have it, either on acquisitions, which would be our preference, or share repurchases. That will depend on the pipeline in any given quarter, but returning that cash toward value-creating activities. But that really relates to the center point.

The variation around the mean, the $2.5 billion to the $3.5 billion, really will depend upon business conditions and the amount of cash we have and the timing of any acquisitions we might have over the period. And, of course, always, as before, we can always adjust that range as we did in the last program, where we started at one range and ended up at the top end of a higher range that we communicated later on, and that was based on the fact that we had the affordability and the net cash to do so.

Michael McGarry
So, Kevin, I'll take the second half of the question, which is how do we think that mix will be. Right now, I would describe our acquisition pipeline as similar to what we have seen in the past. So, we did slightly under $400 million the last couple of years in acquisitions. Obviously, the prices of acquisitions have

gone up. We've adjusted our thinking on our own whack [ph] and those returns. At the end of the day, though, we do see a lot of people think we pay them exceptionally high prices for acquisitions, so, we're going to continue to be disciplined and I would expect to see a similar type relationship between acquisitions and buying back shares.

Kevin McCarthy
Thanks, I appreciate the color.

Michael McGarry
Thanks, Kevin.

Operator
And our next question comes from Ghansham Panjabi of Baird. Please, go ahead.

Ghansham Panjabi
Hello, guys, how are you? Congrats, Vince, and Frank, as well. I guess, first off on industrial coatings and the significant growth in auto OEM growth, did you see any change in pricing for that particular end market? One of your peers has been pointing toward seeing some pricing give backs with the larger auto OEM customers. I'm curious on what you're seeing in that market, too.

Michael McGarry
Well, I think the way I described that, Ghansham, is that we've always said our large global sophisticated customers typically can apply more price pressure than our businesses that go through distribution. And, you saw some price degradation across the company, so you could probably make a pretty good guess at where that would be.

What I would tell you, though, is we have already started talking to all our customers about raw materials, so this is the early innings of that. I would tell you that overall, though, they're paying for technology. So, when you think about the industry, we've been growing at a faster rate than the industry in three of the four regions, and most of that has to do with technology where we have captured additional share due to our compact process as well as bringing better productivity in their own OEM shops. So, I think, overall, our growth has been pretty much driven by meeting or exceeding customer requirements.

Ghansham Panjabi
Okay, that's helpful. And then just, Michael, in terms of your view on the macro trend line in Europe, the volume improvement in 4Q versus what you saw in 3Q, was that just sort of a catch up from 3Q being sort of subpar, or do you sense any shift in the macro as you head into 2017 in that region?

Michael McGarry
Well, it's such a choppy environment over there in Europe. We have a number of countries—I mean you take UK, Ireland, I mean, they've just consistently performed at a very high level. Germany doing pretty well. The laggards, well—I would say Southern Europe is also improving. So, five out of the last six quarters we've had positive growth in Europe, and I would anticipate that we would have positive growth, but uneven, in 2017.

What also is in that number that has held it back, of course, has been the Middle East. The Middle East is an important market force, and that market has certainly been under a lot of pressure, as well as Africa. So, continental Europe, I am constructive on it. I think it is improving, and, of course, from the automotive builds, I would say that we're probably in the sixth or seventh inning. We have a long way to go. They only made 13 million cars in Western Europe and we can see 16 or 17 million cars easily, so more growth there to come.

Ghansham Panjabi
Okay. Thanks so much.

Michael McGarry
Thank you. By the way, I misspoke, it was 14 million in Europe builds.

Operator
And our next question comes from Dmitry Silversteyn of Longbow Research. Please, go ahead.

Dmitry Silversteyn
Excuse me. Good afternoon, I should say. You mentioned previously the sort of—the expectations of price increases in your raw material costs and your ability to get out and get this pricing over the course of months or quarters. If you look at your 2017 guidance, how much of a raw material inflation have you sort of baked in, and is it more weighed toward the second half of the year or do you expect inflation to happen in the first half of the year and pricing to sort of come into effect and start offsetting that in the second half of the year?

Vincent Morales
Dmitry, this is Vince. If you look at our 2017 year—well, a little bit of history here. If you look at the coating industry historically, we typically see inflation. The industry and PPG work to get price in place. There's typically a six to, let's call, a nine-month lag between the earnest inflation and the price being adopted. So we're right in the—let's call it the second, third month of that window. So, we would expect additional pricing to come from our customers over the course of the back half of the year. We're seeing a—as Frank mentioned and Mike will mention, we're seeing a little more inflation in the beginning of the year really just because last year's first and second quarter were lower. We saw some step up in the back half of 2016, so we're anniversarying some inflation. So, a little inflation in the first half of the year offset by pricing in the second half. We expect that to neutralize the effect, and if not, we'll take additional cost action.

Dmitry Silversteyn
Got it, and as my follow-up, you've talked about and we've seen marine being a bad guy for you going on three years now. Are we getting close to the bottom of that business or maybe anniversarying some of the more tough comps and, hopefully, seeing a little bit better results in performance coatings overall as that business stabilizes? Is that a 2017 or a 2018 type of an outlook?

Michael McGarry
Okay, so let's think about it this way, Dmitry. We typically paint a ship 9 to 15 months after the order's taken. This year, orders in Korea are down 85% from the peak, and all across Asia they're down 60% from the peak. So, there is still more downward pressure in that market, but I don't think orders are going to get worse. I think from an order standpoint, it's probably nearing the bottom. Now the good news is, we're aggressively managing our costs, so we can see as the order book thins that we're taking aggressive action in that area, and that's part of the reason why you saw the fourth quarter announcement about restructuring. That was one of the businesses that was significantly impacted by that.

Dmitry Silversteyn
Okay. So, it sounds like another year at least. Thank you very much.

Michael McGarry
You're welcome.

Operator
And our next question comes from Jeff Dukakis [ph] of JP Morgan. Please, go ahead.

Jeff Dukakis
Thanks very much. It looks like the after-tax costs of asbestos were maybe $675 million. Is that right? Which I think is, maybe you were originally expecting $500 million. And, are there additional taxes that have yet to be paid on some of the properties that you sold, and if so, what are the magnitude of the tax payments?

Frank Sklarsky
Yes, it's for asbestos, it's a little bit lower than that in terms of the after-tax costs and the other number that you might have been quoting, it depends on the timing of the cash payments versus the P&L tax. But, from a cash basis in 2016, it was in the low 600s. We're pretty much done with that. There are no real additional tax payments on the properties that were sold in '16, and there was minimal tax leakage due to some tax attributes and some tax planning that we were able to embark on. So, with respect to the flat glass business and the fiberglass businesses and the JVs, we were able to really secure more than a billion dollars in after-tax proceeds.

Now, that said, the cash taxes for 2017, will probably be closer to that adjusted tax rate than they were in 2016, where we were able to use some attributes to offset some of these gains. So, that will be a dynamic going forward, but no additional taxes associated with the divestitures going forward.

Jeff Dukakis
Okay. And then, for my follow-up, in the fourth quarter in both of your segments—both of your key coating segments—your operating profits were down year-over-year, and you're talking about raw material inflation and lacking price increases, so it sounds like you have a bearish point of view toward your first half and then maybe you have some growth in your second half. So, in 2017, are we sort of looking for maybe a flat or a flat top year in earnings for PPG?

Frank Sklarsky
Well, first Jeff, just for the year, just to clarify.

Jeff Dukakis
Sure.

Frank Sklarsky
Each of the operating segments for full year had increases in what we call that PT/PI/ROS [ph] margin. Now, fourth quarter—

Jeff Dukakis
I'm talking in the fourth quarter, yeah.

Frank Sklarsky
Yes, for the fourth quarter there were a couple impacts, and most notably, as Michael mentioned before, industrial coatings was the one where you saw a little bit of a reduction. That was driven, really, by a couple of different factors. There's probably a couple tenths of a point driven by some acquisitions that haven't been fully integrated yet. There's, actually, about three-tenths of a percent impact from currency in Q4 industrial coatings just because the dynamics between the top and the bottom line, about a half a percent associated with some of the additional costs that Michael referenced for logistics and transportation to meet some demands in Asia. That's really a temporary dynamic. And then, of course,

from the slide you can back into the, approximately, 100 basis points of price in industrial for Q4 year-over-year.

Now, I think the wild card for 2017 will be exactly what the currency impact's going to be. The cost we're addressing, clearly. We'll fully integrate the acquisitions, so that won't be a dynamic going forward. We're going to manage very carefully, as Michael mentioned, the targeting of prices versus input cost, so that should improve. We'll get restructuring benefits, so it's really the currency dynamic.

So, overall for the year, margins were up. Q4, a little bit of a dip in the road but based on some unique factors, but going forward we still expect the opportunity to accrete margins in '17.

Michael McGarry
And, Jeff, let me just add, you know—

Jeff Dukakis
Sure.

Michael McGarry
I want to disabuse you of the thought that earnings would be flat. That's not our base case at all. Not only are we going to have volume growth, that's going to be a positive. We're going to have earning accretive cash deployment, that'll be a positive. And you know we have the self-help from our restructuring program, so that's also a help. So, we will see positive EPS growth year-over-year.

Jeff Dukakis
Okay, great. Thank you so much.

Frank Sklarsky
Thanks, Jeff.

Operator
And our next question comes from PJ Juvekar of CitiGroup. Please, go ahead.

PJ Juvekar
Thank you, and congratulations both Frank and Vince.

Vincent Morales
Thanks, PJ.

PJ Juvekar
Question on architectural paint. Was there any inventory adjustment at the big boxes or was there anything going on there that you saw the decline on the national level in national chains?

Michael McGarry
Yes, so, PJ, it's always hard to draw inferences from the fourth quarter. Obviously, we have line reviews going on. One of the major differences '15 versus '16, if you remember '15 we had a very warm October, early November, we had very good stain sales in that regard. It did not repeat in 2016. We had positive POS, so the sell-out is better than the sell-in. That gives us some good feelings going forward.

Like I said, fourth quarter and first quarter are always difficult to think about it from the standpoint that the home centers can make adjustments in their inventories. But when we look at the POS data, we're—I would say we're still optimistic.

PJ Juvekar
Thank you, and secondly, there is significant consolidation going on in paints. Recently we saw Nippon Paint coming into the US with the acquisition of Dunn-Edwards. So, where do you think the multiples are that are being paid today and what is your comfort zone, Michael, when you deploy that capital?

Michael McGarry
Well, I don't think I want to tell you my comfort zone because people might know where we want to bid. But, obviously, when you look at the Dunn-Edwards number, I would tell you that Nippon was aggressive, overly aggressive in our opinion. Clearly, they were wanting to get a toehold in the US market. They viewed this as an opportunistic way to get in and they took advantage of that. So, I would tell you that the multiples are clearly higher, but we're just going to have to adapt to a change in environment.

Frank Sklarsky
Thanks, PJ. If I could add, as Frank mentioned earlier, we're going to keep our financial discipline and we're going to try to reward our shareholders and create value for our shareholders as part of any transaction.

PJ Juvekar
Thank you.

Operator
And our next question comes from Laurence Alexander of Jefferies. Please, go ahead.

Dan Rizzo
Hello, this is Dan Rizzo on for Laurence. You mentioned that the Comex performed pretty well in the quarter. Is there opportunity for expansion of Comex into other parts of Latin America? And—that's the first part of the question, and 2) Is the unrest in Mexico having, like, a queen effect where the growth—the pace of growth is slowing?

Michael McGarry
So, let me address a couple of those questions, Dan. The first one is, we have taken the Comex model into Central America. We gave guidance that it would be $60 million to $70 million in new sales. We are tracking above that growth rate. We said that would over a three to five-year period. Central America, for us, a very small business, obviously, but it grew nearly 40% year-over-year, so it was an outstanding performer from that regard. The Comex team, we said it would grow more than two times GDP, it's exceeded that significantly, so, another good year by the PPG Comex team.

The current unrest because of the raise in gasoline prices, we've lost about 300 store days, which through the first—whatever—20, 19 days is really insignificant. It's less than 1% of our total store days being open. I looked at the sales through the first 19 days. The sales are ahead of last year's pace, so we're tracking pretty well in that regard.

So, obviously, we're not happy with the unrest, but, overall, it has not impacted our business. I'm more concerned about the consumer sentiment right now. Consumer sentiment in Mexico remains solid and so we anticipate another good year. Last year we opened 212 stores, which is more than one store every other day. We're up to 4,213 stores. We have a plan to open almost another 200 stores this year. So, overall, we expect to have another very good year in Mexico.

Dan Rizzo

Is consumer sentiment such that—I mean, it telegraphs well enough where you can see the events changing and you can alter your plans, or is it something you might be concerned it happens kind of coincidentally, where consumer sentiment falls and sales fall off at the same time? I was just wondering if there was any, like, lead time there.

Vincent Morales
Typically, in the paint industry in architectural, consumer sentiment's real time, or close to real time, Dan.

Dan Rizzo
Okay, thank you.

Operator
And our next question today comes from Nils Wallin of CLSA. Please, go ahead.

Nils Wallin
Great, thanks for taking my question. I was just curious in terms of the restructuring where—you mentioned that a lot of it was in marine, if you would give us where some of the big buckets are in terms of your restructuring program.

Frank Sklarsky
Sure, Nils. It's Frank. It's a pretty broad based. It's covering virtually all of our functions and virtually all of our business units and targeting those areas mainly in USCA and EMEAs, where the vast majority of the actions are taking place. It's where we have most of our operations, in any case. But, really, I would say, the administrative functions really runs the gamut where we move more into shared services and consolidate operations from various countries into hub and spoke operations. And then, when you look at the various business units, virtually every business unit is participating.

Certainly, you mentioned PMC, that's one of them, all the businesses. And, fiberglass had gotten ahead of the game because we knew we were divesting the European operations, so they got a little ahead of the game, ahead of this program. But, nevertheless, they've made some reductions. But, we haven't singled out any particular business or any particular region. It's just skewed more toward USCA and EMEA because of the size of the operations in those areas.

Vincent Morales
And Noels, we use USCA for US/Canada's abbreviation.

Frank Sklarsky
Right.

Nils Wallin
Yes, I finally figured that one out, thanks. Just in terms of marine, does marine, the business on its own, earn its cost of capital over the cycle?

Michael McGarry
I would say right now it does. It's certainly below the company average, but, like many acquisitions we do, marine was cobbled together through various acquisitions. It starts lower. It appreciates over time. This business was pretty much at the company average prior to the downturn in the shipbuilding business. And, we fully expect it to be back at or above the company average, but, certainly, not until the industry recovers.

Frank Sklarsky

And it's a great question, too, because we have not deployed significant new capital against some of the businesses that are having a challenging macroeconomic environment. We came in below our CapEx plan in 2016 by mid-double-digits, primarily because we look at the macro environment, we try to do our capital spending just in time, and we target the spending to those businesses where we think we can get the quickest return, and gear as much of it towards those areas that are growing, not just maintenance capital. So, yes, cost of capital might be less, but we're not deploying any new capital until we see the light at the end of the tunnel in terms of volume growth.

Vincent Morales
Nils, one more comment. Because the marine shipbuilding is project oriented, and we're able to very easily see with very good sight, projects coming and getting completed, we're able to ratchet down our cost structure as projects get completed. So, there's not a heavy fixed cost load. There's a lot of project costs. So, again, it's not—we're able to manage it to where it's not detrimental to the earnings or the segment or the company.

Nils Wallin
Understood. Thanks very much.

Frank Sklarsky
Thanks, Nils.

Operator
And our next question comes from John Roberts of UVS. Please, go ahead.

John Roberts
Thank you. Do you think the anti-trust review between two of your key peers will affect the timing of the North American spring channel sell-in? That is, do you think customers might want to delay a little bit here to see how that plays out?

Michael McGarry
John, I don't sit in either Atlanta or Charlotte or DC from a regulatory standpoint, so I really would be total speculation. I think I should stay away from speculating. But, I think they're all looking at it and they will all make their best judgments depending upon how it all works out.

John Roberts
Maybe I'll try an easier one, and you may have answered this on the last call, I apologize. But, will glass continue to be a reported segment through 2017, or is the objective here to just exit the rest of glass as fast as you can and, it just, it disappears as a segment that way?

Frank Sklarsky
Well, glass will continue to be a reported segment while we have in our portfolio the North American fiberglass business. It will continue to be in continuing operations. What we stated before that the glass businesses are not necessarily part of the core business, but the businesses did well in 2016. It's expected to continue to improve in 2017 based on the actions the businesses have taken. They've done a good job and it'll continue to be a reportable segment in continuing operations until otherwise.

Vincent Morales
And, John, if I could just add: If you look at the fourth quarter results, which just include a North American fiberglass business, they had significant improvement in year-over-year earnings, up, I think, 600 basis points and really reflective of the good work we're doing on the cost side and some good work we're doing on the technology side.

John Roberts
Okay. Thank you.

Operator
And our next question comes from Mike Harrison of Seaport Global Securities. Please, go ahead.

Mike Harrison
Hello, good afternoon.

Frank Sklarsky
Good afternoon.

Mike Harrison
I was wondering if you could talk a little bit about your strategy in Europe and the architectural business there. You've done a couple acquisitions. First of all, can you talk about how long you expect it to take to integrate those businesses? Are there additional consolidation opportunities there? And are there ways to really leverage the PPG brand across the whole continent, or do you continue to view it as, kind of, a set of individual sub regions or individual country markets there?

Michael McGarry
The first question deals with the acquisitions. So, we owned 50% of Univer, so there was zero integration except that we have lower costs now with the former ownership and some additional layers that we were able to take out post the prior owners leaving. So, zero, totally integrated, already performing at a higher level than previously.

Deutek in Romania, this is a standard PPG deal where we go in and raw materials get brought in day one. So, January 4th, raw material prices went down there and then we're going to bring in our additional products they can sell in Romania, so that will be a positive. And then we'll roll the back office into our various back office centers in Europe, so that integration we expect to go very smoothly.

And, there are more opportunities in Europe to acquire. This is still a very regional business. We are constantly talking to families that own coatings companies in Europe. They are always part of our pipeline and we just can't predict when one generation will decide to sell.

In regards to a pan-European brand, we have looked at that. We have also been asked by several of our larger DIY customers in Europe about that. We are expecting that they will roll out something similar, but not quite pan-European, in the early 2017 with one of our products. So, we'll wait to see how that launches. But, by and large, it is still a very regional business.

Mike Harrison
Right. And then shifting over to the architectural side in North America, it seems like we're still seeing continued sluggish architecture volumes there, even though the housing fundamentals look pretty good. How do you explain the current weak patch that we're seeing in the paint industry and do you think we're setting up to normalize next year and see some better growth in 2017?

Michael McGarry
Well, I would tell you that, historically, we've been fairly accurate on the paint projections. We said last year in 2016, it would be 2% to 3%. I think that was born out. I think people still underestimate the size of the maintenance business, I mean, it's—let's call it 70% to 80% of all paint is applied in a maintenance mode. And so despite how strong housing looks and the house formation, as well as new home sales,

that doesn't move the needle as much as the maintenance side of the business. So, I would tell you that we expect to see 2% to 3% growth again in 2017.

And I might add one other item to your prior question, and that is, we don't participate in a number of countries in Europe, so there are still more growth opportunities in those countries that we don't even participate in.

Mike Harrison
Alright, thanks very much.

Frank Sklarsky
Thanks, Mike. Rocco?

Operator
Sorry. And our next question today comes from Christopher Parkinson of Credit Suisse. Please, go ahead.

Christopher Parkinson
Thank you. In terms of your general macro expectations, can you talk a little bit more about your growth outlooks and what you're hearing from customers in Europe and Mexico, especially across the industrial and, I guess, architectural parallels, even though you just hit on that? Just, generally, do you anticipate any changes in spending behaviors over the next year or so due to recent elections or, even in some cases, some modest uncertainty pertaining to upcoming elections in western Europe? Just, any general thoughts on how we should think about that, that would be helpful, thanks.

Michael McGarry
So, when I think about Europe, there's, obviously, elections in France, election later in the year in Germany. I don't know when the elections in Italy will come because it's a very complicated country for that, but consumer sentiment still is, what I would call, modest. And, most of our customers are kind of put that out of the back of their mind. They say, hey, we're going to continue to perform. We're going to continue to push our own customers to grow. And, so that's why we're thinking that Europe is going to grow 2+% next year for us. So, I think that's our sentiment there.

For Mexico, from the supply chain standpoint, we paint cars in Mexico and we paint cars in the US, so whatever consternation may or may not be out there, we will paint cars wherever they're built. So, for us, that is a bigger question for our customers than it is for us, because they know we will be there whenever and wherever they need us.

Vincent Morales
In terms of some other macros, Chris, we are seeing some early signs of recovery in energy CapEx. We think that's been a large drag on the US industrial production numbers, so we think that's favorable. And, as Michael mentioned in his prepared remarks, we're seeing a flattening in Brazil—or South America—from significant negatives. So, those are two other data points.

Christopher Parkinson
Great. And, just quickly turning back to the raw material basket outlook, could you just give us a quick update on heat and billings, including ability to meet specs, delivery numbers or breadth, and then any exhortation you have for the cadence of the production ramp over the longer term? Thank you.

Vincent Morales
We can't say about their production ramp, per se, it's their process, their business, their facility, so, we'll

leave it up to them. But, they are working with us. We continue to get product from them. We expect product to continue to flow, certainly, in the same manner if not more in 2017. And, they're still going through their normal start-up process, so at this point, it's been a success for us and we continue to expect it to do so going forward.

Christopher Parkinson
Great. Thank you.

Operator
And our next question comes from Tom Nureon [ph] of RBC Capital Markets. Please, go ahead.

Tom Nureon
Hi, thanks for taking my question. I really appreciate slide 12 here, the 2017 financial guidance. When I look at this and, let's say assuming, I guess, the GDP at 2% to 3% growth kind of thing, the FX assumptions and then all the puts and takes below the EBIT line, it would appear that a lot of the EPS growth that you guys may be seeing in 2017 could be coming from the share buyback.

To what extent do you guys use EPS as a rationale behind deciding on how you allocate that $3 billion over 2017, 2018, or do you not really look at that at all?

Frank Sklarsky
We do look at the $3 billion or the $2.5 billion to the $3.5 billion over the two-year period. The first determinant is how much cash we have on the balance sheet and how much cash we expect to generate and the fact that we do not need to carry more than, I'll say, mid to high triple digits millions of dollars on the balance sheet at any given time to run our operation, so it's best used to create value to the shareholders. First priority on that, and, of course, this is after dividends and after CapEx, first priority being accretive acquisitions. But, in any quarter where we don't necessarily have an imminent acquisition or line of sight to one that's taking place, we would return the cash to the shareholders in a reasonable pattern. So, in any given year, you would expect to see a balance between acquisitions and share repurchases with the first priority being acquisitions and then repurchases.

But, you're right, there is some element of EPS growth that is predicated upon deploying that cash, either toward acquisitions that get you additional EBITDA, and against share repurchases, which, obviously, increases the EPS just based on the arithmetic. But, it is a component of that.

Tom Nureon
Okay, thanks. And then, my last question, you guys just commented on the US architectural market and what's going on despite what's going on with housing. I get the maintenance argument, that's very helpful. What about the share shift from DIY to pro and could you maybe comment on what's going on, like, within your own US architectural business in that dynamic? Could that be playing a role perhaps?

Michael McGarry
We don't really see a significant share shift from DIY to pro. I mean, obviously, the bigger issue is the pros are full up. There's not a lot of new painters coming in the market, so I would say there's probably a little bit of a drag, if anything, from the professional side because I don't see a lot of young painters out there.

Tom Nureon
Understood. Thanks a lot.

Vincent Morales

Tom? If I could add to that? You know, our mix of business between DIY and pro matches the industry, so, we said in the past we're channel agnostic.

Tom Nureon
Understood. Thanks.

Operator
And our next question comes from Richard O'Reilly of Revere Associates. Please, go ahead.

Richard O'Reilly
Thank you. Good afternoon, gentlemen. I just have a question about the cash from operations. I just want to understand the math. In 2016, you generate $1.25 billion, and that was after the asbestos settlement of $800 million?

Frank Sklarsky
Yes, it was. The $1.25 billion was after the $800 million asbestos settlement. Keep in mind, though, there was some tax benefit associated with that. So, the way we like to do it in full transparency is to say that that $1.25 billion would have been close to $1.9 billion if you were to add back the after-tax cost of the asbestos settlement.

Richard O'Reilly
Okay, fine, $1.9 billion. So, your after-dividends and CapEx, so your free cash so to speak was about $1.1 billion?

Frank Sklarsky
It was approaching $1.1 billion.

Michael McGarry
Including that adjustment.

Richard O'Reilly
Okay, yes, including—so, okay, for this year and next, you're at the low end of that 2.—if you double that, you're at the low end of that $2.5 billion range that you want to use.

Frank Sklarsky
And, again, we start the year with almost $1.9 billion in cash balance, which is more than we need to have because we got the after-tax proceeds from the divestitures all in Q4. So, we start the year and then we add another billion plus in each of the years. So, we really have between $2.5 billion and $3.5 billion to deploy, based on what we look out at, and still have plenty left to run the business.

Richard O'Reilly
Okay, second question, outside of North American fiberglass, there's nothing else that sticks out in your portfolio that doesn't fit the core, or whatever you want to use the word. Am I right?

Michael McGarry
That's correct, Tom [sic].

Richard O'Reilly
Okay, and third question, I'm surprised no one has asked you about titanium pigment pricing or your course [ph] going into the New Year. Do you have any comments on that?

Michael McGarry
So, this is a little history lesson. We saw a little modest second quarter and third quarter increases in 2016. In the fourth quarter, no increases, except a little bit in China. So, we still believe this is a supply/demand driven business. Supply is slightly up, demand is slightly up, so they're pretty much in balance from that standpoint. The only thing we can see is that we see some of our smaller companies that we've been looking at buying, and some of them do price buy-in, and, obviously, that's an artificial demand. It's not a good business practice, but they feel like they need to protect themselves because they're not like some of the larger coatings companies who can negotiate hard in this regard. So, we don't anticipate significant upward pressure, but, again, it's a supply/demand driven business and we will react accordingly.

Richard O'Reilly
Okay, good, thank you, and congratulations to Vince there. Thank you.

Operator
And our next question today comes from Vincent Andrews of Morgan Stanley. Please, go ahead.

M
Hi, guys. This is [indiscernible] for Vincent. On the restructuring initiative, does that include potential cost synergies associated with the recent acquisitions or will those flow through separately? And then, also, how should we think about the cadence of the 2017 restructuring savings?

Frank Sklarsky
Yes, they do not include synergies from the acquisitions. Those would be separate and over and above. In terms of the cadence, we're trying to actually accelerate these actions as best we can, based on what we see out there. We said 40 to 50 for the year, and it'll, obviously, ramp up through the year, so there'll be more in the back half than the first half and we're trying to get to the execution as quickly as we can. But, it'll ramp up ratably throughout the year and, hopefully, we'll get some of those savings booked in the first half.

M
And then on packaging, how much of the market at this point in North America and EMEA has now converted to non-BPA, and where do see that composition going?

Michael McGarry
I think the way I'd describe that is we're in the third inning of a nine inning ball game. We have a number of trials still going on. We have a number of conversions that we have to get accomplished in 2017. And, of course, then there's still more work to be done. They can't take on all that work overnight and there are still a number of countries around the world that they haven't converted. So, like I said, we're in the third inning and we've been winning more than our fair share. The brand owners really love PPG. They love the technology we're bringing and that's been a real positive for us.

M
Is your outgrowth in Asia Pacific related to non-BPA conversions or is that a product of other factors?

Vincent Morales
Our holistic growth in Asia Pacific is related to many businesses. Our packaging growth in Asia Pacific is certainly aided by the BPA-free technology.

M

Great. Thanks, guys.

Operator
And our next question comes from James Sheehan of SunTrust Robinson Humphrey. Please, go ahead.

James Sheehan
Thank you. Can you talk about the performance of the US auto OEM business? You're showing it as having come in a little bit below the market. Is that because your technology is largely penetrated in that region or are there other factors to explain that?

Michael McGarry
No, James. We've covered this in previous calls. We had to make a choice on to where to take business going into 2016, and we preferentially picked up business in Asia and Europe where we saw the growth rates at a higher level. And so, we've grown so much faster than the market, our large customers wanted to make sure that we didn't get too large in that space. So, that's what happened.

You should expect another one to two more quarters of negative comps versus the industry, and then we'll anniversary it. Actually, what I anticipate going forward, is that they have not moved the compact process yet in the US, and when they decide to do some brownfields in the US, we will then start to win at a very good rate. So, I'm optimistic going forward starting in—probably brownfields will probably be 2018, 2019, kind of initiative.

Vincent Morales
And just if I can elaborate, Jim, again our math worked out. We matched the global growth rate build for 2016. Again, with our regional differences, we expect to at least match that global growth rate in 2017, and, likely, start to exceed it again based on the comments Michael made and the actions we took.

James Sheehan
Terrific. And then could you also comment on the potential benefit you might see from any big increase in infrastructure spending from Washington and the timing of that?

Michael McGarry
Well, I would tell you that that's highly speculative. It takes a while for policy changes to work its way through the executive and legislative branches. Infrastructure's good, so, if it happens, we'll be all over it. It does take a while to gear up to do some of these things, so we have not put that in our forward-looking plan for 2017.

James Sheehan
Thank you.

Operator
And our next question comes from Don Carson of Susquehanna Financial. Please, go ahead.

Don Carson
Thank you. Another question, your heat map on slide 5, Vince, you mentioned that you're agnostic as to what architectural channel you sell through, but you continue to have below market growth. So, I'm just wondering, what's driving that and, specifically, referring to the US market. Is it your product mix and your greater reliance on stain that drives that difference?

Vincent Morales
No, Don. If we hearken back to a few other calls we've had this year, one of our channels that's a nice

channel for us, but it does have a shrinking nature to it, is the independent dealer channel. And, so, we're—that channel's shrinking natively, and we expect that to continue. So, that's certainly one of the reasons why we're below overall market.

Don Carson
Okay. Thank you.

CONCLUSION

Operator
And ladies and gentlemen, this concludes our question and answer session. I'd like to turn the conference back over to Vincent Morales for any closing remarks.

Vincent Morales
Again, I want to thank everybody for their time and participation today. We'll certainly be available for calls after this call, so please reach out and we'll handle any additional questions. Thank you.

Operator
And thank you, sir. Today's conference has now concluded and we thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.