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GRA - Q2 2018 W. R. Grace & Co Earnings Call

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OVERVIEW:

GRA reported 2Q18 sales of $485.7m and adjusted diluted EPS of $1.07. Co. has raised its full-year 2018 adjusted EPS guidance to $3.90-4.00.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Second Quarter 2018 W.R. Grace Earnings Call. (Operator Instructions) As a reminder, today's conference is being recorded. I would now like to turn the call over to Jeremy Rohen, Vice President, Corporate Development and Investor Relations. Sir, you may begin.

Jeremy F. Rohen - *W. R. Grace & Co. - VP, Corporate Development & IR*

Thank you, Mark. Hello, everyone, and thank you for joining us today for Grace's Second Quarter Earnings Call. With me this morning are Fred Festa, Grace's Chairman and Chief Executive Officer; Hudson La Force, President and Chief Operating Officer; and Bill Dockman, Vice President and Interim Chief Financial Officer. Our earnings release and presentation are posted on our website under the Investors section at grace.com. Please note that some of our comments today will contain forward-looking statements based on our current view of our business and actual future results may differ materially. Please see our recent SEC filings, which identify the principal risks and uncertainties that could affect future performance. We will discuss certain non-GAAP financial measures, which are described in more detail in this morning's earnings materials. Reconciliations of non-GAAP financial measures and other associated disclosures are contained in our earnings materials and posted on our website. This morning, Fred will address second quarter highlights and recent developments. Hudson will then provide an update on our key strategic initiatives and business performance, and I will cover our financial results. So, with that, please turn to Slide 4 in our earnings presentation, and I'll turn the call over to Fred.

Alfred E. Festa - *W. R. Grace & Co. - Chairman & CEO*

Great. Thanks, Jeremy, and good morning, and welcome to everyone on the call. We are very pleased with our strong performance in the first half of 2018 and remain confident about the full year and the long-term prospects of our leading catalysts and materials businesses. The sustainable growth drivers from demand for plastics and petrochemical feedstocks; growing household disposable income; demand for cleaner fuels; and stricter environmental and health standards continue to support our long-term strategies. Building on a strong first quarter, we continue to experience solid organic growth and positive customer momentum as we execute our growth strategy. Q2 sales were up 13% year-over-year driven in large part by a strong performance from the polyolefin catalysts acquisition in its initial quarter, and continued strength across all business segments.

Excluding the effects of the acquisition, organic growth for the quarter was 6.6%. Commercial excellence initiatives and focus on value selling continue to enable our top-line growth.

We delivered strong Adjusted EBIT growth of 15%, driven by the earnings contribution from the acquisition, good execution by our commercial teams, and strong operating performance from our plants. Notably, this double-digit growth was achieved despite higher input costs and last year's insurance recoveries that did not repeat this quarter.

Turning to the second half of the year, we are raising our Adjusted EPS outlook to $3.90 to $4.00 per share. We expect continued strength across all our businesses and solid operating performance from our plants to positively impact our results. Like most specialty chemical companies, we are experiencing pockets of volatility from tariffs and inflation, which Hudson will discuss in more detail.

We are focused across the company on proactively managing these risks. Our supply chain and commercial teams are executing our mitigation strategies where necessary. We do not expect this to have any meaningful impact on our 2018 results.

On a personal note, I'll be retiring as CEO of Grace following our board meeting on November 8, and will remain with the company as non-executive Chairman. As we announced in May, Hudson will assume the role of CEO at that time, in line with the board's established succession and transition plan. Hudson has the full confidence and support of the board, and of myself. I know he's going to do a terrific job. With that, I'll turn the call over to Hudson.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Thank you, Fred. It's an exciting time at Grace, with many growth opportunities, solid profitability and a great team. I look forward to leading the company, as we continue to execute the strategy we discussed with you at our investor day in March.

Our CFO search is progressing as planned. We have a great opportunity to add a key talent in this critical position, and we'll keep you updated on our progress.

Please turn to Slide 6. I'll review our key strategic initiatives and then provide an update on our business performance. We continue to make clear progress, accelerating growth and improving profitability through our Grace Value Model initiatives. We are winning in the marketplace and improving our operations. Let me give two specific examples.

First, we continue to develop our commercial excellence initiatives with a strong focus on value selling. Our customer-centered culture and customer-driven innovation are showing up in our organic growth, which is

Second, improved Operating Excellence is making a measurable difference to our operating effectiveness and profitability. Today, we have 5 plants implementing the Grace Manufacturing System. GMS is a traditional lean manufacturing strategy, with a high return on investment of one to two years. These projects are ahead of plan and will deliver greater than 100% of the expected 2018 benefits. They are on track to deliver

GMS investments improve manufacturing performance, including higher throughputs, yields, and reliability and lower costs. Some of these benefits will show up in margins but most will be re-invested in growth through additional investments in capacity, innovation, commercial excellence and the like. This will ultimately result in greater top-line growth and higher gross profit dollars.

This focus on investing in growth is a key component of our long-term strategy. As we've previously outlined, 2018 and 2019 include increased capital investment to implement our growth projects and operating excellence programs. In the first half of 2018, we invested $91 million of capital, including $50 million for strategic growth investments to support strong demand for our value-added catalysts and materials products as well as productivity initiatives in our plants.

For the full year, we continue to forecast $200 million of capital investments or approximately $50 million above our steady state spend. As we have said many times over the years, we manage our capital investments to align with customer and market demand so the timing of our investments may shift to match market dynamics.

Our biggest investment this year is the polyolefin catalyst acquisition, which closed April 3. We are pleased with the initial quarters' results, including commercial and operating performance and the progress we have made with integration. We delivered $28 million of revenue, with earnings in line with our investment case. For the full year, I am confident we will deliver the revenue and earnings we projected. The integration is on-track, and will enable us to achieve the full cost and capital avoidance synergies as expected.

Looking to the longer-term and our five-year financial framework we previously outlined, we are fortunate to own strong businesses that are well-positioned in high-value markets with sustainable growth drivers. We are investing to continuously strengthen our businesses and capture the growth in our markets. These investments to accelerate growth extend our competitive advantages, strengthen our talent and culture and formalize the Grace Value Model, will enable us to deliver our long-term growth targets.

Let's turn to Slide 7, and I'll review our business results for the second quarter. Overall, Catalysts Technologies sales for the quarter were up 14% driven by the acquisition and strong demand in our end markets.

In Specialty Catalysts, we continue to experience strong demand for our high-performance polyethylene and polypropylene catalysts and are also benefiting from improved pricing, mix and manufacturing performance. For the quarter, sales grew 5% organically, with solid year-over-year growth from polyethylene catalysts, chemical catalysts and licensing. We continue to expect high single-digit organic growth in the business for the full year. Including the acquisition, sales in the quarter grew 26%.

Refining Technologies sales were up 5%, with continued momentum from our technology-focused, value-selling initiatives. FCC catalyst prices improved over 200 basis points for the second consecutive quarter. We are confident we will achieve our full year pricing target of 1% to 2%.In our ART joint venture, our share of earnings was up $2.1 million. Hydroprocessing catalyst demand remains solid, and our backlog continues to be strong. We expect our new HPC capacity to come online in the fourth quarter of 2019, in time for the effective date of the IMO 2020 marine fuel regulations.

Our catalysts business mix continues to shift to petrochemicals and clean fuels. With the polyolefin catalysts acquisition and continued high-growth rates of our polyolefin, hydroprocessing and max propylene catalysts, over 70% of our catalyst sales will come from petrochemical and clean fuels applications by the end of this year.

Let's turn to Materials Technologies on Slide 8.Sales for the quarter were up 11%, including a 4% benefit from currency. Pricing improved 170 basis points. Silica sales grew more than 5% year-over-year, driven by strong demand in coatings and a solid quarter in our consumer / pharma markets.

As we discussed last quarter, our commercial teams have successfully rebuilt our pharma fine chemical sales pipeline. This quarter sales were flat year-over-year, and we are on track to return to growth in Q3.

Please turn to Slide 9, and I'll address our full year and third quarter outlook.

For the full year, we are raising our adjusted EPS outlook range to $3.90 to $4.00 per share, up from $3.85 to $3.95, and raising the lower end of our adjusted EBIT outlook to $450 million, with a range of $450 million to $460 million. For the second half of the year, we anticipate adjusted EBIT and adjusted EPS to be balanced between the two quarters.

For the third quarter, we expect adjusted EPS to be up 13% to 15% over last year.

In Q2, we had an especially strong product mix, and in Q3, we have several scheduled plant turnarounds, including one of our largest plants. As a result, we expect gross margins to decline sequentially less than 100 basis points. For the full year, we continue to expect gross margins to be up year-over-year.

Now I'd like to address tariffs and inflation, before turning the call to Jeremy.

At this time, the tariffs implemented by the U.S. and other countries do not directly affect us in any material way. China and other countries have discussed potential future tariffs that would directly affect our businesses, if implemented. We are proactively addressing these potential tariffs and closely monitoring developments as they occur. For context, our year-to-date U.S. export sales to China are about 4% of our total sales. We can manufacture some of these products outside the United States, if needed, and most are sold into specialty applications with switching costs.

Regarding inflation, we have seen an uptick in our input and logistics costs since the end of Q1. Our integrated supply-chain and commercial teams continue to execute our mitigation strategies and continue to develop new plans to minimize any impact to our results.

We are diligently monitoring the potential impacts of tariffs and inflation and remain agile in order to maximize our performance.

With that, I'll now turn the call to Jeremy, who will discuss our financial results in more detail.

Jeremy F. Rohen - *W. R. Grace & Co. - VP, Corporate Development & IR*

Thanks, Hudson.

Let's turn to Slide 12, and I'll discuss our second quarter results.

Grace reported another strong quarter. Sales were $485.7 million, up 13.1% as reported and 10.6% on constant currency. Higher sales were driven by the polyolefin catalysts acquisition, 2.4% of volume growth and 1.7% of higher average pricing.

Adjusted gross margin was up 300 basis points for the quarter on strong mix, improved pricing and manufacturing performance that more than offset higher input costs of 160 basis points. Lower depreciation expense from the change to our useful lives estimate, initiated in the first quarter, contributed 130 basis points.

Adjusted EBIT of $119.5 million was up 14.9% year-over-year.

Adjusted EBIT margin of 24.6% was up 40 basis points, driven by higher gross profit and income from our ART joint venture, which offset higher input costs and a $10.6 million headwind from insurance recoveries in Q2 last year that did not repeat this quarter. As a reminder, we will experience a similar headwind from insurance proceeds in Q3.

Adjusted EPS was $1.07 per diluted share, up 27.4% as compared to last year. Excluding the net effects of tax reform, the depreciable lives change and insurance recoveries, adjusted EPS was up $0.20 per share or 23.8% from last year. Additionally, we increased our inventory levels for certain key raw materials as part of our mitigation plans for potential tariffs.

Our adjusted EBIT return on invested capital was 20.4%, down from 24.6% as a result of the acquisition in the quarter. ROIC, which is measured on a trailing four quarter basis, only includes one quarter of the acquisition and will naturally increase as the full benefits of the acquisition are realized.

Now let's turn to slide 13.

We continue to allocate capital in line with the disciplined capital allocation strategies we've outlined before. First, our best returns come from investing in our strategic growth opportunities. We will continue to invest capital in high-return strategic growth projects, and in synergistic, bolt-on acquisitions to build our technology and manufacturing capabilities.

Second, we will return cash to shareholders through dividends and share repurchases. Finally, we will do this while targeting a net leverage range of 2 to 3 times Adjusted EBITDA. We expect our net leverage at year-end to be approximately 3.2 times.

In Q2, we returned $31 million in cash to shareholders, $16 million through cash dividends and $15 million in share repurchases. Year-to-date, we have returned $82 million in cash to our shareholders. With that, I'd now like to open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from John McNulty of BMO Capital Markets.

John Patrick McNulty - *BMO Capital Markets Equity Research - Analyst*

So, I guess, a couple of areas. On the materials tech area, I mean, the volumes were -- look like they were really solid on the sales side but the margin really, that's, kind of, where the big surprise, I guess, for us came from. So, I guess, can you parse out where some of that strength came from, whether it was the volume leverage or the pricing or I guess, how should we think about what drove it there in the sustainability of this, kind of, level of margin?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

John, it's Hudson. Thanks for the question. There's no one factor that accounted for all of the improvement, it was a combination of things. We are improving pricing in this business. We are mixing towards faster-growing, higher margin segments. We had good manufacturing performance in our plants, and, I think, all of those things contributed to the margin improvement.

John Patrick McNulty - *BMO Capital Markets Equity Research - Analyst*

Okay. But you do -- there's not anything where there was a one-time blip or what have you and we, kind of, see a retrenchment or drifting back from these kind of margin levels, is that the right way to think about it?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

I think it is the right way to think about it. Certainly, over time, I will tell you, and we referenced it in the script. We have 3 plants that are going through full turnarounds this quarter -- I mean, in Q3. And MT MCT will be affected by those turnarounds. So you should expect the sequential decline from Q2 to Q3 because of the cost of those turnarounds. But that's not a change in the trend.

John Patrick McNulty - *BMO Capital Markets Equity Research - Analyst*

Got it, okay. And then, I guess, with regard to the Grace Manufacturing System initiatives that you had highlighted, it sounds like things are, kind of, going as you would have hoped or maybe even better. I guess, is there a way to quantify the benefits that you're seeing, whether it's on the cost side or working capital efficiency or what have you, as you think about 2018? And then, I mean, you kind of indicated 2019 is when it really starts to, kind of, flow in. I guess, how should we be thinking about that and does it all get invested back into driving growth or does some of it actually whatever fall the bottom line and result in cash generation and get used in maybe a different way than just being reinvested in R&D and sales and that kind of things. So a little color there would be helpful.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

You bet, John. I think -- I would think of this in 2 pieces -- I think of it in 2 pieces: One is the benefit that we'll create; and then the second is, how do we -- what do we do with that benefit. And I think we'll create a benefit over 2 or 3 years as this program gets implemented in all of our plants of 1% of margin or more. But you won't see that all on the gross margin percent line. We will reinvest most of it. I don't think we'll reinvest all of it, but I think we'll reinvest most of it in faster growth, continued GMS investments in terms of -- this is a journey. Another point probably to make, GMS is not an event, it's a journey, and we'll continue to reinvest in plant operations and innovation and commercial excellence. So a couple of pieces there. But, I think, the right way to net it out is, on a gross basis, point of margin or more overtime, but most -- but not all of that reinvested.

John Patrick McNulty - *BMO Capital Markets Equity Research - Analyst*

Great. And then if I can ask maybe one last question that you've had the Albemarle assets in now for at least a little bit of time. I guess, any surprises there? And I know, you're -- you guys are kind of laser focused on pricing for value. Do you feel that the assets that you've got, is the pricing right at this point or is there maybe room to the upside in terms of really, kind of, squeezing the true or fair value out of those assets?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

We are very happy with this acquisition, John. There are no surprises. We had a very good diligence effort, and we couldn't be happier with the business we bought, the people that have joined Grace, the response that we're getting from customers. And in terms of the second part of your question, as we do, we will look to maximize the commercial opportunity, and we'll look to maximize the manufacturing performance in this business and continue to drive innovation. This is a strong asset. We bought it for the value of the technology and the quality of the people, but we expect to be able to improve those results over time.

Alfred E. Festa - *W. R. Grace & Co. - Chairman & CEO*

Let me just add one point on to that. The value we've been able to achieve, similar to in the BASF, is the combination of the Grace asset with the asset we acquired to deliver more value to our customers. And by delivering more value, we, in turn, will receive that value back. So that's an accelerator, and so far, over the first 90 days, that accelerator's proving true.

Operator

And our next question comes from line of Chris Parkinson of Crédit Suisse.

Christopher S. Parkinson - *Crédit Suisse AG, Research Division - Director of Equity Research*

Just, very quickly on the raw material inflation front. Can you just walk us through the -- some of the key inputs and any color on your efforts (inaudible) inflation, just the broad thoughts on where earth, including the ability to procure in China, alumina. Obviously, there's been a lot going on in the last quarter or 2. And should we be thinking about the surcharge model or a longer-term pricing strategy?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Chris, it's Hudson. The underlying scenes on inflation haven't really changed over the last 6 months or so. The biggest sources of inflation for us are caustic that we use in our manufacturing processes, natural gas, which we use as an energy source and alumina, which is ingredient in some of our catalyst products. We thought 90 days ago that the inflation was leveling off, and we wouldn't see much sequential inflation during Q2, that it started to tick up again. Obviously, all of this is factored into our guidance for the year. In terms of how we're mitigating this, it's a combination of things. We have, with surcharges in place in some cases, it goes into our thinking, as we think about value pricing with our customers, and our supply chain team is focused on procurement productivity and manufacturing productivity, and we're pulling all of those levers to make sure we're maximizing our results for the year.

Christopher John Kapsch - *Loop Capital Markets LLC, Research Division - MD*

That's helpful. And I realized, it's probably a bit early but can you just comment further on IMO 2020 and how if it's in your longer-term outlook. I understand it's too early to quantify so to speak. But can you just walk us through your broader exposure, just any initiatives you have on a regional basis, key products. And will this also just all be in ART and just, any thought there would be helpful.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

You bet, Chris. For everybody, the -- these IMO 2020 regulations are new higher standards for clean fuels in Marine transportation. And the best strategy for shippers and refiners to meet these new tighter fuel standards is through hydrocracking and hydroprocessing type applications, which will benefit our hydroprocessing catalyst business in our ART joint venture. That's where we'll see the biggest effect. And the way I would think about it, ART has grown mid- to high single digits a year for many years, really driven by the trend towards cleaner fuels. And this is another chapter in this story as Marine fuels were one of the last areas that still permitted high levels of sulfur. That's being addressed with these new regulations, and we expect ART to continue to experience mid- to high single digit top line growth for years to come, to 2020 and beyond 2020. We'll see it in demand for those products, we'll see it in the value of those products. Importantly, we are adding additional capacity in this business that will come online at the end of 2019, just in time to take advantage of some of the new demand from these regulations.

Operator

And our next question comes from the line of Kevin McCarthy of Vertical Research Partners.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

The propylene complex has been fairly strong year-to-date, both in the U.S. and overseas. Just wondering if you could speak to that, and what impact, if any, you might be seeing in 2 areas. One would be FCC and propylene maximization catalysts; and then the second would be downstream and polypropylene licensing, where it looks like you've inked a few new deals there. What does the outlook look like for licensing over the next 6 to 12...

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Kevin, it's Hudson again. I -- we share your view. Demand for polypropylene plastics has been strong. We see it in the demand for our propylene max catalysts. The world remains short in propylene and refiners continue to run FCC units hard to maximize propylene. We see it in our -- in demand for our polypropylene catalysts directly and more, in terms of future opportunities, we continue to see strong demand for our UNIPOL polypropylene licensing. We've announced a number of licenses in the last 6 or 9 months, and we expect to announce some more before the year is over.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

There is a follow up. What is the latest you're hearing from Takreer in terms of their ability to restart and resume shipments of FCC catalyst?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

The -- nothing has changed in the last 90 days. Their most recent public update was that they expected to restart their refinery at the end of this year, November to be specific. And -- but in that circumstance, we would expect to resume shipments to them next year. There is inventory in the region, and we would not expect any further shipments until the first part of next year.

Operator

And our next question comes from the line of Bob Koort of Goldman Sachs.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

Maybe telling into that last one, as your customer in the Middle East ramps, do you have the opportunity to maybe retain some of those customers that replace that volume over the last year? And is there any scope for restarting any idle capacity to help me that demand?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Bob, it's Hudson. I -- the -- we will -- we do have capacity to add some incremental volume, but we will also have to shed some existing customers to fully supply the one customer when they are back online. It will be a mix, it will be some combination. I think, you'll see some volume growth from us. I think, you'll see more mix shift, as we focus on our most valuable customers.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

Got you. So margin enhancement, it sounds like. As we look on the pricing, it's obviously under quite a bit of focus for investors and refining over the last couple of years. You talked about being on target for this year. Based on the longer-term nature contracts there, should we expect that 1% to 2% pricing improvement to sustain itself for the foreseeable future?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

That's what we're focused on, Bob.

Operator

And our next question comes from the line of John Robert of UBS.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

Any effect from alumina costs in the quarter or is there anything to think about going forward, as your hedges roll?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

The -- we do hedge most of our alumina exposure, John. We had some small effects in Q2 but nothing that warrants comment. Our hedges do carry in at least partly into 2019. We have a rolling hedge program. So as we roll into 2019, we may see some additional inflation. It will really just depend on the path that alumina prices take over the next 6 to 12 months.

Alfred E. Festa - *W. R. Grace & Co. - Chairman & CEO*

I would add on that, to Hudson's point. Our supply-chain guys have done a very nice job, not only looking at the market dynamics from a hedging perspective but sourcing it as well as how much we use within our product mix. And there is variabilities on that side of it. So it's more than just a financial hedge program, we've done a nice job there.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

And then, the organic growth in the Specialty Catalysts look to be well above the industry global growth rate. Is that reflective of your regional mix or have you had some individual big wins recently that's boosted the organic growth there?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

I think, it really reflects the value of our technology and the successes we've had in some licensing. And Fred touched on it, as we have integrated UNIPOL was 5 years ago now, BASF was 2, Albemarle just this quarter, a little too early for that to have an effect. But as we've integrated these acquisitions, we're finding that the breadth of technology that we bring to our customers is an advantage for us.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

Okay. So this is really, it's a sales synergy from the previous deals. It just happens with the lag so the -- we're talking about it is organic but it reflects to the benefit of the prior acquisitions, actually on the base business?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Well, yes, but it starts with technical innovation, and we pick up -- this isn't getting more out of the customers we've acquired, it's really more -- getting more out of the technology that we've acquired.

Operator

And our next question comes from Roger Spitz of Bank of America.

Unidentified Analyst

This is Bill (inaudible) on for Roger. I was hoping you guys could provide volume changes in FCC catalysts in ART?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

FCC catalysts were flat to up a little bit in the quarter. I'm sorry, I don't have an exact number in my mind.

Albert F. Beninati - *W. R. Grace & Co. - President of Specialty Catalysts*

I think, for the first half of the year, definitely up, second quarter was just a little bit flat.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Definitely. We had a strong Q2 last year in FCC catalysts on order timing. And for ART, the ART volumes are up. They'll be up mid to high single digits for the year.

Unidentified Analyst

Great. And a quick follow-up, can you provide 2018 cash interest guidance?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

We can.

Jeremy F. Rohen - *W. R. Grace & Co. - VP, Corporate Development & IR*

Yes, I think we -- and we've incorporated in into our latest outlook, Bill what's the number? it's 80?

William C. Dockman - *W. R. Grace & Co. - Interim CFO, CAO, VP & Controller*

$81 million.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

$81 million.

Operator

And our next question comes from the line of David Katter with Baird.

David Francis Katter - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

I was hoping, can you provide some context on the currency benefit in the quarter and how we should think about that for the rest of the year?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

We did get a positive from currency on the top line, it was a couple of percentage points, couple, maybe 3 percentage points of our top line growth. But as we look forward to the second half of the year, that's going to diminish as the dollar has strengthened, that currency tailwind has diminished. The current currency levels are what we've incorporated into our outlook for the full year. Very consistent with what we thought at the beginning of the year.

David Francis Katter - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Got it, that's helpful. And then, maybe can you touch on the ART JV expansion and kind of your thoughts on what that might -- how that might be accretive to EPS when it comes online?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Sure. It's -- we've never said exactly how many pounds we're adding. I will tell you, it is a material expansion. It's not a gigantic expansion. That's as precise as we've been.

Alfred E. Festa - *W. R. Grace & Co. - Chairman & CEO*

And it supports, as you know, we're tied in with all the licenses with CLG. We have very good visibility and on those licenses and that backlog. So it really -- this expansion is sold-out even before it comes on.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Yes.

David Francis Katter - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Great, that's helpful. Then one last one for me. As you're looking at delivering versus buyback. Now that you're kind of above your target range, should we kind of think that near term is going to be focused on delivering or how do you balance that or evaluate that decision?

Alfred E. Festa - *W. R. Grace & Co. - Chairman & CEO*

You know, at the top level, I think, we'll make those decisions toward the end of the year and we'll have some optionality on it, as we look at -- we'll obviously have excess cash on our balance sheet, and we'll take into consideration where we are, where we are in our growth programs as well as where we are in -- where the stock market is on that side of it. But I would not rule out paying down some debt at the end of the year or early next year.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

It will be a balance either way.

Operator

And our next question comes from the line of Laurence Alexander of Jefferies.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

This is Dan Rizzo on for Laurence. Could -- you mentioned that, I think, the ART -- the expansion for ART is -- will be sold out as soon as it comes online. I was just wondering, with that in mind, if you are considering ramping beyond that or expanding beyond that, just in anticipation of additional demand driven by IMO 2020.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

It is something that we are thinking about as part of our long-term capacity planning, as we do for all of our businesses. Nothing that we're ready to -- nothing that's so far along in our thinking that's ready to comment at this point.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

I mean, could you do additional brown field expansion or does it have to be green field beyond what you're doing next year?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Both are possible and both are part of what we're evaluating.

Alfred E. Festa - *W. R. Grace & Co. - Chairman & CEO*

Just to add to Hudson's point. Remember, we've got a network of operations around our hydroprocessing around the world that we can debottleneck, if we need to.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And then, with the polyolefin catalyst and, I mean, you've obviously, focused on the technology in the revenue opportunity there, but I was wondering if there are, like cost -- (inaudible) cost synergy opportunities involved with Albemarle and what you've done in the past that are also important as you kind of moving more into this space.

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

I would lump that into the broad category of operating excellence and the Grace Manufacturing System and whether it's our existing plants or plants we've acquired more recently. It's something we're very much focused on.

Operator

And our next question comes from Chris Kapsch from Loop Capital Markets.

Christopher John Kapsch - *Loop Capital Markets LLC, Research Division - MD*

Yes. My question focuses on the pricing dynamic and particularly, in SEC. I was wondering if you could just parse out the, I think, you said, more than 2% better pricing year-over-year. The -- I was just wondering if you could parse out the contributors to that. Is it more mix of customers? Is it, sort of, inflationary cost-driven price increases? Just apples-to-apples, value selling, where you're getting some pricing or also, as you mentioned lapping the benefit of the -- or lapping, sorry, the volumes that you picked up in wake of the Takreer fire and presumably, initially, at least, those were sort of trial volumes or low value volumes. So I'm wondering if that contributed to the pricing variance and how you see that playing out over the balance of '18?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

Chris, the biggest driver, by far, is us bringing new and improved products to our customers. And refiners are running hard right now. They are running hard to maximize propylene in many parts of the world. They are running hard to maximize octane in the U.S. and all of these applications demand high performing catalyst technologies that come at good prices. And so, that really is the fundamental driver here.

Operator

And our next question comes from the line of Mike Harrison of Seaport Global Securities.

Michael Joseph Harrison - *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst*

You referred to some additional inventory purchases that you made during the first half of the year in order to avoid some of the tariff impact on raw materials. I was just wondering, have those tariffs already come to bear or they are just being contemplated and what specific materials are you seeing that could be affected by those tariffs?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

This was really some proactive efforts to inventory, some additional raw materials in -- not in anticipation of, in case, in case certain tariffs could come into effect. So not in response to anything that's been announced already.

Michael Joseph Harrison - *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst*

All right. And then, I was also wondering if you could just address the opportunities that you see in chemical catalysts. Are you taking any actions organically to be able to take advantage of the growth opportunities you see there or are you really going to need to acquire in that space in order to capitalize on opportunities?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

It's a combination of both. We do have an existing chem cat physician and some technology that we're continuing to develop. Part of what we saw in Q2 was the benefit of some newer technologies that we've been introducing to customers. It's a smaller part of our business now. And so, to have a really big effect, we would need M&A. But with the business that we have, we continue to focus on advancing the technology.

Operator

Our next question comes from the line of Bob Koort with Goldman Sachs.

Christopher Mark Evans - *Goldman Sachs Group Inc., Research Division - Associate*

This is Chris Evans on for Bob. I was hoping to revisit IMO for a moment again. You're uniquely positioned with your refinery customer base to maybe get some insights into their potential strategies to address the low sulfur limits. In my prior life as a process chemist for a major refinery, I understand it's very difficult to directly hydrotreat the high sulfur fuel oil. Instead, are you seeing refineries looking to add hydrocracking capacity or maybe other process sub-stream or maybe, is there other CapEx, OpEx changes that you're seeing at the refineries to shift their distribution -- production distribution and maybe, dilute the high sulfur products?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

It's an insightful question, Chris. And, I think, you're on the right track. What we've seen more than anything else is customers adding new hydrotreating capacity or hydrocracking capacity. And as you think about the optionality that a more complex refinery has, they're the ones that will benefit most from the implementation of these regulations. Medium complexity refineries are looking to make these types of investments too but it's the most complex refineries that will benefit. And we've seen customers who had investment plans on the books, either firm up or accelerate those plans. We have seen some customers that were on the fence about whether they wanted to make these investments, decide to proceed. Some customers that aren't operating complex refineries, it's a much tougher decision for them.

Christopher Mark Evans - *Goldman Sachs Group Inc., Research Division - Associate*

And then, just how do you see the potential benefit, specifically accruing to Grace? Is it from the volume opportunities of new process units or is it from an enhanced value proposition as maybe your catalysts create more value as the spreads widen?

Hudson La Force - *W. R. Grace & Co. - President, COO & Director*

I think, the biggest part will come through in volumes. There is clearly a margin opportunity. But I think the biggest part will come through in volumes.

Operator

And I'm showing no further questions at this time. I would like to turn the call back to Jeremy Rohen for closing remarks.

Jeremy F. Rohen - *W. R. Grace & Co. - VP, Corporate Development & IR*

Thank you, Mark. Thank you, everyone, for your time today and your interest in Grace. We look forward to seeing many of you on the road over the coming months. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a great day.
