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GRA - Q1 2018 W. R. Grace & Co Earnings Call

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OVERVIEW:

Co. reported 1Q18 sales of $432m and adjusted diluted EPS of $0.82. Expects 2018 sales growth to be 9-11% and adjusted EPS to be $3.85-3.95.

CORPORATE PARTICIPANTS

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Christopher S. Parkinson *Crédit Suisse AG - Analyst*

John Ezekiel E. Roberts *UBS Investment Bank - Analyst*

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Michael Joseph Harrison *Seaport Global Securities - Analyst*

Michael Joseph Sison *KeyBanc Capital Markets Inc - Analyst*

Robert Andrew Koort *Goldman Sachs Group Inc - Analyst*

Roger Neil Spitz *BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Quarter 1 2018 W.R. Grace Earnings Call. (Operator Instructions)

As a reminder, today's conference is being recorded. I will now like to turn the call over to Ms. Tania Almond, Investor Relations Officer, with W.R. Grace. Ma'am, you may begin.

Tania Almond - *W. R. Grace & Co. - Investor Relations Officer*

Thank you, Victor. Hello, everyone, and thank you for joining us today, April 25, 2018, for our first quarter 2018 earnings call. With me are Fred Festa, Grace's Chairman and Chief Executive Officer; Hudson La Force, President and Chief Operating Officer; Tom Blaser, Senior Vice President and Chief Financial Officer; and Jeremy Rohen, Vice President of Corporate Development and Strategy.

On a quick personal note, I want to announce, this will be my last earnings call with Grace. It has been my pleasure working with all of you in this capacity for 3.5 years. Jeremy Rohen, who many of you got to meet at our recent Investor Day, will be taking over for me in the Investor Relations function. He has been with Grace for over 8 years, focused primarily on Corporate Development, that we have worked closely on IR matters during my time here. I will be around through a transition period to make sure Jeremy is up and running.

With that, our earnings release and corresponding presentation are available on our website. To download, go to grace.com and click on the Investor tab.

Some of our comments today will be forward-looking and actual results may differ materially from those projected. Please see our recent SEC filings for more details on the risks that could impact Grace's future operating results and financial condition. We will discuss certain non-GAAP financial measures, which are described in more detail in this morning's earnings release and on our website at grace.com. Reconciliations to the most directly comparable GAAP financial measures and other associated disclosures are contained in our earnings release on the website. Our comments on forward-looking statements and non-GAAP financial measures apply both to the prepared remarks as well as the Q&A.

Fred will discuss the first quarter highlights and recent developments. Hudson will then provide an update on our key strategic initiatives and business performance, and Tom will cover our financial results and updated outlook for the full year. After Fred's closing remarks, we will open it up for Q&A.

And with that, please turn to Slide 4 in our earnings presentation, and I'll hand the call over to Fred.

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

Good morning, and thank you, and thanks for joining us.

Before I provide an update on the quarter, I'd like to thank Tania for your hard work, dedication to Grace over the past several years, and I look forward to the remaining time together before you begin your next chapter.

Q1 was a very solid start to 2018. Our sales were up 8% year-over-year, reflecting strength across all business segments and resulting in the seventh consecutive quarter of year-over-year top line growth. We continue to gain traction with our pricing actions and saw our pricing up 150 basis points, supported by all business segments. This is a clear demonstration that our customers recognize and appreciate our value-added product differentiation. We delivered strong earnings growth of 10%, supported by solid volume growth in Specialty Catalysts in silicas, favorable pricing across all of our businesses. This growth more than offset headwinds of over $7 million from this year's inflation and last year's insurance proceeds. We closed the polyolefin catalyst acquisition and are excited about the growth opportunities. The expanded portfolio of innovative technologies will allow us to further partner with our customers to accelerate their growth. As we have discussed, the single-site catalyst technology we acquired serves the fastest-growing application in the polyethylene market, which are expanding at 2x to 3x traditional polyethylene rates.

We saw continued traction in our polypropylene process licensing business, signing 2 new licenses in the first quarter. Customers choose our process technology because of its clear competitive advantages, including: ease and robust operations, a broad reference slate, and our continuous process improvements to address their needs. Now turning from Q1 to the remaining -- the remainder of 2018. We see positive momentum across all our businesses and have greater visibility into the full year that supports our thesis for continued growth, both on the top and bottom lines. Given our confidence in our organic growth and higher earnings expectations, we are raising our full year sales guidance 9% to 11%, up from 8% to 10% and our adjusted earnings per share guidance range by $0.13 to $3.85 to $3.95.

With that, I'll turn the call over to Hudson.

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

Thank you, Fred. Please turn to Page 6. I'll review our progress on our key strategic initiatives and then provide an update on our business performance and full year outlook. As we set out at our Investor Day event, we have a clear strategy to drive profitable growth. The progress we made this quarter is setting the foundation for long-term value creation, while also delivering near-term improvements in growth and profitability. When we saw you in March, we highlighted our focus on value selling and the value we create for customers. This is a primary focus of our innovation and commercial excellence efforts and ensures we translate the value of our product technology into our business results.

In Q1, prices improved 150 basis points overall and more than 200 basis points in FCC catalysts. Margins improved 90 basis points overall and 230 basis points in catalysts.

In March, we also highlighted the value we can create through operating excellence. We are making good progress improving our manufacturing performance. During Q1, the first plant to start implementing the Grace Manufacturing System, or GMS, successfully transitioned from the implementation phase to the sustained phase, and is on track to fully deliver the business case for the investment we made there. We started 2 new GMS implementations in the quarter and now have 5 plants in North America implementing GMS. One of our best-run plants has already achieved a 2% improvement in throughput on one of its key lines. In a sold-out, high-margin plant, that 2% dropped straight to the bottom line.

From a capital investment standpoint, we are investing in growth capacity to supply the strong demand for our value-added products and in operating excellence projects to improve our cost position. We continue to manage tightly our key growth projects. We have accelerated some projects and delayed others to ensure we remain aligned with the timing of customer demand. The polyolefin catalyst acquisition, our biggest recent investment, is off to a strong start. The 2 manufacturing plants are up and running on our SAP system, the commercial teams are going to market as a single company, and the R&D teams are collaborating to align and prioritize our innovation pipeline. Our new employees and our customers are excited about the opportunities this combination will create as am I. We are on schedule to fully deliver the synergies in 2019, and I am confident we will achieve the investment case for the acquisition. Our performance in the first quarter reinforces the value of our strategic initiatives. Our framework will enable us to continue to drive top line growth and deliver strong margins and free cash flow, going forward. Let's turn to Page 7, and I'll review our business results for the first quarter. Specialty Catalysts grew double digits, driven by strong demand for our high-performing polyethylene and polypropylene catalysts. Licensing and Chemical catalysts were also up year-over-year. Our licensing business continues to build on its strong momentum. We recently announced 2 new licenses, with a combined production capacity of over 900 kilotons. As a reminder, the licensing sales cycle is long, and these 2 licenses have been part of our 2018 outlook.

Refining Technology sales were up low-single digits, with good results from our technology-focused pricing actions. FCC Catalyst prices improved over 200 basis points in the quarter and are on track to deliver full year improved pricing in our target range of 1% to 2%. FCC catalyst sales volumes were lower in Q1 due to very strong demand in Latin America during Q1 last year. We continue to see solid demand across the globe for our newest FCC catalyst technologies, especially with customers who are running hard in seeking to maximize propylene production. Global gasoline demand is up 1.7% year-over-year, and refining margins are healthy. Sales and earnings in our ART joint venture were down year-over-year, based on order timing within the year. Those sales and earnings were above our expectations for Q1. Hydroprocessing catalyst demand remains solid, and our backlog is strong.

Let's turn to Materials Technologies on Page 8. Sales for the quarter were up 11% as reported and 3% on constant currency, on higher sales volumes and improved pricing. Silica sales volumes were strong and up 7% for the quarter, following 8% volume growth in Q4 2017. Demand is strongest in coatings, petrochemicals and process absorbent applications. We have rebuilt our pharma fine chemicals sales pipeline and expect this business to return to growth in the second half of this year.

Please turn to Page 9, and I'll touch on our updated outlook. Tom will address the full outlook in a moment.

We have good momentum coming out of the first quarter and want to reflect that momentum by increasing our sales and earnings outlook for the year. We also want to clarify the key components of our earnings growth from 2017 to 2018. The bridge on Page 9 shows the growth in our businesses and the benefits of the acquisition, separate from the one-time effects of business interruption insurance and the change in useful lives. We expect our businesses and the acquisition to drive 9% to 12% earnings growth this year, with sales growth and productivity more than offsetting higher inflation. Additionally, we completed our useful life study this quarter. Based on a study by one of the big 4 accounting firms, we have updated the useful lives of our manufacturing assets. We have extended the average life of our manufacturing equipment from about 9 years to about 18 years, which is more consistent with industry benchmarks. It is important that we get our useful life estimates right. They affect our product costs and our investment decisions. Two final topics before I turn the call to Tom. The recent developments with tariffs and sanctions affect us, but we do not expect the short-term effects to be significant. Longer-term effects depend on what tariffs and sanctions are finally implemented and are unclear at this point. We are monitoring the situation closely. We are already working with our customers and our supply-chain to mitigate effects where we can. Most of our products are sold into specialty applications with switching costs and many of our products can be manufactured in non-U. S. plants, if needed. Beyond the impact of tariffs and sanctions, we see general cost inflation beginning to moderate sequentially. We have a number of productivity initiatives underway to reduce the impact of inflation on our results, and we expect to see the benefits of those projects this year.

I'll now turn the call to Tom, who will discuss our financial results and our updated outlook in more detail.

Thomas Eric Blaser - *W. R. Grace & Co. - Senior VP & CFO*

Thank you, Hudson. Let's move to Q1 performance on Slide 12. As Fred said, we had our seventh consecutive quarter of year-over-year sales growth, with sales of $432 million, up 8% as reported and 4% at constant currency, driven by volume growth, improved pricing and a more favorable mix. Adjusted gross profit was up 11% and adjusted gross margin was up 90 basis points. Sales growth and improved manufacturing performance yielded 150 basis points improvement before -- more than offsetting the inflation of 120 basis points. The useful lives change contributed 50 basis points.

Adjusted EBIT of $96 million was up 10% year-over-year, and our operating margin of 22% was up 40 basis points, which included anticipated higher expenses and lower earnings from the ART joint venture. Adjusted EPS was $0.82 per diluted share, up 21% from last year. Excluding the effects of tax reform, the depreciable lives change and last year's business interruption proceeds, adjusted EPS was up $0.10 or 15% from last year. Adjusted free cash flow was $55 million, up 10% versus last year, reflecting earnings growth, stronger collections, higher licensing prepayments and lower cash taxes, our adjusted [EBIT], return on invested capital on a trailing 4-quarter basis was 24.7%, up 50 basis points over last year's first quarter.

Let's move to capital allocation and financing. Please join me on Slide 13. In addition to the polyolefin catalyst acquisition earlier this month, we invested $50 million in capital expenditures, which is $19 million higher than last year. More than 50% of this amount was directed at high-return growth and productivity projects. We also returned $51 million in cash to shareholders: $16 million of it through dividends and $35 million in share repurchases at an average share price of $68. Shifting to our refinancing. In connection with the acquisition, we raised $950 million of new, senior secured term loans, maturing in 2025 and put a new $400 million revolver in place through 2023. We used the proceeds as well as cash on hand to pay off our prior term loans, fund the purchase price for the acquisition and make a $50 million voluntary contribution to our U.S. defined benefit pension plan. The refinancing reduces our average borrowing cost by 50 basis points, improves alignment of our debt and interest cost of our global cash flow and earnings profile, and optimizes our effective tax rate and low cash taxpayer position.

Now I'll move to Slide 14 and pivot to our revised full year guidance. We are raising our guidance, communicated on March 2, as follows: we expect revenue growth to be in the range of 9% to 11%, including a 4% benefit from the acquisition; adjusted EBIT in the range of $448 million to $460 million, up 8% to 11%, over last year; adjusted EPS in the range of $3.85 to $3.95 per share, up 13% to 16% over last year. The increase in these ranges from prior guidance is principally tied to sales growth and our ability to execute and cash our volume and pricing, while mitigating potential additional inflationary effects.

On an adjusted free cash flow, we increased the bottom end of our range and now expect to be between $225 million and $250 million, reflecting a higher degree of confidence in our working capital improvement actions. You'll also note that we have provided guidance on depreciation and amortization at $110 million, which incorporates the guidance on depreciation, consistent with our 2018 original guidance. We continue to project our capital investments to be $200 million this year and expect our cash flow profile within the year to be slightly weighted towards the second half. Looking to the second quarter, we expect to continue our year-over-year sales growth trend and our adjusted EPS to be up between 13% to 15% over last year.

In closing, demand for our products is strong, and our operational performance continues to improve, positioning us well to deliver top line growth while expanding gross margins. We remain committed to our disciplined approach to profit improvement, cash generation and capital allocation management, as we deliver increasing value to our shareholders. With that, I'll turn the call back to Fred for closing remarks.

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

Great. Thanks, Tom. In closing, we are very encouraged by our first quarter results and are confident that our profitable growth strategy is working. We remain well positioned to capture growth, further supported by the recent acquisition, which we are hard at work at integrating. We still have a lot of work to do, but we remain on track to achieve our strong 2018 performance.

With that, I'm going to turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Christopher Parkinson from Credit Suisse.

Christopher S. Parkinson - *Crédit Suisse AG - Analyst*

Can you just give us some updated views on the raw material basket and also remind us of the alumina content across some of your products? Just any updates on your short- and long-term views regarding gross margins in catalysts, that could be very helpful.

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

Go ahead, Hudson.

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

Hey, Chris, it's Hudson. The -- yes, so we've seen quite a bit of inflation over the last year or 2, mostly driven by caustic, a little bit of rare earth, aluminum, some natural gas, as you have referenced. As we look forward through the rest of this year, we think most of the sequential inflation is behind us. We'll still see some year-over-year inflation over the balance of the year, but we think most of it is behind us now, with one exception, and it's still early to read what will be the impact of really, sanctions, at this point, on some of our alumina costs -- aluminum costs. We do hedge that. And so, over the balance of this year, most of that risk is mitigated because of our hedging program. On margins, we think margins improved sequentially throughout the year, and that's true for catalysts and Materials Technologies as well.

Christopher S. Parkinson - *Crédit Suisse AG - Analyst*

Great. And also, can you just give us a quick update on some of your selling strategies, how they've evolved, in both SEC and HPC, and whether or not you're seeing better discipline or improving discipline even, just among your -- some of your competitors and getting, kind of, better pricing for value, just how do you see that evolving over the next 12 months?

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

You bet, Chris. Look, we've had a value selling focus in our businesses for many years now. And it's an important way that we not just communicate the value we create to our customers, but that we capture our fair share of that value as well. And our competitors take that strategy as well. The catalyst industry is one that's broadly governed by a value-selling approach. Our best customers value the technology that we bring to them, and I think that's true for our principal competitors as well. More to your specific point about disciplines and so forth, we see improving discipline in the industry. Operating rates are high. The technology level continues to advance for us and our competitors, and I -- and so, we feel good about that.

Operator

And our next question comes from the line of John McNulty from BMO Capital Markets.

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

I guess, a couple of things. On the refined or the FCC catalyst customers, Takreer's been down for a while, and you've had, I guess, a number of customers, where you found homes for that catalyst. I guess, as you look forward, are you starting to get a feel for their interest in maintaining that relationship and that demand, so that when -- and if so, when Takreer comes up, how do you actually meet that demand?

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

Yes, let me just give you an overall, and then I'll let Hudson give you a little bit of specifics. We have a very rigorous -- we call it sales and operational planning aspect of it, and Tom Petti and his guys in refining are working that very closely to make sure they're coupled with the timing of the volume that is needed from the customers that we did acquire or doing trials through this period as well as just watching closely on the Takreer side of it. But I think, it will be a balanced approach and you'll probably start seeing that -- start occurring during the later half of the year, as we expect the Takreer volume to begin in sometime in early '19. Hudson, anything to add to that?

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

Nothing to add. I think, you got it.

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

Sorry about that.

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

Great. Now thanks for the color. And then, I guess, with regard to the rebuild pharma and fine chemical sales pipeline. I guess, it looks like, starting the second of the year, things should start to improve there. I guess, based on what you see right now in the pipeline, how should we be thinking about what that means for growth, kind of, on a normalized basis or as we look to 2019?

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

Great question, John. We -- this is a nice little business for us, and we lost focus on our sales pipeline a year ago or so. We quickly reestablished that focus, and we feel pretty good about the second half of this year for this business and the future. We're making investments in the business to improve its capabilities, and it should be a growth business for us. It's 5% of MP's portfolio, something like that, so it's not a big effect at the Grace level but it's a nice business. It's a technology-driven business. We've got good customer relationships there.

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

Material's EBIT growth will be restored this year, as last year we were down. We will have growth, and as Sander said, in the Investor call, mid-single digits to upper -- mid-single digits to close to double digits, as a result of that.

Operator

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

Kevin William McCarthy - *Vertical Research Partners - Analyst*

Question on HPC. Your first quarter equity earnings were down a bit year-over-year, yet your qualitative commentary sounds quite good. You referenced a strong backlog, good visibility there. So can you maybe elaborate a little bit on the outlook for the balance of the year? And in that context, would you expect equity earnings for the year to grow?

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

Kevin, Hudson. Great questions. In terms of Q1, this is pure order timing during the year. Very lumpy business, as we've seen over the years. For the full year, absolutely. We expect double-digit growth in our share of ART's income this year. It's driven by strong demand for hydroprocessing catalysts, which in turn, are driven by tighter environmental regulations to drive for clean fuels. We're seeing mid-single digits, maybe even higher single digits, in some of our product lines. But topline growth in that business, and we're very positive about the short-term and long-term outlook on ART.

Kevin William McCarthy - *Vertical Research Partners - Analyst*

Okay. And then, maybe a clarification question for Tom, related to the change in depreciation that you quantified on Slide 9, as $23 million. How does that level compare to what you had baked into your prior guidance. If we look at Slide 14, I think there's an NA, perhaps, you were still doing the work and trying to understand where you would come out. But how would you assess the result versus the prior expectation?

Thomas Eric Blaser - *W. R. Grace & Co. - Senior VP & CFO*

Yes, Kevin, thanks for the question. Under depreciable lives, the assumption we made in our guidance is consistent with where the results have come into $23 million to $29 million.

Kevin William McCarthy - *Vertical Research Partners - Analyst*

Okay, so spot on?

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

We were still going through the acquisition. We were -- the acquisition, how that would affect for and trying to complete the analysis with -- and get it audited.

Kevin William McCarthy - *Vertical Research Partners - Analyst*

And so, just to follow on, as we look at your positive change to EBIT guidance today, I think, up $8 million to $10 million or so, we should view that as apples-to-apples, is that correct?

Thomas Eric Blaser - *W. R. Grace & Co. - Senior VP & CFO*

Yes, that's correct.

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

That's right.

Operator

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

Robert Andrew Koort - *Goldman Sachs Group Inc - Analyst*

Just wondering on the catalyst tech side. Obviously, the Specialty Catalysts was a big source of the sales growth. How much of that is episodic along the Gulf Coast and can you give us some sense of the sustainability of those growth rates?

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

Bob, it's Hudson. The Gulf Coast is in the mix, but that's not the principal driver. This is a pretty broad-based growth and linked, in part, to our licensing progress over the last few -- over the last several quarters, linked in part to investments and polyethylene capacity is mostly what we see here. But globally, PE and PP. But most fundamentally, it's linked to strong end-use demand for polypropylene and polyethylene resins.

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

I would add one comment. A lot of the Gulf Coast startups are just starting up at the end of the year and really won't hit full rates until, I believe, over the next couple of quarters. So we're just really getting into that side of it.

Robert Andrew Koort - *Goldman Sachs Group Inc - Analyst*

Got you. And then, can I ask, on the SEC pricing, it seems like we've had some fits and starts about pricing there, but obviously, a big chunk of the customer base is -- and most of it, I would presume, is contractual in nature. So is this something we can sink our teeth into having sustained a couple of percent pricing or will there be some reason that it could be more lumpy, as we go through sequential quarters here?

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

We saw a little bit better than 200 basis points in pricing this year. Our full year expectation is somewhere between 1% and 2% for the full year, and we think that's the best way to think about it.

Operator

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

John Ezekiel E. Roberts - *UBS Investment Bank - Analyst*

A couple of weeks ago, Motiva announced a multibillion crude oil to chemicals project and there are couple of other refineries being built overseas to maximize chemicals integrated into the refinery. And I think this is to maximize crude runs even after gasoline and diesel peaks in the future. Will any of this activity affect existing cracking and hydroprocessing catalyst use or will it create new catalyst opportunities or applications?

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

This is a great question, John. Thanks for asking it. These investments are very good for us in the long term, both in our Specialty Catalysts business but also in our refining catalyst business. And as we tried to lay out for you all, when we met at the Investor Day in March, we're clearly seeing our customers shift from running their FCC units principally for transportation fuels to more and more running for propylene feedstocks. The SEC unit is a very good source of propylene, and I think, these investments that you're referencing, and others that have been announced, just validates the long-term growth potential for us in those areas.

Unidentified Analyst

Maybe related but a different question. Dow Chemical has been talking about a new fluid catalytic dehydro process. And anytime I hear fluid catalytic, I tend to think about W.R. Grace. I assume Dow does its own catalyst for their own processes, but is there a catalyst opportunity like that developing in -- catalysts and developing in chemicals around fluid catalytic dehydrogenation?

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

You're catching us to be perfectly candid off guard here on this. I mean, we had a fluid-based catalyst that we experimented with 3 or 4 years ago around hydroprocessing. Around hydrogenation? I'm not sure, John, to be perfectly clear that I (inaudible)

Robert Andrew Koort - *Goldman Sachs Group Inc - Analyst*

Yes, dehydrogenation, right. Like, we have PDH units now, but I don't think we have fluidized catalytic PDH units.

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

That's right. So we're going to have to circle back with you on that, to be honest.

Operator

And our next question comes from the line of Mike Sison from KeyBanc Capital.

Michael Joseph Sison - *KeyBanc Capital Markets Inc - Analyst*

In terms of SEC, are you filled up, at this point, and do you think the industry is pretty -- the op rates are pretty high, and when you think about heading into '19, how do you supply Takreer if it does come back on, if your operating rates are pretty good?

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

Mike, we're running at high utilization, but we're not completely full. And, I think, that's true for our competitors as well. And -- but as we look forward to the balance of this year and into '19, we're looking at productivity and debottlenecking opportunities. The point I made in my prepared remarks about a 2% throughput improvement, driven by our Grace manufacturing system work, that happens to be in an FCC catalyst plant. So we are doing work to make sure that we're as productive and as efficient as possible in our plants. A lot of that work turns into volume, and as Fred said earlier, as we get into the second half of this year, we'll look to maximize the value of our customer portfolio, and we'll obviously, supply [ADNOC] when they're back up and running. And the specific decisions we make about individual customers, we'll make those decisions at the time to maximize the earnings stream from this business.

Michael Joseph Sison - *KeyBanc Capital Markets Inc - Analyst*

Got it. And then, Fred, your balance sheet's still in pretty good shape. What's your appetite for -- to do maybe a bigger acquisition? Are there bigger acquisitions out there that are attracted to you? Just kind of want your thoughts there.

Thomas Eric Blaser - *W. R. Grace & Co. - Senior VP & CFO*

Yes, let me just restate. I mean, strategically, listen, we -- as we've said in our Investor Day, we think coupling technology with catalyst is an important, very important, aspect of our strategy. We've seen a play-out in ART, we've seen a play-out in the polypropylene. So if those opportunities make themselves available, we obviously, have an appetite for that. Right now, we're in the integration mode of digesting the Albemarle integration, but our activity and our pipeline still remains robust. So let's see what develops and -- over the next 6 months here.

Michael Joseph Sison - *KeyBanc Capital Markets Inc - Analyst*

Great. And then, one last one. In terms of -- you noted that silica volumes were up pretty well in the quarter. How much of that is driven by some of the new products that you have rolled out? And do you think that's the right growth potential for the next couple of quarters and this year?

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

Mike, it's Hudson. The long-term growth potential for this business, I think, we pegged at 4% to 5% in the Investor Day, at that level. We've grown a little faster than that over the last couple of quarters. It does reflect some new product penetration, but probably, more better commercial excellence execution.

Operator

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

Laurence Alexander - *Jefferies LLC - Analyst*

Two quick ones. First, just on to flush out a little bit more on silica growth. Do you think the pricing there should be running in the, sort of, 2% to 3% range in 2019, 2020, or will it stay relatively near to it? And then secondly, on the catalysts, in terms of -- as you think about the longer-term mix, would you be -- do you see anything on the horizon that will prevent Specialty Catalysts from overtaking FCC catalysts in size in 3 or 4 years?

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

Lawrence, it's Hudson. I -- on your first question. MT will continue to see pricing improvements over time as the portfolio mixes to faster growing, higher-performing, more valued technologies. And you'll see some of that on the top line, you'll see some of it on the gross margin line. In terms of FC becoming bigger than our Refining Technologies business. FC today is...

Thomas Eric Blaser - *W. R. Grace & Co. - Senior VP & CFO*

Over [$500 million]

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

[That] $500 million to $600 million in that order of magnitude. Probably higher, closer to $600 million with the acquisition. Refining Technologies, if you include the revenue from the ART joint venture, which is really how we think about it, it's well over $1 billion, $1.2 billion, $1.3 billion, in that order of magnitude. So we expect Specialty Catalysts to grow faster than Refining Technologies but it'll be a while before they overcome.

Operator

And our next question comes from the line of Roger Spitz from Bank of America Meryll Lynch.

Roger Neil Spitz - *BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst*

I'm looking at Slide 9, the reconciliation B. Was BI insurance recoveries backed out of 2017 adjusted EBITDA? Because I presume useful life $23 million benefit is noncash and the 2018 implied EBITDA is up about $40 million at the midpoint. But if you look at the right side of Slide 9, you've only got $17 million plus whatever Albemarle's DNA is?

Thomas Eric Blaser - *W. R. Grace & Co. - Senior VP & CFO*

Robert, it's Tom. When we reported our adjusted EBIT and EBITDA results for 2017, we included the business interruption insurance proceeds of $25 million.

Roger Neil Spitz - *BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst*

Right, that's why -- I'm looking at that. If you start with, I can take this off-line, but if you start with last year's $525 million, you subtract off the business interruption. You don't add the useful life, because I'm presuming that's noncash. And then the two things on the right add up to about $28 million and $14 million add-on DNA for Albemarle. You don't quite get to the $40 million up for the full implied EBITDA for the full year.

Thomas Eric Blaser - *W. R. Grace & Co. - Senior VP & CFO*

Right. The EBIT and EBITDA are growing at different rates because of the impact of trading off insurance for depreciation. So your math is right.

Roger Neil Spitz - *BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst*

Right, okay. And can you comment on materials? I think it was noted -- there was some margin compression as raw materials grows faster than pricing. Is that mainly a lag impact or is something else going on there? Or did it relate to the pharma fine chemical?

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

It's both, Robert. It's -- the pharma fine chemical business has a high variable contribution margin and with volumes down, that hurt. As those volumes come back in the second half, that effect will turn around. And on the pricing-inflation relationship, there is a lag. And we try to minimize that lag, but in reality, there's a time lag.

Operator

And our next question comes from the line of Chris Kapsch from Loop Capital Markets Capitals.

Christopher John Kapsch - *Loop Capital Markets LLC, - Analyst*

My question is focused again on the FCC catalyst business and really, the dynamic around the pricing, which you touched upon obviously, in some detail. But curious, a couple of things. One, the -- did the comparison that you mentioned, with respect to the Latin American business, strong in the year ago, weak this year, did that affect the pricing mix at all in this quarter? And then more generally, any sense of what the FCC pricing metric would have looked like, absent the cost inflation that you're seeing? What I'm trying to understand is if you're genuinely seeing progress, call it, on the efforts to, sort of, organically improve pricing and mix? Or is what we're seeing in this quarter really a function of some cost push pricing?

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

Chris, it's Hudson. The change in mix on our regions, the Latin America part, was actually a headwind to pricing. And the second part of your question about how is inflation helping us? I think, inflation helps us start the conversation, but we capture pricing based on the value of our technology.

Christopher John Kapsch - *Loop Capital Markets LLC, - Analyst*

Okay. So -- got it. So accelerating maybe the process of pushing forward on this pricing is one way of thinking about it?

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

I think that's a fair way to think about it.

Christopher John Kapsch - *Loop Capital Markets LLC, - Analyst*

And then, just sort of a follow-up on the HPC. Just an update on the investment, I think, it's in Lake Charles of the joint venture to build out more capacity there. What's the time line and expectation of that, how that might flow through, I guess, it's not an '18 event, right?

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

It's not. We're in active construction now, and we expect that plant to be online by the end of '19.

Operator

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

Michael Joseph Harrison - *Seaport Global Securities - Analyst*

Going back to beat the FCC horse a little more. I was wondering, as I look at the pricing versus the volume contribution, are you seeing any situations where you're having to give up volume because you're holding the line on pricing and being disciplined on pricing? And also, did you see a sequential improvement in FCC pricing? I know, in the fourth quarter, price mix was in negative but that had a lot to do with Takreer having been in the prior year. So I'm just wondering if pricing picked up from Q4 into Q1 in FCC?

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

Yes, Mike. FCC pricing improved, sequentially. And now I'm forgetting the first part of your question.

Michael Joseph Harrison - *Seaport Global Securities - Analyst*

Giving up any volume to get pricing?

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

Yes, we've been disciplined on what we call bid business to make sure that we're getting the right balance of growth and profitability and pricing.

Michael Joseph Harrison - *Seaport Global Securities - Analyst*

All right. And then, I wanted to ask about the pension contribution, you mentioned the $50 million voluntary contribution. Where does that put your funding level? And does that contribution impact the amount of pension expense you'll have for 2018?

Thomas Eric Blaser - *W. R. Grace & Co. - Senior VP & CFO*

Good question, this is Tom. Yes, so the $50 million voluntary contribution we made adds to our already very high-funding status, we're well above 90% in the plan. And it does help us in terms of derisking the balance sheet in the P&L, as we see higher interest rates coming.

Operator

And our next question comes from the line of Chris Shaw from Monness, Crespi.

Christopher Lawrence Shaw - *Monness, Crespi, Hardt & Co - Analyst*

Most of my questions have been asked. But can I just ask about the buyback. It was pretty aggressive it seemed like in the first quarter of $35 million. Is that kind of run rate because that's the year we weren't just taking advantage start of were you just sort of taking advantage of some lower prices in the quarter?

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

Yes, I mean, this is Fred. I think our price was -- I mean, we took advantage of where that price was. I think, we are under -- I think, we are undervalued and when we dipped into the low, in mid-60s, we were very far undervalued. So we're taking advantage of that opportunity and the cash we had on the balance sheet before we closed the acquisition.

Operator

And I'm showing no further questions at this time. I would now like to turn the call back to Ms. Tania Almond for closing remarks.

Tania Almond - *W. R. Grace & Co. - Investor Relations Officer*

Great. Thank you, Victor. We'd like to thank everyone on the call for joining us today. If you have any follow-up questions, you can reach me at (410) 531-4590 or Jeremy at (410) 531-8234. Thanks, and have a great day.

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.