

# GRACE

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## Second Quarter 2017 Business Update

Investor Presentation  
July 27, 2017

### Statement Regarding Safe Harbor For Forward-Looking Statements

This presentation contains forward-looking statements, that is, information related to future, not past, events. Such statements generally include the words “believes,” “plans,” “intends,” “targets,” “will,” “expects,” “suggests,” “anticipates,” “outlook,” “continues,” or similar expressions. Forward-looking statements include, without limitation, expected financial positions; results of operations; cash flows; financing plans; business strategy; operating plans; capital and other expenditures; competitive positions; growth opportunities for existing products; benefits from new technology and cost reduction initiatives, plans and objectives; and markets for securities. For these statements, Grace claims the protections of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act. Like other businesses, Grace is subject to risks and uncertainties that could cause its actual results to differ materially from its projections or that could cause other forward-looking statements to prove incorrect. Factors that could cause actual results to differ materially from those contained in the forward-looking statements include, without limitation: risks related to foreign operations, especially in emerging regions; the cost and availability of raw materials and energy; the effectiveness of its research and development and growth investments; acquisitions and divestitures of assets and gains and losses from dispositions; developments affecting Grace’s outstanding indebtedness; developments affecting Grace’s funded and unfunded pension obligations; its legal and environmental proceedings; uncertainties related to Grace’s ability to realize the anticipated benefits of the separation transaction; the inability to establish or maintain certain business relationships and relationships with customers and suppliers or the inability to retain key personnel; costs of compliance with environmental regulation; changes in tax law regulations; and those additional factors set forth in Grace’s most recent Annual Report on Form 10-K, quarterly report on Form 10-Q and current reports on Form 8-K, which have been filed with the Securities and Exchange Commission and are readily available on the Internet at [www.sec.gov](http://www.sec.gov). Reported results should not be considered as an indication of future performance. Readers are cautioned not to place undue reliance on Grace’s projections and forward-looking statements, which speak only as the date thereof. Grace undertakes no obligation to publicly release any revision to the projections and forward-looking statements contained in this announcement, or to update them to reflect events or circumstances occurring after the date of this presentation.

### Non-GAAP Financial Terms

In this presentation, Grace presents financial information in accordance with U.S. generally accepted accounting principles (U.S. GAAP), as well as the non-GAAP financial information described in the Appendix. Grace believes that this non-GAAP financial information provides useful supplemental information about the performance of its businesses, improves period-to-period comparability and provides clarity on the information management uses to evaluate the performance of its businesses. In the Appendix, Grace has provided reconciliations of these non-GAAP financial measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP. These non-GAAP financial measures should not be considered as a substitute for financial measures calculated in accordance with U.S. GAAP, and the financial results calculated in accordance with U.S. GAAP and reconciliations from those results should be evaluated carefully.

## 2Q17

- Sales up 10% YoY
- Adjusted EPS up 14% YoY
- Adjusted EBIT up 8% YoY
- Adjusted Free Cash Flow of \$136 million year-to-date up 2%

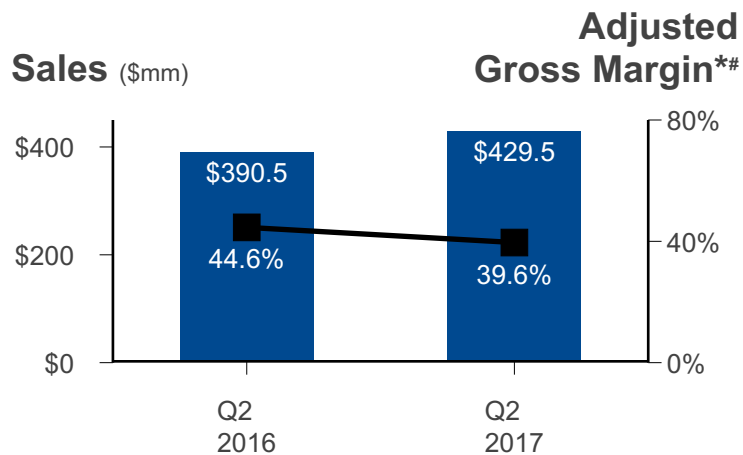
## FY17

- Maintaining full year 2017 outlook ranges:
  - Adjusted EPS of \$3.30 - \$3.45, up 6%-11%
  - Sales growth of 3%-4%
  - Adjusted EBIT of \$415M - \$430M, up 4%-7%
  - Adjusted EBITDA of \$525M - \$540M, up 5%-8%
  - Adjusted Free Cash Flow of \$265M to \$275M

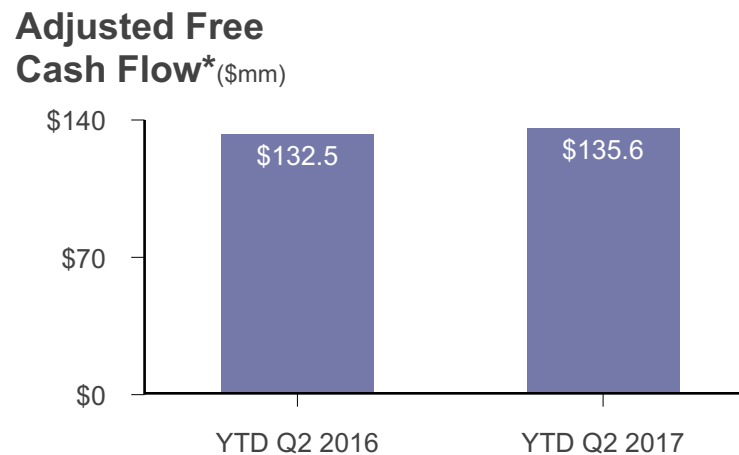
(Assumes an average 1.11 EUR/USD exchange rate for the year)

## Capital Allocation

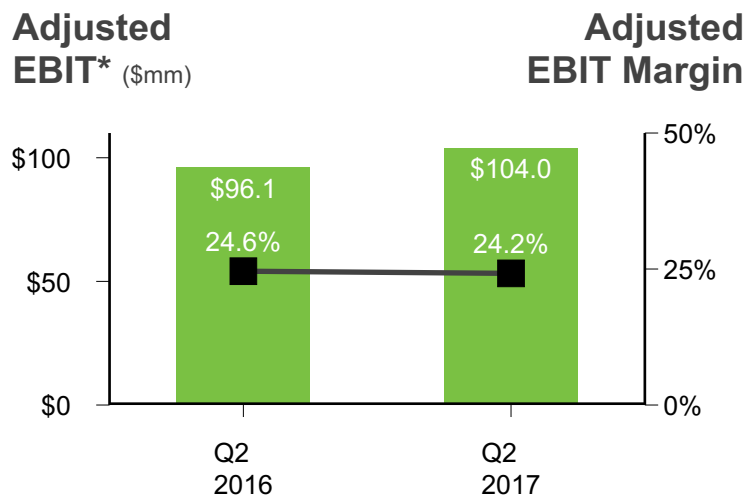
- Declaring quarterly cash dividend of \$0.21 per share
- Stock buyback of \$30M or ~425,000 shares year-to-date
- Capital expenditures of \$59M year-to-date



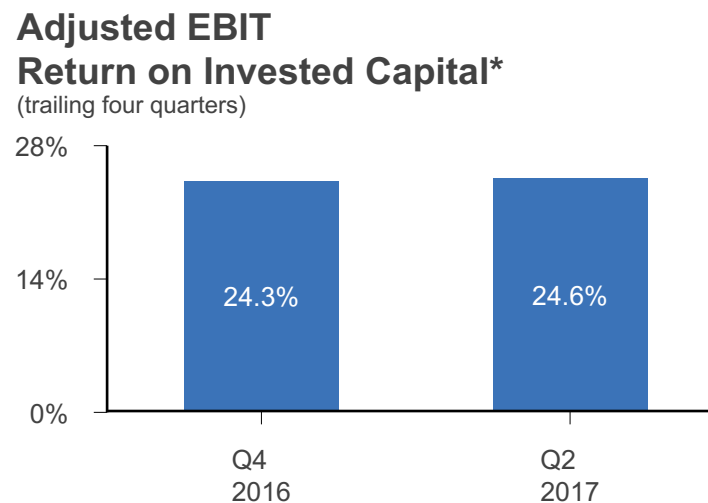
Strong sales growth of 10%



On track for FY17 AFCF target \$265-\$275M



Adj. EBIT growth of 8%



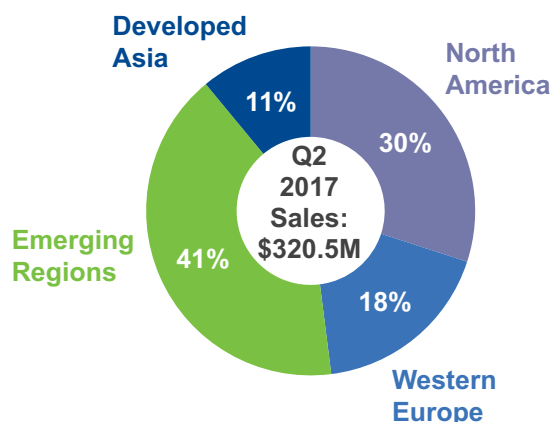
\*Definitions of non-GAAP financial terms and reconciliations to the closest GAAP term are provided in the Appendix  
 # See page 7 for Proforma Adjusted Gross Margin reconciliation

- Catalyst sales up 15% YoY and 9% QoQ
- FCC prices up slightly YoY excluding the effect of new business acquisition and higher bid market sales
- 1H17 Gross margin adjusted to include insurance recoveries was 42%
- ART joint venture contribution up \$3.5M or 135% YoY on higher volumes and pricing
- Asia up 57% and LATAM up 29% YoY

(in millions of dollars)	Q2 2016	Q2 2017	Q1 2017	Y/Y Change	Q/Q Change
Sales	278.4	320.5	293.8	15.1%	9.1%
Gross Margin (GM)	46.2%	40.4%	39.2%	(580) bps	120 bps
Operating Income	87.5	101.3	81.2	15.8%	24.8%
Operating Margin	31.4%	31.6%	27.6%	20 bps	400 bps

## Factors Impacting Sales

Y/Y Change	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Volume	(2.1)%	5.8%	6.2%	13.0%	16.2%
Price	(2.5)%	(1.9)%	1.4%	0.8%	(0.2)%
Currency	0.8%	(0.2)%	(0.3)%	(1.1)%	(0.9)%
Total	(3.8)%	3.7%	7.3%	12.7%	15.1%

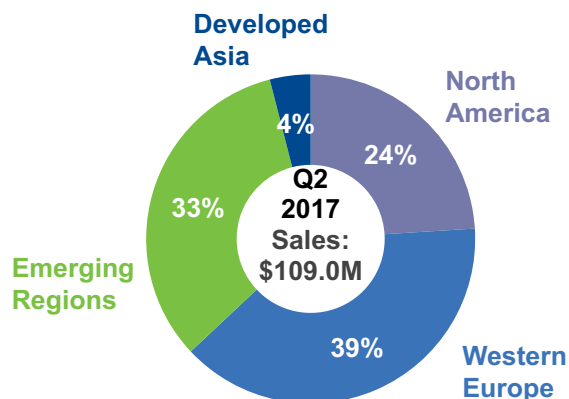


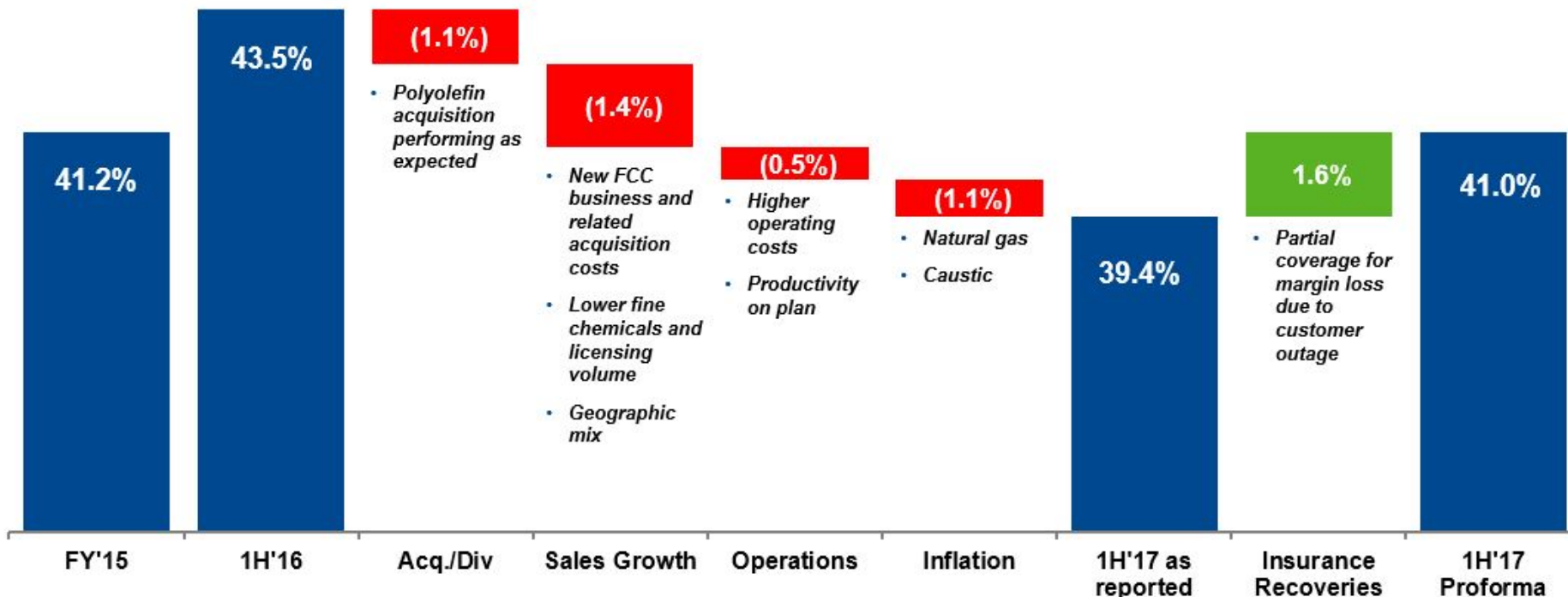
- Sales up 5% YTD, excluding the exited product lines
- Growth driven by adsorbents market recovery and silica strength partially offset by pharma fine chemicals sales
- Regions:
  - Asia Pacific strengthening
  - North America stable
  - EMEA strengthening
  - LATAM mixed

(in millions of dollars)	Q2 2016	Q2 2017	Q1 2017	Y/Y Change	Q/Q Change
Sales	112.1	109.0	104.2	(2.8)%	4.6%
Gross Margin	40.6%	37.4%	39.1%	(320) bps	(170) bps
Operating Income	28.0	24.2	24.8	(13.6)%	(2.4)%
Operating Margin	25.0%	22.2%	23.8%	(280) bps	(160) bps

### Factors Impacting Sales

Y/Y Change	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Volume	(0.5)%	2.9%	3.0%	11.4%	1.5%
Price	0.1%	(0.1)%	(0.3)%	(0.6)%	(0.2)%
Currency	0.2%	(0.9)%	—	(1.0)%	(0.8)%
Exited products	(4.7)%	(6.5)%	(8.1)%	(7.8)%	(3.3)%
<b>Total</b>	<b>(4.9)%</b>	<b>(4.6)%</b>	<b>(5.4)%</b>	<b>2.0%</b>	<b>(2.8)%</b>





**Business acquisition, operating performance and inflation partially offset by business interruption insurance recoveries**

(in millions of dollars except EPS)	Q2 2016	Q2 2017	Y/Y Change	Q1 2017	Q/Q Change
<b>Net Sales</b>	390.5	429.5	10.0%	398.0	7.9%
<b>Adjusted Gross Margin</b>	44.6%	39.6%	(500) bps	39.2%	40 bps
<b>Adjusted EBIT</b>	96.1	104.0	8.2%	86.8	19.8%
<b>Adjusted EBIT Margin</b>	24.6%	24.2%	(40) bps	21.8%	240 bps
<b>Adjusted EBITDA Margin</b>	30.7%	30.5%	(20) bps	28.6%	190 bps
<b>Adjusted EBIT ROIC*</b>	22.7%	24.6%	190 bps	24.2%	40 bps
<b>Diluted EPS from continuing operations</b>	0.54	0.64	18.5%	0.63	1.6%
<b>Adjusted EPS</b>	0.74	0.84	13.5%	0.68	23.5%

**Good sequential growth across all measures**

\*Definitions of non-GAAP financial terms and reconciliations to the closest GAAP term are provided in the Appendix



# GRACE

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**Non-GAAP Financial Terms**

**Adjusted EBIT** means income from continuing operations attributable to W. R. Grace & Co. shareholders adjusted for interest income and expense; income taxes; costs related to legacy product, environmental and other claims; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product lines, and certain other investments; gains and losses on sales of businesses, product lines, and certain other investments; third-party acquisition-related costs and the amortization of acquired inventory fair value adjustment; and certain other items that are not representative of underlying trends.

**Adjusted EBITDA** means Adjusted EBIT adjusted for depreciation and amortization.

**Adjusted EBIT Return On Invested Capital** means Adjusted EBIT (on a trailing four quarters basis) divided by the sum of net working capital, properties and equipment and certain other assets and liabilities.

**Adjusted Gross Margin** means gross margin adjusted for pension-related costs included in cost of goods sold and the amortization of acquired inventory fair value adjustment.

**Adjusted Earnings Per Share (Adjusted EPS)** means diluted EPS from continuing operations adjusted for costs related to legacy product, environmental and other claims; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product lines, and certain other investments; gains and losses on sales of businesses, product lines, and certain other investments; third-party acquisition-related costs and the amortization of acquired inventory fair value adjustment; certain other items that are not representative of underlying trends; and certain discrete tax items.

**Adjusted Free Cash Flow** means net cash provided by or used for operating activities from continuing operations minus capital expenditures plus cash flows related to legacy product, environmental and other claims; cash paid for restructuring and repositioning; capital expenditures related to repositioning; cash paid for third-party acquisition-related costs; and accelerated payments under defined benefit pension arrangements.

Adjusted EBIT, Adjusted EBITDA, Adjusted EBIT Return On Invested Capital, Adjusted Gross Margin, Adjusted EPS and Adjusted Free Cash Flow do not purport to represent income or liquidity measures as defined under U.S. GAAP, and should not be considered as alternatives to such measures as an indicator of Grace's performance or liquidity.

Grace uses Adjusted EBIT as a performance measure in significant business decisions and in determining certain incentive compensation. Grace uses Adjusted EBIT as a performance measure because it provides improved period-to-period comparability for decision making and compensation purposes, and because it better measures the ongoing earnings results of its strategic and operating decisions by excluding the earnings effects of the legacy product, environmental and other claims; restructuring and repositioning activities; divested businesses; and other items discussed above. Grace uses Adjusted EBITDA, Adjusted EBIT Return On Invested Capital, Adjusted Gross Margin, and Adjusted EPS as performance measures and may use these measures in determining certain incentive compensation. Grace uses Adjusted EBIT Return On Invested Capital in making operating and investment decisions and in balancing the growth and profitability of operations. Grace uses Adjusted Free Cash Flow as a liquidity measure to evaluate its ability to generate cash to support its ongoing business operations, to invest in its businesses, and to provide a return of capital to shareholders. Grace also uses Adjusted Free Cash Flow as a performance measure in determining certain incentive compensation. Grace is unable without unreasonable efforts to estimate the annual mark-to-market pension adjustment or 2017 net income, and without the availability of this significant information, Grace is unable to provide reconciliations for the forward-looking information set forth in the 2017 outlook, above.

These measures are provided to investors and others to improve the period-to-period comparability and peer-to-peer comparability of Grace's financial results, and to ensure that investors and others understand the information Grace uses to evaluate the performance of its businesses. They distinguish the operating results of Grace's current business base from the costs of Grace's legacy product, environmental and other claims; restructuring and repositioning activities; divested businesses; and other items discussed above. These measures may have material limitations due to the exclusion or inclusion of amounts that are included or excluded, respectively, in the most directly comparable measures calculated and presented in accordance with U.S. GAAP and thus investors and others should review carefully the financial results calculated in accordance with U.S. GAAP.

Adjusted EBIT by Operating Segment:	2016	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Catalysts Technologies segment operating income	\$ 367.8	\$ 78.3	\$ 87.5	\$ 94.3	\$ 107.7	\$ 81.2	\$ 101.3
Materials Technologies segment operating income	104.0	20.6	28.0	26.4	29.0	24.8	24.2
Corporate costs	(59.4)	(13.2)	(16.3)	(14.9)	(15.0)	(16.1)	(18.3)
Gain on curtailment of postretirement plans related to current businesses	0.2	—	—	—	0.2	—	—
Certain pension costs(B)	(12.3)	(3.1)	(3.1)	(3.1)	(3.0)	(3.1)	(3.2)
<b>Adjusted EBIT</b>	<b>400.3</b>	<b>82.6</b>	<b>96.1</b>	<b>102.7</b>	<b>118.9</b>	<b>86.8</b>	<b>104.0</b>
(Costs) benefit related to legacy product, environmental and other claims	(35.4)	(4.4)	(6.7)	(13.1)	(11.2)	(2.1)	(14.9)
Restructuring and repositioning expenses	(38.6)	(13.6)	(9.4)	(5.6)	(10.0)	(2.3)	(5.4)
Third-party acquisition-related costs	(2.5)	—	(2.5)	—	—	—	—
Amortization of acquired inventory fair value adjustment	(8.0)	—	—	(4.1)	(3.9)	—	—
Pension MTM adjustment and other related costs, net	(60.3)	0.2	0.7	0.2	(61.4)	(1.9)	—
Gain on sale of product line	1.7	—	0.7	—	1.0	—	—
Income and expense items related to divested businesses	0.1	(0.3)	0.1	(0.1)	0.4	(0.3)	(0.7)
Gain on curtailment of postretirement plans related to divested businesses	0.3	—	—	—	0.3	—	—
Loss on early extinguishment of debt	(11.1)	(11.1)	—	—	—	—	—
Interest expense, net	(80.5)	(21.8)	(19.4)	(19.4)	(19.9)	(19.3)	(19.5)
(Provision for) benefit from income taxes	(59.0)	(21.2)	(21.5)	(19.4)	3.1	(18.0)	(19.6)
<b>Income (loss) from continuing operations attributable to W. R. Grace &amp; Co. shareholders</b>	<b>\$ 107.0</b>	<b>\$ 10.4</b>	<b>\$ 38.1</b>	<b>\$ 41.2</b>	<b>\$ 17.3</b>	<b>\$ 42.9</b>	<b>\$ 43.9</b>

	Q2 2016	Q2 2017
<b>Adjusted Free Cash Flow:</b>		
<b>Net cash provided by (used for) operating activities</b>	<b>136.8</b>	<b>140.5</b>
Capital expenditures	(57.3)	(59.1)
<b>Free Cash Flow</b>	<b>79.5</b>	<b>81.4</b>
Cash paid for legacy product, environmental and other claims	6.0	44.2
Cash paid for restructuring	10.7	7.2
Cash paid for repositioning	31.6	2.8
Cash paid for taxes related to repositioning	2.6	—
Cash paid for third-party acquisition-related costs	1.2	—
Capital expenditures related to repositioning	0.9	—
<b>Adjusted Free Cash Flow</b>	<b>132.5</b>	<b>135.6</b>
<b>Calculation of Adjusted EBIT Return On Invested Capital (trailing four quarters):</b>	<b>Q4 2016</b>	<b>Q2 2017</b>
Adjusted EBIT	400.3	412.4
<b>Invested Capital:</b>		
Trade accounts receivable	273.9	265.0
Inventories	228.0	236.5
Accounts payable	(195.4)	(199.9)
	<b>306.5</b>	<b>301.6</b>
Other current assets (excluding income taxes)	32.0	35.7
Properties and equipment, net	729.6	749.7
Goodwill	394.2	397.5
Technology and other intangible assets, net	269.1	261.9
Investment in unconsolidated affiliate	117.6	131.9
Other assets (excluding capitalized financing fees)	34.9	31.2
Other current liabilities (excluding income taxes, legacy environmental matters, accrued interest, and restructuring)	(144.4)	(124.1)
Other liabilities (excluding legacy environmental matters)	(89.3)	(111.6)
<b>Total invested capital</b>	<b>1,650.2</b>	<b>1,673.8</b>
<b>Adjusted EBIT Return On Invested Capital</b>	<b>24.3%</b>	<b>24.6%</b>

(In millions, except per share amounts)	Three months ended June 30,							
	2017				2016			
	Pre-Tax	Tax at Actual Rate	After-Tax	Per Share	Pre-Tax	Tax at Actual Rate	After-Tax	Per Share
Diluted Earnings Per Share (GAAP)				\$ 0.64				\$ 0.54
Costs (benefit) related to legacy product, environmental and other claims	\$ 14.9	\$ 5.6	\$ 9.3	0.14	\$ 6.7	\$ 2.4	\$ 4.3	0.06
Restructuring and repositioning expenses	5.4	2.5	2.9	0.04	9.4	3.4	6.0	0.08
Income and expense related to divested businesses	0.7	0.3	0.4	0.01	(0.1)	—	(0.1)	—
Third-party acquisition-related costs	—	—	—	—	2.5	0.7	1.8	0.03
Gain on sale of product line	—	—	—	—	(0.7)	(0.3)	(0.4)	(0.01)
Pension MTM adjustment and other related costs, net	—	—	—	—	(0.7)	(0.1)	(0.6)	(0.01)
Discrete tax items, including adjustments to uncertain tax positions		(0.9)	0.9	0.01		(3.5)	3.5	0.05
Adjusted EPS (non-GAAP)				<u>\$ 0.84</u>				<u>\$ 0.74</u>

(In millions, except per share amounts)	Six Months Ended June 30,							
	2017				2016			
	Pre-Tax	Tax Effect	After-Tax	Per Share	Pre-Tax	Tax Effect	After-Tax	Per Share
Diluted earnings per share from continuing operations				\$ 1.27				\$ 0.68
Costs (benefit) related to legacy product, environmental and other claims	\$ 17.0	\$ 6.4	\$ 10.6	0.15	\$ 11.1	\$ 4.1	\$ 7.0	0.10
Restructuring and repositioning expenses	7.7	3.3	4.4	0.06	23.0	8.1	14.9	0.21
Pension MTM adjustment and other related costs, net	1.9	0.7	1.2	0.02	(0.9)	(0.2)	(0.7)	(0.01)
Income and expense items related to divested businesses	1.0	0.4	0.6	0.01	0.2	0.1	0.1	—
Loss on early extinguishment of debt	—	—	—	—	11.1	4.1	7.0	0.10
Third-party acquisition-related costs	—	—	—	—	2.5	0.7	1.8	0.03
Gain on sale of product line	—	—	—	—	(0.7)	(0.3)	(0.4)	(0.01)
Discrete tax items, including adjustments to uncertain tax positions		(0.4)	0.4	0.01		(17.4)	17.4	0.25
Adjusted EPS				<u>\$ 1.52</u>				<u>\$ 1.35</u>