THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GRA - W. R. Grace & Co Investor Day

EVENT DATE/TIME: JANUARY 26, 2016 / 3:00PM GMT

CORPORATE PARTICIPANTS

Tania Almond *W.R. Grace & Company - IR Officer*

Fred Festa *W.R. Grace & Company - Chairman, CEO*

Hudson La Force *W.R. Grace & Company - SVP, CFO*

Greg Poling *W.R. Grace & Company - CEO of GCP Applied Technologies*

Dean Freeman *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

CONFERENCE CALL PARTICIPANTS

Chris Kapsch *BB&T Capital Markets - Analyst*

Edlain Rodriguez *UBS - Analyst*

Mike Sison *KeyBanc - Analyst*

Steve Beckett *Allied Archery & Associates - Analyst*

Chris Parella *Bloomberg Intelligence - Analyst*

Owen Douglas *Robert W. Baird and Company - Analyst*

Rosemarie Morbelli *Gabelli & Company - Analyst*

Alex Yuprema *Delora - Analyst*

Chris Shaw *Monness, Crespi, Hardt & Co. - Analyst*

Steve Ferazani *Cantor Fitzgerald - Analyst*

Chris Gleysteen *MSD Partners, LP. - Analyst*

Dan Rizzo *Jefferies & Company - Analyst*

Jim Barrett *CL King and Associates - Analyst*

Ivan Marcuse *KeyBanc - Analyst*

Matt Kupersmith *Iron Compass, LLC - Analyst*

Rob Walker

Robert Barrett

PRESENTATION

Tania Almond - *W.R. Grace & Company - IR Officer*

Good morning. My name is Tania Almond, Grace's Investment Relations Officer. Thank you so much for joining us this morning, especially those of you in the room who braved the winter elements to be with us in person. And also to those on the live Webcast, we really appreciate all of you taking some time to spend with us, especially during earnings season.

As you know, we're in the process of finalizing our spinoff of GCP Applied Technologies. Today, you will have the opportunity to hear from both companies senior teams as they discuss strategies, performance and growth opportunities for their respective businesses.

I will share with you our Safe Harbor Statement, which will apply to our presentations as well as our Q&A sessions. I will request when we get to the Q&A sessions, we will have a couple of folks in the aisle with microphones. Please make sure you ask your question using a microphone so that the full audience in the room can hear you as well as those on the Webcast.

In terms of our agenda today, we will begin with Fred Festa, Grace's Chairman and Chief Executive Officer, along with Hudson La Force, Grace's Senior Vice President and Chief Financial Officer, who will both detail the New Grace story.

Fred joined Grace as President and Chief Operating Officer in November 2003 and assumed the CEO responsibilities in June of 2005. Hudson has been with Grace since April of 2008. They will provide a presentation followed by a Q&A session. We will then take a break for lunch starting at 12 noon for one hour.

We'll be strict with our break time due to the fact that we are Webcasting the event. We'll then resume at 1 pm with Greg Poling, designated President and Chief Executive Officer for GCP Applied Technologies, who is currently Grace's Chief Operating Officer.

And Greg will be joined by Dean Freeman, designated Vice President and Chief Financial Officer for GCP. They, too, will provide a presentation followed by a Q&A session. We will end the event by 3 p.m. With that, I'll turn things over to Fred to get us started.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Good morning and welcome and thanks for braving the weather. You know, as I stand up here today, it's been about a year since we announced the potential spin, the spinning off GCP and Darex. And when we set to go forward with this, we said we wanted to create two leading industry-leading public companies, and very soon that will be a reality.

And just for those who are not as familiar with the story, if you think of Grace, what's the New Grace? Grace is a Catalyst, a Materials Technology business, differentiated by very high-margin, unique products, underpinned by technology with very complex manufacturing operations and high barriers to entry.

You look at our GCP and Darex business; it's specialty chemicals, construction building products as well as packaging, differentiated by very strong customer technical, sales and marketing organization, simpler operations with very rich and diverse geographic expansion.

You know, as we've begun to operationalize these two teams over the past three to five months, it's become clear to me that the vision we created and the benefits are truly there. When I look at what Greg has been able to attract from a team, for the GCP team, it's impressive.

The team of people that he's built, the board that's supporting it, some of the new ideas that have come out just in the last three or four months, as we've begun to operationalize and split the company, some of the - I look at our supply chain organization.

I never would have envisioned that our supply chain organization as split in between two would be so much different looking going forward then it was as a combined, creating additional value. Grace supply chain focused on mine, goods, commodities when you look at the GCP side on that whole distribution channel. So, the strategic momentum we've created is there.

It's coming to fruition and, obviously, we're very excited about it. You know, we've had a long track record of creating shareholder value. You know, we're able to grow sales; we've been able to grow our margins. As you know, we generate a lot of cash and we've thrown off a lot of cash.

And we've used that cash to return a significant amount to our shareholders. Returning $1.3 billion over the past two years, and as of this morning, New Grace - and I want to be clear about that - New Grace will begin to initiate a quarterly dividend, and that dividend, the first dividend, will be at the end of the first quarter.

So, we've got a strong track record of creating shareholder value and that will continue as we go. You know, when we looked at the hypothesis of creating the separate companies, we really focused on three issues. We focused on would it intensify and clarify the strategic focus for each piece? Could we simply the operating structure of each company? And could we create a strong portfolio and a strong balance sheet to give both companies the financial flexibility to be able to grow through M&A, as well as create a simple and a defined investment thesis. You know, we look at that and we feel good about where we're at.

You know, from a strategic focus - let me give you an example. Hudson was reminding me last night just before we announced the spin we were looking at our Qingdao operation in China, and we were trying to force in GCP on that site. And we said, you know what, let's put GCP on that site, share some overheads and so on.

Now you look at where we are today; GCP went to its normal site, where it should have gone, and that Qingdao site is now become a site to make methylene to olefin Catalyst. So again, that strategic focus has allowed us to develop a new product, a new exciting product I'll talk about a little bit later, but it's clear.

When I look at our operating structures, we were able to take out almost $25 million of cost as we've defined the two new operating structures for the company going forward in 2015. It's around supply chain, it's around our manufacturing, it's around finance, it's around the other support functions.

This couldn't have been possible without setting that framework of how each of the independent companies were going to work. And finally, the portfolios are strong. They are strong. I think you're going to see it, I know you'll see it as we go through the presentation. You know, from a transaction overview, where are we?

Well, today is day one of when issue trading begins. The dividend will be complete and the distribution date will be as of February 3rd. I'm going to spend a little bit of time, and Hudson will as well, as we look at our outlook and the valuation parameters as we view them. You know, our Board, the Grace Board asked me, so what is New Grace going to be?

What do you want it to be? Well, it will be continue to be a focused, lean, strategic company underpinned by innovation; innovation that's carried us very well on both new products as well as into adjacency in a performance driven culture, continuing to hold ourselves accountable as we go both to our internal, as well as to our shareholders.

You know, when you speak of accountability, two years ago after we emerged from Chapter 11, we put out a framework for what Grace would be from 2014 to 2018. Let me report on the first year results. You see a lot of greens up there. You see a yellow.

We've been able to grow our sales at a 4% on a constant currency basis, a little less by about a point, less than what the framework has created. We'll talk a little bit about that as we go and what our future outlook and framework looks like. You look on the margin levels, you know, 38% to 40% on a margin level. You look at 2015, we're already at that rate.

Adjusted EBITDA, 23% to 24%, 2015 was 24.5%. Adjusted free cash flow - we said we would return or generate $2 billion of cash over the five years. We have generated $900 million of cash during this period of time, 10% ahead. And finally returning cash to our shareholders, we've done it on the plan that we've said.

So, we do hold ourselves accountable. We do look at where we're short and we do make adjustments on that side of it. But I feel proud of the framework that we created and our performance so far in this framework.

I'm going to turn it over to Hudson now, because it's important to look at Grace as a combined entity as well as a split entity and I'll come back and we'll have some more discussion. Hudson?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Thank you, Fred. So as Fred said, we want to look at Grace as the current combined entity, but also begin to transition you to New Grace and New GCP as independent entities, which they'll become over the next week or so. Let me give you a little bit more color on our 2015 actual results, and then I'll step you through our thinking about 2016.

We finished 2015 strong. About $3 billion, $50 million of sales, almost 40% gross margins, as Fred said a moment ago, 24.6% EBITDA margins across the existing Grace portfolio. All three businesses finished Q4 with good momentum. Catalyst earnings, segment operating income as we reported it was just over $100 million in Q4.

Materials Technologies earnings were just under $45 million, with good margin expansion versus the prior year. And GCP's earnings were just around $46 million, again, with good margin expansion versus the prior year. We feel good about the momentum we had in Q4. I'll talk a little bit more about the Grace businesses later in the presentation.

Dean and Greg can talk about the GCP businesses in their portion of the meeting today. As everybody knows, we've devalued our Venezuela business at the end of the third quarter. We think as you begin the model 2015 into 2016, the right way to do that is to take out the Venezuela sales and earnings for 2015, which we've done for you here.

And create this new baseline, existing Grace ex-Venezuela, just under $3 billion of sales, about $721 million of EBITDA. That's how we'll report our Q4 earnings when we report them on February 11th, on that historical Grace basis you've been used to seeing.

As we transition to 2016, Grace and GCP will be independent companies, as you know, and we've created our outlooks on that basis. These numbers that you see today are consistent with how Grace and GCP will report their results going forward into 2016. For Grace, our sales outlook is better than $1.7 billion in sales.

Gross margins expanding to about 42%. EBIT and EBITDA margins expanding as well, for total adjusted EBITDA for 2016, between $500 million and $520 million. For GCP, sales a little bit better than $1.4 billion. Again, gross margin expansion to around 38%. Adjusted EBITDA in the $245 million to $260 million range.

That gives combined Grace and GCP EBITDA in the $745 million to $780 million range. As we're trying to make clear, those numbers won't ever be reported that way, but we want to be able to show you 2015 into 2016 on a combined entity as a way to help bridge your thinking on this.

Combined sales would be just over $3.1 billion, 4% or better, top-line growth 2015 into 2016. You see the earnings growth as well. I will comment as we've finalized our plans, our thinking about 2016 over the last four to six weeks, we did dial back our top-line growth a little bit.

We wanted to make sure that the outlook expectations that we set for you today are in line with a little more conservative view of the macro environment. One technical point is as you think about building your models for 2016, and it's about this change in reporting that we'll have as we go through the Q4 and Q1 reporting cycles, GCP is relatively straightforward.

GCP's actual results for 2016 will be reported against 2015 carve-out basis financial statements. Those are the same financial statements that have been in the Form 10 over the last four, five, maybe six months now. So, that should be relatively straightforward; you've seen the GCP results - the historic results reported on that basis already.

As we move into 2016 those bases will be comparable. It's a little more complicated with Grace. Grace will restate our historical financial statements showing GCP, including the Darex business, as discontinued operations. You'll get those restated numbers from us shortly after the spin is effective, around February 8, 9, 10 - the early part of that week.

We'll give you the historical discontinued operations basis financial statements through September, and then in February when we file our 10K we'll give you Q4, so that you'll have a complete new base line for Grace on a discontinued operations basis.

So, we realize with the separation in the two different accounting bases, discontinued operations for Grace and carve-out basis for GCP that this is confusing. We want to kind of cut through the confusion and really focus you on the way we're thinking about valuing Grace and valuing the two pieces; the Grace and GCP pieces.

We think the cleanest way to do this is to focus on 2016 earnings between $500 million and $520 million of adjusted EBITDA for Grace, and between $245 million and $260 million of adjusted EBITDA for GCP. We've given you the net debt, we've given you the share count.

One of the things that we want to emphasize this morning is the value of Grace's tax attributes. In my discussions with investors over the years, I think this is something that's often overlooked or missed by investors as they think about the value of Grace. But it's an important one to understand. Grace has about $1.7 billion in tax attributes after the spin is completed.

The biggest part of this is the net operating loss from our time in bankruptcy, but there are other tax attributes, and so forth, that will fully shelter Grace's US taxable income through 2021.

This is over a $600 million reduction in cash taxes during that time period, which we believe on a net present value basis today, is worth $8 a share and needs to be a factor in your valuation of Grace.

Of course today, we've announced a dividend as well; we want you to consider that as you think about the valuation of Grace and GCP as we begin our one issue trading today, and we've provided information for you on a PE basis as well. The $0.87 that you see there for Grace is the annual per share equivalent, on an EPS basis, of that $8 on a net present value basis, if you prefer the EBITDA approach.

As you think about valuing Grace and GCP, we want you to keep in mind the high quality of these business franchises, their high-margins, their high returns on invested capital and the growth opportunities that each company has.

We'll talk more about that over the course of the day, but in our opinion, we believe Grace and GCP should both be valued at the top end of our peer range. We think the strategic value of the businesses and the quality of the margins and returns and cash flows properly has us at the high-end of our peer group valuations.

With that, I'll turn it back to Fred. He's going to talk about the strategic direction of the Grace businesses.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Thank you, Hudson. So, my focus is on New Grace going forward, and so the rest of our presentation is really on that. So, who are we? We're a $2 billion technology leader.

If you look, 77% of our revenue, and we put in the revenue that is not consolidated from the joint venture with Chevron into that. 77% is in our Catalyst franchise, 23% is in the materials business. 80% of the revenue of New Grace is either with the leadership positions listed, either number one or number two - 80%.

We put the little chemical diagram on the bottom, because it's important to realize what we have here. We have a franchise connected by silica, silica alumina, and is branched out. When the company started, it started with silica.

And if you look at it, how we've been able to expand these business. The refining Catalyst side is expanded from silica, silica alumina, to alumina, all the way to raney metal.

Raney metal is the metal used in our new chemical Catalyst process that has been very successful over the last 14 months into BDO spandex into China. You look on the left hand side, silica, expanding to mag chloride all the way to organic chemicals have created our $50 million high-margin bio-pharma business has been created out of that.

So, as we continue and as you think about Grace, we're a material science connected between the two of these servicing our customers at over 80% of our revenue in very, very strong industry positions. So, how do we win? You know, in Catalyst we win by creating value for our customers in both the refining and polyolefin Catalyst.

In refining, we help them run their FCC or their hydra processing units better. In our polyolefin, that Catalyst we create actually makes their product better and a lot of it ends up in their product. Technically, we have unmatched technical expertise.

It's clear, we've talked our customers, it's clear based on the margins we've garner, we have a long track record of supporting our customers, blue chip customers. And we're easy to partnership with the independent licensures as well. That's the Catalyst franchise. You know, the materials side, a lot of you think, boy, that's not as sexy of a business, supported by silica.

How many silica businesses do you know that have gross margins approaching 40%? I don't think there's any others out there. You guys can look. We garner those margins because our silica is used in very high niche, specialty applications.

Our customers come to us to help them solve their problems, whether it be architectural paint, or whether it be all the way to bio-pharma in helping them discover a new drug. It's a unique position that we have and we've created that position over many years.

We've got a global sales force supported by a strong customer technical and we can do businesses in both mature and emerging markets. We continue to focus on creating value. Now's the time to leverage the separation. We're ready. As I said, we've been pre-operating this way for probably the past three, maybe four months. The teams are ready.

Their teams are ready on both sides. We'll continue to maintain our RIOC discipline. It's less about the percent. We know how to manage our capital, we know how to manage our working capital, and we know how to create good cash flow.

We're focused on growth, we'll continue to grow both organically as well as through acquisitions, and we've got a long history of manufacturing excellence. And in the New Grace when you have less operations, that focus is changing to process, capabilities and to expand our margins. You know, in this current environment we think we're well positioned.

Our exposure to China is small, it's about 7%, and that's primarily in silica and a little bit in our specialty Catalyst. Low oil prices - they do support the demand for transportation fuels and plastics. We've been able to go through low oil, high oil, different type of oil, so we think we're well positioned there.

And if you look at our Materials Technology business, it is very well diversified, both geographically as well as end units. So, it's able to weather the storms. So, what are we doing? How are we going to adapt to weathering this global operating environment? I'm going to start with Catalyst and start with our FCC.

Over the past 24 months, we believe we have created tremendous value for our FCC customers. We have introduced new products that helped them crack oil from shale with a lot of metals in it. We've helped them crack tight oil.

Helped them realize the benefits from heavy oil with our new Midas Gold and so on, and candidly, we probably haven't been paid or captured the full value of that FCC Catalyst. So, what are we going to do about it? We're going to grow our sales with our technology oriented customers. That means we'll continue to invest in new products.

We're going to continue to focus on the growth regions around FCC; it's North America, Middle East and Asia. We're going to build the FCC Catalyst plant in Abu Dhabi. We've developed some new profit pools around FCC, the first one I mentioned briefly is very exciting.

On the MTL methanol diolefin the Chinese - it allows Chinese to take coal, convert that all the way to olefin. We have created a new Catalyst - a production Catalyst that was made here in the third quarter. It's in the unit now, in the first production unit in China. That's an addressable market today of $175 million with a lot of growth.

We know the FCC units as well as our customers do. For those of you who've seen it, you've seen our pilot FCC units; we're able to obtain all the spent or wasted Catalyst, not only from the refiners we serve, but all the refiners. We need to turn that into a revenue source, and we've got ideas for that.

And finally, we are going to curtail and stop 10,000 tons of our FCC capacity at Curtis Bay. We've done it here in January, that's our lowest margin, least efficient capacity, and we've taken that capacity, we're taking that capacity out of the market, and it started here in January. Hudson will talk a little more about the dynamics of the business in a couple slides further.

On our hydra processing, or our ART business, we will continue where we're good at is the bottom of the barrel in reducing sulfur. It's in the hydro cracking and the resid-hydro treating. We have a leading position partnered with Chevron, as well as partnered with Chevron Lummus on all the new license.

We announced last year that we would expand the hydro processing capacity at Lake Charles. We will monitor - engage that capacity expansion based on the new builds, and we will not get ahead of the industry on that. Shifting to our specialty Catalyst, we have grown, and we will continue to grow, our polyolefin Catalyst.

We have grown at double digits, high single digits, double digits over the past five years, and we'll continue to grow at significant rates as we go forward. It's underpinned by some very unique new product technology. We have a philae-free Catalyst that is being run in production by a number of the majors in a number of different geographic regions around the world.

We've got new single site polyethylene Catalysts that are also being run and tested. If you think of our polyolefin Catalyst franchise, when we acquired the UNIPOL licensing business, that licensing business was primarily a licensing business to license in China. You know, over the past 24 months we have now gotten two North America licenses.

One happened this year, one happened last year. So, very exciting. We're starting to penetrate new markets on that side. In our polyolefin business, we need more capacity. We're either going to build it, or hopefully, buy it, and we think we have options to do both on that side. Let me shift to materials. I think materials has been a little bit - we haven't talked about it as much.

It's always been combined with Darex. The questions have always been around Catalyst or construction. We have, as I said, a unique materials franchise. A franchise with margins approaching 40%, high niche business, operating globally, and we've got a lot of new and exciting products as well.

Products that go into additives for architectural paints, very high-end. You may not know this, but our unique colloidal silica, over the past 12 months has now been tested and now has been used by all the major automotive Catalyst manufacturers.

That colloidal has been spec'd in by all of the major environmental Catalysts - automotive Catalysts manufacturers, and is being used as they build their operations on it. So again, unique capability, unique characteristics around this segment. We have a very rich pipeline of target acquisitions.

Those target acquisitions are to expand the offering we have as well as look at some capacity, but we'll continue to grow with this segment as we go forward. You know, here's our new five year framework; as I said before, it's important for us to be accountable to what we said.

As we lay out this new five year framework, you can see, and we put with our 2016 outlook against it, we believe we can still grow 1.5 times GDP plus additional as we add pricing to it. We think the demand for transportation fuels is still solid, as well as some of the new products that we have. In 2016 we have a 4% to 5% sales range.

Our gross profit margins, we believe there's at least another point to maybe two points of margin to be gained over this period of time, and that leverages into almost three points of EBITDA margin during the same period. Our cash tax rate, as Hudson said, will remain low. That's the attribute from the NOLs that we have.

We believe we'll generate over $1.3 billion of free cash flow over those five years by controlling our working capital and by the discipline management we have. And that ROIC, it maybe go up or down. As you know, it went down when we bought UNIPOL, and then it comes back up.

And as important, we begin our regular dividend, we expect to grow that dividend throughout the years. So, that's the framework that we've created for New Grace and we expect you, as we expect ourselves, to hold us accountable for it. I'm going to pivot now and let Hudson give you a little bit more on the business overview section.

We officially announce our earnings on February 11. I mean, most of the data is coming out because of the timing of this, so we'll give you a little bit more color on that, and then I'll come back to wrap it up. Hudson?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

So, I'll talk a few minutes about the Catalysts Technologies business, both its financial performance in Q4 and what we're seeing for 2016, but I also want to talk about some of the qualities and strategic value of this business. And then we'll have the same discussion with respect to Materials Technologies.

As I commented earlier, Catalysts Technologies finished 2015 strong. We had a good Q4; adjusted EBIT was just over $100 million in this segment. Adjusted EBIT margin was right around 33%. And adjusted EBITDA margin was just over 38% for the quarter, giving you the full year totals that you see here on this slide.

As we think about 2016, we see full year sales growth for the FCC Catalyst business in the low single digits. We see full year sales growth for the Specialty Catalyst business in the mid-single digits, consistent with its performance over the last couple years.

We do see margin expansion in both parts of the business, both on the FCC side and the Specialty Catalyst side driven by productivity in our manufacturing operations, again, in both businesses. We've assumed very little pricing in 2016.

But as Fred said earlier, we don't believe that we're being paid the full value of the Catalyst that we're supplying our customers and we're positioning this business to focus on the customers that do value our technology.

And as Fred said, we've trimmed about a few percentage points of our global capacity to make sure that we're focused on the customers that are really compensating us for the value that we're creating with our FCC Catalysts.

When you look at the sales growth for FCC and specialty Catalysts, when you look at the margin expansion we expect because of our productivity operations, we would expect mid-single digits or better.

Earnings growth in Catalyst this year, that's after taking out the capacity at Curtis Bay with additional volume or pricing opportunity, improving that full year earnings growth. Q4 saw some significant new account wins. We are in a trial phase with two significant customers in Asia. We sold those products in Q4. The trials are going on in Q1.

That's a nice opportunity for us as we go into the balance of 2016. But we are facing some headwinds in Q1 in our Catalyst business. Currency is a small headwind, but we do see some volume headwinds in Q1. One of our largest customers based in the Middle East has been an important customer for us for many years now, is taking an extended turnaround during Q1.

They'll be down for two out of the three months in Q1. That is a headwind for us from a volume perspective in Q1. We also have a headwind related to a new customer. You remember we talked in - I think it was Q3 last year about a significant new customer we'd gained in the Middle East. This customer operates the largest FCC unit in the world.

They're FCC unit, their refinery, is not at full production capacity right now. While we sold them Catalysts at the end of 2015, we don't expect to be selling them any significant Catalysts during Q1. And together those headwinds are affecting our Catalyst earnings in Q1. We expect Q1 Catalyst earnings to be roughly flat with Q1 last year, maybe a little bit better.

Now, that's with respect to Q1. As we look at the balance of 2016, we see Q2, Q3, Q4 more in line with our Q4 2015 results. Q3 will be a little stronger than Q2, Q4 will be a little stronger than Q3, but when you look across those three quarters, we expect them to be in line with our Q4 results. Overall, we feel good about Catalysts for 2016.

As I commented, some headwinds in Q1, but when we get past those headwinds, we think the business is well positioned for success next year. Those are the numbers, but I'd like to talk qualitatively about this business as well. Our Catalyst franchise is one of the most valuable specialty chemical businesses among our peer group.

We are the broadest provider of processed Catalysts in the world, from our FCC refining Catalyst to our hydro cracking Catalyst, polyolefin Catalyst and chemical Catalysts. It gives us a very nice position across a range of Catalyst technologies. This business is driven by the demand for transportation fuel. It's driven by the demand for plastics on a global basis, both of those on a global basis.

With additional demand drivers as refiners are operating harder and harder to product propylene for petrol chemical feed stocks, as we see regulation around the quality of transportation fuels and the content of sulfur in transportation fuels, these are all things that drive this business over the long term.

One of the important characteristics of this business is the economics that our customers get by using our Catalysts. The FCC Catalysts, the specialty Catalysts, are less than 1% of the total input costs of our customers.

Even with oil at $30 a barrel, our refining customers are still paying a fraction of 1% for the Catalysts that we sell them. Similar for our polymerization customers that are using our polyolefin Catalysts.

These are technologies that create significant option value to our customers as they think about maximizing the value of their products, as they think about the margin, maximizing the margin in their refinery operations.

And we get a technology focus with our customers that creates sticky relationships over time through joint development agreements and so forth. It's a consolidated industry, again, an overall a very strong strategic position for us.

But we have an opportunity to make it stronger. And for those of you that have followed us over the years that we've been focused on continuing to build out the portfolio, the breadth of the portfolio, and the quality of the products that we're offering our customers.

Over the last few years, we've made significant investments in FCC Catalysts Technology that are bringing new solutions to customers that are operating or processing crude from tide oil that are in mostly in North America and around the world processing crude that is heavier and more sour.

And these are our Midas Gold product lines. These are technologies that we are bringing to our refining customers. But that's not all. We're also focused on expanding our ART portfolio into hydrocracking Catalysts. You'll remember a couple years ago we announced an important relationship with Chevron Lummus Group, CLG.

CLG is the leading licensed ore of hydrocracking technologies globally. We have a strong partnership with them that has allowed us to be first in line with their customers as their looking at first fills and refills on CLG hydrocracking technology.

And probably most significantly, on the polypropylene side, significant investment in the UNIPOL acquisition two years ago. That acquisition has paid off very nicely for us, both financially and strategically as we built out the polyolefin position and added licensing capability to our portfolio.

Over time what we expect is that our Catalysts business will continue to mix away from FCC Catalyst towards these more specialty Catalysts, to grow at higher rates globally and offer better margin profiles to us.

Let me shift and talk about the materials technologies business for a moment. Again, strong finish to Q4. You see here what I'll call New MT. This is Materials Technologies excluding the Darex business. About $500 billion in sales.

Almost 40% gross margins, as Fred commented on a moment ago. About 25% adjusted EBIDTA margins. We're still going through the restatement calculations for Q4 so that we can split out Darex. We'll have that information for you just after the spin is completed, as a I said.

But we see Materials Technologies EBIDTA margins at that 25% level and improving in 2016. As Fred commented, this business has sometimes been overshadowed by the Catalysts business and the construction products business, but we want to give you a better appreciation for this business over the course of today.

Q4 finished with solid growth. We had high single-digits growth in our silica business year-over-year. We had double-digit growth in our bio-pharma business. That business is a fast-growing end-market with strong margins, and were making good progress in that business.

As we think about 2016 for Materials Technologies, we again, we see mid-single-digits growth for this business across the course of 2016 driven by continued growth in our silica business, the colloidal-type products that Fred mentioned earlier, continued growth in our bio-pharma business.

We see productivity benefiting margins in this business by a percentage point or more over the course of the year, leading to high single-digits earnings growth year-over-year for this business. Q1 will see some headwinds for this business as well. Currency is the biggest one because we had such a strong quarter in our bio-pharma business in Q4, some of that volume won't repeat in Q1.

We think that Materials Technologies in Q1 will be roughly flat with Q1 last year, maybe slightly down because of the currency headwinds. But as we get past Q1 and into the rest of the year, we would expect MT to continue to improve sequentially, so that on a full-year basis we'll see high single-digit earnings growth in this business.

It's about a $500 million business playing in a roughly $6 billion global market. We've divided it into consumer and pharma end-use applications, coatings end-use applications, and chemical-process end-use applications, all growing between 2% and 4% each on a global basis.

We've got opportunities to grow faster than that with the new product pipeline that we have and the penetration of those end-use markets and continued penetration in the rest of the world. Let me give you a little bit more color on that.

Think of coatings, these are a broad set of end-uses from architectural end-use applications, industrial applications for coatings, furniture and white goods, other consumer-oriented applications where our silica is providing matting functionality to the coatings and improving things like durability and scrub ability, impact-resistance for these products of our customers.

On the consumer and pharma side, these are end-use applications. The toothpaste that you might have, might have a little grit, a little abrasive. That's often silica. You've read recently about concern over micro beads - plastic micro beads in consumer applications. There's an opportunity to replace micro beads with silica in those type applications.

Beer clarifying and then pharmaceutical applications. We've been supplying silica into pharmaceutical applications for many years now. Research, drug manufacturing - this is a high growth, high-margin opportunity for us.

Over the last few years we've expanded our product line in bio-pharma to include pharmaceutical intermediates and nutraceutical intermediates. All-in-all this pharma end-use application - our end-use focus, a high-margin, higher growth, attractive opportunity for us that we continue - we expect to continue to invest in over time.

We've put some additional materials in the back of this presentation to give you some more color on Materials Technologies and what we think makes it attractive. But it's a high-quality, high-margin business closely related to our Catalysts Technologies business.

They share some common chemistries, as Fred pointed out. They share a common supply chain. They share some common manufacturing assets. Ultimately MT helps provide operating leverage and flexibility to the Catalysts Technologies business as well.

Silica can go into some significant markets, but as we've tried to communicate today we're focused both with our Materials Technologies business and out Catalyst Technologies business with the highest value end-uses where we get paid the most for our technology. And so, in the global market place for silica end-use applications we're really focused on that small niche categories where, as I said, we can get paid the most for our technology.

At the end of the day, we make money by creating new technologies for our customers that are valuable to them and their customers either by making their manufacturing processes more efficient or by making their products with higher functionality - our customers' products with higher functionality in their end-use applications.

I don't plan to go through all of these two pages, but I'll make the point simply that over the last few years, Grace has innovated across our FCC Catalysts portfolio, our Hydrocracking portfolio, the Specially Catalysts portfolio, and our Materials Technologies portfolio where we're bringing new functionality and higher and better efficiencies to our customers.

Whether it's making an FCC unit produce more propylene, to feed a petrochemical feed stock, whether it's helping our customers, our polyolefin Catalysts customers in China upgrade their products so that they can be more competitive, or whether it's helping new customers in the area of environmental Catalysts make their products more and more effective for their customers.

At the end of the day, this technology and the focus that we bring on innovating for our customers we want to pay off in terms of top-line growth. We see growth opportunities across all parts of our portfolio.

And it's interesting, because of the strength of Grace's strategic positions in these markets the existing positions that we have we think we can invest in these growth opportunities, continue the higher returns that we have, but do so at relatively low risk.

Again because of the strategic positions we have both customer relationships, manufacturing footprint, and the breadth and depth of our technology. But those organic growth opportunities won't give us all the growth that we want.

We are looking at acquisitions. We're looking at opportunities that expand on our existing portfolio, that would add capacity or new technologies or take us into new end-uses that we're not focused on today.

When we think about an acquisition, we think about hard dollar cost savings. We think about hard dollar capital avoidance synergies. We got both of those opportunities in the UNIPOL acquisition, probably the - well not probably, certainly the most relevant recent example for us.

We paid 11 times EBITDA for the UNIPOL acquisition knowing, or expecting, that after we got our cost and capital synergies, that our net EBIDTA multiple after those synergies would be closer to nine times.

We integrated UNIPOL very quickly. We got more cost benefits than we expected. And that's in commercial opportunities that we weren't willing to bet on when we made the acquisition case. Two years after that acquisition we looked back at the results we've gotten. We picked up that business net of those realized synergies for seven times EBITDA. We feel very good about that.

There are other opportunities in our markets for those sorts of growth investments, and I feel good about the track record that we have as a company. We've invested over $1.5 billion in the last decade or so. A number of acquisitions, a number of divestitures and a significant amount of internal investment. Most of that $1.5 billion is internal investment.

And during that time we've raised our returns significantly. Our returns on invested capital have more than doubled during this investment period. And our EBITDA margins have almost doubled during this time period.

Fred made the point in his remarks about the benefits of the separation. It's bringing us better focus and it's allowed us to lean out our cost structure and become a less complex business. Compared to existing Grace, New Grace has reduced our global footprint by about 2/3.

80% of our head count will be in two countries, allowing us a more focused, more nimble operating environment. And as we looked at our cost structures, we've taken costs out of both companies so that by the end of 2016, the combined functional costs of Grace and GCP will be no higher than they have been for Grace- existing Grace- historical Grace.

Incremental public company costs at GCP have been more than offset by restructuring actions that we've taken both at Grace and GCP over the course of the last 15 months. Bottom line, we've been able to effect the separation, and at the same time, reduce our overheads, reduce our cost structure rather than having to add to it.

Let me shift gears. I want to talk about our capital allocation and our capital structure pro forma for the spin and then I'll turn things back over to Fred. You all have seen this model from us. Nothing changes in terms of how we think about return on vested capital, in terms of the discipline that we bring to the capital allocation process.

We are introducing the dividend to our return of cash strategy. But otherwise, the framework that we have and our focus on executing well is unchanged.

When we think about the opportunities that we have for investment across our portfolio, we remain very excited about the growth opportunities, both internally, organic investment, as well as synergistic bolt-ons that we can bring on board, integrate quickly, and produce high returns like we did with the UNIPOL acquisition.

Here's the framework in a graphical sense. We would expect to continue to produce a high level of adjusted free cash flow. We want to keep our total leverage level between that two times and three times. We'll be just at 2.4 times as we - this is net debt to EBIDTA - as we complete the separation.

It gives us firepower for acquisitions. We think over the course of 2016, we would have just over $700 million of firepower, acquisition firepower, that would bring our EBITDA and net leverage level up to about three times. I've often been asked, would you go beyond that for strategic acquisition? And the answer's certainly yes, for the right type of acquisition.

We do want to initiate the dividend as we've talked about already. We want that to be a baseline level of return of cash to shareholders. And we'll continue with our share repurchase activity. Over the next few years, we will make some important investments in our business.

As Fred talked earlier, we intend to move forward with the FCC Catalysts manufacturing plant in Abu Dhabi. That engineering work is under way now and we've already got activity on the ground starting to prepare for the construction of that facility. We expect it to start up in 2018.

And the significant part of the growth and capital that you see in 2017 and 2018 is the investment in that facility. It's strategically very important for us. It gives us first mover advantage in terms of having an FCC Catalyst capability in the Middle East. It's not only able to serve that region, but Asia as well. We see it as strategically quite important.

Last year we announced an investment, or an intent to invest, in an HPC Catalyst facility in our existing Lake Charles plant. This was announced before the downturn in crude prices. And as crude has come down and customers have reassessed their investment plans, it's led us to reassess the timing for this capacity addition and we're watching that carefully.

It's a primary objective for us to make sure that that capacity is matched with our customers' investments, and so that those things are linked over time. We're also looking at investments in our polyolefin and bio-pharma businesses.

This is to fuel growth and single-side polyethylene Catalysts on a global basis and to provide capacity for the high-growth bio-pharma and nutraceutical intermediates business I talked about earlier. This is a $50 million investment we're proceeding with at this point, engineering work. And again, we'll time that investment with the investments that our customers make.

Overall, one of the keys to our success managing our capital is reflected in our high ROIC has been making sure that we're building the right capacity at the right time, with that timing being a significant lever that we've managed over the years.

On a pro forma basis, we expect our next debt to be about $1.2 billion right at $2.4 billion turns of EBITDA based on the midpoint of the 2016 guidance that we gave you earlier. This assumes that you all I think know, GCP will pay Grace $750 million before the spin is completed.

This pro forma assumes that we use that cash to pay down the existing term loans at Grace. And that's reflected in this chart. Still gives us significant acquisition firepower, over $700 million, as I mentioned, and significant on balance sheet liquidity between our cash balance and existing revolver capacity.

Last point; Grace emerged from bankruptcy at the beginning of 2014 with a strong, clean balance sheet, and it's only gotten stronger and cleaner over the last couple years. Our pension plans are very well funded, they've been derisked in terms of the investment strategy that you're following.

And for those of you that have followed this, coming out of bankruptcy we had completely eliminated the asbestos personal injury exposure of the company as an economic matter and as a legal matter.

On the property damage side, other than some payments that are already reflected in our balance sheet, we have, for all practical purposes, eliminated the economic exposure that we have to any future asbestos property damage. All of that personal injury and property damage is being channeled to the trusts that were set up as we emerged from bankruptcy.

I'll stop there. I'm going to pass it back to Fred.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Thanks, Hudson. All right, I'm going to wrap up with one chart. Because I know you're probably dying to ask a bunch of questions, and we saved enough time.

We've got a performance-driven management team. Fortunately, I've been here for 12 years. Hudson, for a number of years. The team below it has been established. And we've got our track record and we'll continue.

Greg, we'll miss Greg. But he'll go on to bigger and better things and create value, I'm sure will create tremendous value at GCP. Our track record throughout the economic cycles, listen, we've been through the 2008 and 2009. We've been through high oil, low oil, emerging market growth. Now emerging market pull-back, and so on. I think we know how to manage that side of it.

These businesses are supported by technology and they're supported by leading positions, and most importantly, we as a company generate significant amount of cash, and we'll continue to do that. That allows us to do a lot of things; it allows us to grow, it allows us to return cash to shareholders, it allows us to maintain the positions we have.

With that, Tania, we're going to open it up for questions.

QUESTIONS AND ANSWERS

Chris Kapsch - *BB&T Capital Markets - Analyst*

Good morning. Chris Kapsch with BB&T Capital Markets. Just a question on the decision at Curtis Bay and the rationalization of that capacity. Is that a permanent closure? Or is it just mothballing the capacity for now?

And that decision, does it also reflect some softness in demand for your products? Or is it more rationalizing what you had described, I guess, as lower margin customers? Thanks.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. It is a permanent closure of that 10,000 tons. You know, when we looked at that and decided that, it was one, our least efficient capacity. And as you know, we're going to build one of the most efficient, cost-effective plants in the Middle East coming in 2018. So, it's our least efficient capacity.

And the profit on that capacity and having that capacity out in the market is, for us, not enviable. You know it forces our sales people to go around and try to find trial volumes for that volume.

The level of trials in the FCC over the past 24 months has been higher than it's been in the past three years. We want to change the mindset. Not only internally, of our people, not to try to trace trials, but of the industry as well. So -

---

Chris Kapsch - *BB&T Capital Markets - Analyst*

So, based on that comment, you don't expect to pick up that volume at other manufacturing plants through the debottlenecking? This is a true rationalization of some customers?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. This is a true rationalization, that's right. As Hudson said, if you think about it from our FCC, and just to make sure, to be clear, the largest new FCC unit in the world is not running production Catalyst. It hasn't run production Catalyst yet.

We sold a little bit of trial and helped out on trial Catalysts in the third quarter. That is still not online. There's other capacity off-line in the Middle East as well. We expect, going into the second quarter, we are going to be fully sold out in the beginning of the second quarter to the mid-second quarter, as that capacity comes online and with our 10,000 tons of capacity out.

For us, it's about - for us it's - for the industry, it's about 1% to 2% of industry capacity being taken out.

Chris Kapsch - *BB&T Capital Markets - Analyst*

And just that comment was a segue to my follow-up. With respect to that large refiner in the Middle East. So, the volumes in third quarter of 2015 were, as you said, trial volumes. Do you know if, in fact, you will have the commercial supply contract for that particular customer? Thanks.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes, we do.

Edlain Rodriguez - *UBS - Analyst*

Edlain Rodriguez from UBS. One quick one on M&A. The Catalyst industries, it's a very concentrated market. But do you see any opportunities there for larger changes in the industry in terms of M&A? Or is it just going to be small, bolt-on? Or are you thinking that there are more opportunities in the Materials Technology?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

No. If you've got to segment the M&A around the polyolefin business, they are definitely M&A opportunities. You know, we've grown as we've built the polypropylene franchise. There's additional M&A opportunities out there that we're following very closely on that side of it.

There's a number of opportunities around our chemical Catalyst business, as we've grown that side of it out in addition to our material side. So, to answer your question on the Catalyst side, think about it in the polyolefin chemical Catalyst and maybe some consolidation opportunities in the hydro-processing.

Edlain Rodriguez - *UBS - Analyst*

And one quick one on pricing. I mean, you've talked about not being able to capture the full value of the products because some customers are unwilling to pay. So as you pull the portfolio for those customers unwilling to pay, like what do you see? Like what can the market hold due to pricing? Like when you see pricing going up?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. We decided - we put this plan together. And we wanted - we did not - in this plan does not reflect capturing FCC pricing. We want the market to sort itself out with our capacity coming out. We want to introduce, we've got a couple of new products that we're introducing that are around our Midas Gold new products, and we want to evaluate the health of our customers and the health of the industry as we go.

Mike Sison - *KeyBanc - Analyst*

Hi. Mike Sison, KeyBanc. Hudson, you gave us guidance for Grace of [$302 million] to [$321 million]. In the past you've given us some sort of feel how much comes in the second half, first half. The lump in this seems to be very lumpy this year. Could you just, maybe, help us out a little bit? And it might help us frame up first quarter a little bit better.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Sure. When we look at full-year 2016, we're expecting mid to high single digits growth for the operating businesses at Grace. But, as I commented earlier, we are facing some headwinds in Q1.

The most significant of those are in our Catalyst business. The fact that this one large customer, we don't expect to be taking production vault quantities in Q1. The other large customer that's doing an extended turnaround.

When we look at those two factors, a little bit of currency headwind in Q1, we see Catalyst earnings. Q1 last year to Q1 this year, flat to slightly up. And then significantly better as we go into Q2, Q3, Q4.

Materials technologies is, again, back to Q1, Mike, facing a bigger currency headwind year-over-year. They do see good growth. But we won't repeat the level of bio-pharma sales that we had in Q4. That won't repeat in Q1. And so, when we look at Q1 to Q1, materials technologies, we see that as roughly flat year-over-year. And then getting better sequentially as the year progresses.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Let me add one other comment. Our second, third and fourth quarter will be more averaged out on a level or pattern, for the three quarters as you go.

Mike Sison - *KeyBanc - Analyst*

And just for clarification, the EPS guidance, that includes a hit from currencies? So that's not constant currency?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Yes, that's right, Mike.

Mike Sison - *KeyBanc - Analyst*

And the foreign currency hit is about?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

It's small. [$15 million] to $16 million] is relatively small for us.

Mike Sison - *KeyBanc - Analyst*

OK. And then, one quick follow-up. When you think about - I think, acquisitions, longer-term, do you see the opportunities more in the Catalyst side or on the materials side?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Again, just to repeat, I see it in our polyolefin Catalyst. We believe there's opportunities there. We believe there's opportunities in the chemical Catalyst space, and then finally, in the materials side.

Steve Beckett - *Allied Archery & Associates - Analyst*

Hi folks. Thanks for the presentations. Steve Beckett from Allied Irish. Could you tell me -

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Sorry, Steve, raise your hand. There you are. Thank you.

Steve Beckett - *Allied Archery & Associates - Analyst*

Hi. Could you tell me the approximate - I know it depends on the degree of heaviness or soundness or whatever - could you tell me the approximate cost to the refiner per barrel of oil of Catalysts? Just, kind of, broadly speaking.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

It's pennies per barrel. It's less than 1% of their cost accrued.

Steve Beckett - *Allied Archery & Associates - Analyst*

OK, thank you.

Rob Walker

Hey guys. Just, it's been your CAPEX -

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Rob Walker.

Rob Walker

Hey, this is Rob. Hey guys.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Sorry. We've got these lights that are in our eyes.

Rob Walker

It's hard to see you guys over here.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

So it's - go ahead, Rob.

Rob Walker

I just wanted to follow up on your CAPEX slide. You have a lot of growth CAPEX coming in the 30% EBIT ROI target. So, I guess, putting that together, you'd expect $30 million to $45 million a year, kind of, of EBIT being generated from all that. And, is that fair?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. That's about in the range. Maybe a little bit higher.

Rob Walker

That's it.

Chris Parella - *Bloomberg Intelligence - Analyst*

Chris Parella of Bloomberg Intelligence. I have a question on the MTO Catalyst opportunity. Right now, you only have it at in trial in one of the plants out in China and what's, sort of, the expected scale-up and growth of that opportunity?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. I mean, today the addressable market in China is $175 million. Not large. However, the opportunity for it is significant. Is it 10 times that? Who know at this point in time. And that's really taking how much coal and using it in China in olefins. There's a big push by the government right now to be able to do that. Takes a lot of that coal off the market.

We were able to convert our Chinese facility that could make FCC into making this unique MTO Catalyst. And we sold that in the fourth quarter in trial. Significant trial quantities that's going into our production unit right now. So, we're optimistic.

Chris Parella - *Bloomberg Intelligence - Analyst*

Just a clarification on the CAPEX slide again. It shows 2016 maintenance CAPEX about $90 million. And then slides down to about $50 million. Can you just clarify exactly how you were able to do that? What's the moving pieces there?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Included in the maintenance is some infrastructure upgrades as well. That don't add capacity or don't improve productivity, but some periodic infrastructure upgrades that we have to do.

Chris Parella - *Bloomberg Intelligence - Analyst*

And are there recurring every three or four years? I mean, how -

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

No. These are every two-decade type infrastructure upgrades.

Unidentified Participant

This is for Fred. I have more like a long-term, like strategy question. In terms of...

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Alan, we're having trouble hearing you.

Unidentified Participant

I want - a longer-term question. I mean, when the split was announced about a year ago or so, the view was this would finally unleash the value of the company and so forth. Clearly, that hasn't been the case.

So, what do you think the market investors have missed? And how are you going to - and, like, what do you have to do to make them see the light the way you see it?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. Let me try to answer without being defensive. If I look past the last five days, and even including the last five days, we've outperformed our peers over 10% to 12% over that period of time since the split has been announced. So, I think we have created some value.

I think the value that's going to be really created is going forward. On the GCP side of it, I think GCP - and I'm not going to steal Greg's thunder here. He'll do it this afternoon. But I think GCP has a compelling investment thesis.

And the market needs an industry leader in both chemicals and specialty building materials to be able to consolidate around. We believe it. I think it's clear and I think the opportunity is there.

On the Grace side, by the focus and by streamlining the Catalyst operations, we think we'll unlock value in materials. We think we'll unlock value in some of our polyolefin Catalysts as well as on the refining side.

Unidentified Participant

Hi. Could you talk a little bit about the price of oil and the impact on the FCC Catalyst business? I know there were finer margins or something that you guys think a lot about. But both from the independent and the public eyes, like, how are you thinking about $30 oil, $25 oil, $45? Just to hear your commentary would be great.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. You know, we've managed through high oil and low oil. It's really about the transportation demand. If low oil causes global demand, global economic demand to slow down, it'll obviously be a negative on the FCC side of it.

However, if transportation fuel demand continues to stay high, that will be a positive to us. So, whether it's $30 a barrel, or $40, or even $20. As long as demand for transportation does not slow down, as well as for polyolefins.

Unidentified Participant

Is that the same across the public guys as well as the independent refiners?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Well, independent - yes, yes it is. Yes. I mean, the independents are benefitting from it because they're buying it in their margin spread. The integrated guys that are seeing it. They're still doing well in the refinery, but they're not doing well on the exploration side of it.

Unidentified Participant

Hi. Elaina with Jenison. I had a quick clarifying question. For Catalyst, you said you're going to be sold out starting in the second quarter of 2016. And then, until the Middle East capacity comes on, you expect to be in a sold-out position. I just wanted to clarify that.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

That's correct.

Unidentified Participant

OK. And then, how should we think about the return of you guys giving up this 10,000 metric tons, right? Like, what is the potential margin uplift, the return uplift, from that?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

You know what we're - if you think about it, we've taken out, right now, the least efficient capacity we have. The 10,000 tons. We have a Lake Charles facility. We have a Worms facility. And we'll have this Middle East facility coming on.

We expect, as the market grows, we expect to look at it from a pricing dynamic standpoint, how to capture that value on the pricing side of it from losing those 10,000 tons. As well as, if we can de-bottleneck and process-improve some of those others if we need to before we bring on the large unit.

Unidentified Participant

OK. And then what is your confidence in the new Middle East customer increasing production in the second quarter or in the second half of the year?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Listen, they've been very frustrated that they haven't been able to bring the production unit up. It's still being run by the engineering side of it. Our intelligence, and we're there on the ground, our intelligence says that they're going through that production shakeout test here in the end of January, this time frame. So we feel confident, as confident as we can feel, that it will go into production mode.

Unidentified Participant

Thank you.

Mike Sison - *KeyBanc - Analyst*

Hey, Fred, Hudson, Mike Sison again. So just, when you think about the Catalyst business this year, Catalyst technologies, if it's flat in the first quarter, every other quarter has to be, kind of, double-digit operating income growth? Is that, kind of, the way to think about the rest of the year? In terms of operating income?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Yes. And, Mike, it's going to improve sequentially throughout the year. But we expect a Q2, Q3, Q4 average. It'll be in line with our Q4 results.

Mike Sison - *KeyBanc - Analyst*

OK. And then, Fred, I just wanted your thoughts on - there's been a lot of big M&A - Dow and DuPont's getting together, so Airgas got taken out. A lot of - anything can happen, sort of.

So, what are your thoughts in terms of something big for you? Either in that vein or just how does Grace fit in potentially, longer-term, in this type of environment?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

You know, I think there's going to be opportunities. Those opportunities are created because of what's happening in the chemical industry. And, as Hudson said, we have the fire power to be able to accommodate a number of those opportunities.

And I think you're going to see - well, just based on what's happening with Dow and DuPont and others, I think you're going to see some of those opportunities come to fruition.

Owen Douglas - *Robert W. Baird and Company - Analyst*

Hey, guys. Owen Douglas from Robert W. Baird and Company. Looking through the 2016 outlook, can you give me a sense for - with regards to the adjust EBITDA numbers for the combined businesses, how much of these integration costs are, sort of, factored in there as an add-back? And how much of it do you think is going to, in total, be experienced by the companies?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

The forecast that we have, or the outlook that we gave you all this morning, does have some costs in it related to the, kind of, it takes some months to work through these restructurings and get the separation finally completed.

And there are some costs, probably in both P&Ls, related to that. It's single digit millions I would think, in both P&Ls. And our expectation is, that by the end of 2016, those costs would be out.

Owen Douglas - *Robert W. Baird and Company - Analyst*

OK, great. And, one more question. Just looking at the bigger picture. So markets have been in a state of tumult at the moment. As you guys think about the M&A picture as it currently stands.

The GCP financing came a bit higher than you expected. How does the cost of debt capital start to impact your thinking with regards to what currency you might use with acquisitions?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

You know, I'll let Greg address it more fully. But I think, candidly, there was an overreaction to it. You know? We're talking $0.10 a share as a result from what the pro-forma was from a GCP financing from what we ended up doing at the 9-1/2% versus the 8%, at $0.10 a share on that side of it. You'll see this afternoon that he's got enough fire power to do the acquisitions that he intends to.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Rosemarie Morbelli with Gabelli & Company. We have talked about a lot about acquisitions. And I was wondering what your expectations are. If you have any businesses, product lines and so on, that may be divested. And what would be the anticipated amount overall?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Divestitures.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

On the divestiture side. You know, we've trimmed that portfolio over the last few years. We have, small, one part of a product line that we've put out there. But that's at $30 million of revenue. That's it. Very small.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Thank you. And then I was wondering if you could help me with the NTO Catalyst in China. You talk about the market of $175 million, which could be 10 times larger. I don't quite understand what it is that you are going to be doing with all those closed facilities.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. I mean, what we have created is a Catalyst similar to an FCC Catalyst, similar to a hydro-processing Catalyst, that allows these units to take coal and convert them to olefins.

So, we would be selling the Catalyst to these large units that are - they're in China now. They're running in China today. And if they continue to grow, that market will grow exponentially.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And the potential impact on the environment, is that a lot cleaner than just burning coal?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes, absolutely.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Let's go here and then we'll do Jim next.

Unidentified Participant

If you could spend some time on the competitive environment for the Materials Technology side, I would kind of understand the Catalyst competitive situation, but you positioning yourself at about, let's say, 10% market share of your opportunity with 40% gross margins.

And there is some technology behind it, but what's sort of the dynamics? And how are you able to sustain that market share or even grow it? And who are you competing with?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. I mean, it's a very diverse market. And if you think of silica, silica gel, as well as colloidal silica and some of the other silicas, we are the leader in that position. You have other companies, such as Degussa or Evonik now, they're the leader in precipitated, precipitated silica.

So, it's a very fragmented market. There's some big concentrated positions in certain silica sides, but if you look across the silicas which we make, we call it these engineered silicas, we have the broadest breadth.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Let's do Jim. I think he was next in the queue.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Did you get a mike, Jim?

Unidentified Participant

Yes. Hudson, with close to $4 of cash earnings forecasted for this year, could you share with us your thought process in determining when to make opportunistic share repurchase? Sort of - and then on a related note, there's capital being allocated toward acquisitions. Is that currently a higher priority than capital being allocated to share repurchase?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

These are related, obviously, Jim. And our acquisitions have historically produced very high returns on capital. Whether they're small, $50 million type acquisitions or the larger UNIPOL type acquisition that we did. And that produces a return that is pretty compelling. And that would be our investment priority as we think about allocating capital.

But the thing with acquisitions is you don't know when. And you don't know exactly when the timing is. Given our cash flow, we don't need to accumulate cash to build a bank for a future acquisition. And so if we see an acquisition nearby, we're likely to slow down some on share repurchase.

But if we don't see any acquisitions in the horizon, we're more likely to continue with share repurchase.

Alex Yuprema - *Delora - Analyst*

Alex Yuprema from Delora over here. Thank you. You had mentioned that in a refining Catalyst you'd like to realize more value that your products create. How should we think about any inflection points in starting to realize more value? What should happen?

And how should we - can you give us assessment of competitive environment? Whether our competitors think the same? Whether they're making, sort of, similar moves? Thanks.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. I'm not sure if the competitors are making similar moves on the capacity side. But I can tell you that I think the environment is a good environment that's out there, with some of the new products that have been introduced by both ourselves as well as our competitors, that they are bringing tremendous value to the refiners. And I believe some of that value will be unleashed back over time.

Alex Yuprema - *Delora - Analyst*

Any sense that there's an inflection point this year? Or maybe it's two to three years on the horizon?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

You know, people have been trying to pin down this Catalyst FCC pricing for a long time, and we've chosen to take a different route, and a conservative route on this, and say that we will - listen, as we do, we report on it quarterly how we're doing on that side of it. And we'll give you it as we go.

Alex Yuprema - *Delora - Analyst*

Thank you.

Chris Kapsch - *BB&T Capital Markets - Analyst*

Yes, Chris Kapsch again with BB&T Capital Markets. So, I had a follow-up on Materials Technology segment. You acknowledged that, really, leading up to your emergence from bankruptcy, and subsequent to that, not that there hasn't been a lot of investor focus on this business.

I'm just wondering if you could describe the sensitivity of that business to the industrial economy. Excluding Darex. Maybe some qualitative comments about, maybe how it performed during the great recession would be helpful.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. You know, we had in 2008 and 2009, we were probably about 70% down toward the industrial segment. If you look at where we've shifted now, that shift has decreased. The bio-pharma, the nutraceutical side of it and some of the consumer-related sides have picked up. So we're less sensitive to just general industrial downturns.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

The other thing I'd add to Fred's comment is, we look back at what happened in 2008 and 2009.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

We went in to Q4 of 2008 with over a hundred days of inventory in that business and high levels in the supply chain as well in our distribution channel. And so we did see an impact as destocking occurred in Q4 and - Q4 of 2008 and Q1 of 2009.

We have now taken our inventory levels down to about 50 - a low 50 days. The supply chain, our distribution channel is much leaner on inventory. And so if there were an inflection in the economic environment, the impact would be quite a bit less. And we think relatively short-lived.

We actually did see a small inventory correction in Q3 of last year in this business. It happened in Asia. Some of the news about China started to come out. Maybe it's slowing down. We did see a small inventory correction. But it was quite small compared to what we had seen years ago. Just because we're able to manage those inventory levels better now than we were then.

Chris Kapsch - *BB&T Capital Markets - Analyst*

And then just following up on one of the applications in that business that you highlighted, the new colloidal silica opportunity for - presumably, this is for passenger car Catalyst companies. So, Johnson Matthey, BASF and Unicorp. Is that right?

And I was just wondering how far along is this adoption of this product? And how much, if any, parameters on the opportunity there for growth for that particular application? Thanks.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. The adoption's really been over the last 12 to 18 months. Now what we're seeing is our customers continue to expand and invest in more capacity to be able to use this in different applications in addition to passenger. Using it in addition with diesel applications.

Chris Shaw - *Monness, Crespi, Hardt & Co. - Analyst*

Hi. It's Chris Shaw with Monness, Crespi and Hardt. On this 2016 outlook for sales, the 45%, what's the impact there from the Curtis Bay rationalization? Or, what would the growth look like if you weren't taking that capacity down?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

It's about 1%.

Chris Shaw - *Monness, Crespi, Hardt & Co. - Analyst*

Thanks.

Rob Walker

Hey, guys, it's Rob Walker again. Without pricing growth in FCC Catalysts in 2016, will the reduction in capacity have been accretive?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Without pricing will it have been accretive? If we can execute on our restructuring plans at Curtis Bay and across the company, yes. It will be accretive. And that's what we're in the middle of right now. So, not only are we taking the capacity out, but obviously, we've got to take some of the cost out as well.

Rob Walker

And has there been any negative customer reaction given that the market's tight and you're reducing capacity?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

We've been working very closely with our customers over the last - since the beginning of the year. And we're going to make sure the customers that value our product and buy like we want to are supported.

Rob Walker

And just a quick one or two more. What's the year-over-year additional cost of the spin? Because you said cost neutral by the end of year. But I imagine it's a headwind for the year.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

It's single digit millions, Rob.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes.

Rob Walker

OK. Last thing I wanted to ask was, you mentioned about the chance to monetize data from the FCC Catalyst. Can you talk a bit more about that?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. We see so much data that we have for these units. And if you look when a refinery goes down unexpectedly. Or a refinery has to go through a turnaround. If you can take, by helping them with some of the data and sharing that analytics with them, if you can take one or two days out of that turnaround, that's tremendous value. Tremendous value for them.

So, as our teams are looking at that, capturing that value, how do we turn it into a saleable type product? Either through our Catalyst or through actually a service component. And that's what we're exploring.

How are we doing? Any more questions?

Steve Ferazani - *Cantor Fitzgerald - Analyst*

Hi. Steve Ferazani from Cantor Fitzgerald. Just curious if the $750 million cash distribution usage has been finalized. And were there any thoughts on, given the very reasonable leverage ratio post-spin, to use some of it to buy back shares?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Well, let me address it from an overall perspective. We generate a lot of cash. And we wanted to be able to have a balance sheet and the fire power to be able to do some acquisitions. So, on that basis, we're going to take it and pay down the debt. And then still have significant power fire for an acquisition and continue with the share repurchase plan.

Steve Ferazani - *Cantor Fitzgerald - Analyst*

Will you be extending or reauthorizing the plan or changing the plan post-spin? The current capacity for it?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

We have about $200 million left on our authorization. And we'll ,as we spin that down, when it gets time to reauthorize it we will. But there wasn't a need to do it at this point.

Chris Gleysteen - *MSD Partners, LP. - Analyst*

Hi. Chris Gleysteen, MSD. Could you update us on industry operating rates where we stand today and industry plans for capacity expansion over the next few years?

And then the final piece is, as I look at this market growth rate of about 2% to 4%in refining, I think global refined product consumption grows at 1 to 2%. How do we bridge that from the 1% to 2% global consumption to the 2% to 4% market growth? Thanks.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. I mean, we're seeing that growth because, one, transportation fuels is higher than that rate. And second, a lot of the refining output is going into the polypropylene. It's used to make polypropylene to go into the plastics.

The FCC unit is one of the most efficient generators of polypropylene. So, you have the combination of that, that creates that.

You know the industry dynamics? The industry dynamics are going to be tight. They are tight now. As we mentioned, with our taking out our lease deficient capacity, they'll continue to be tight. I think that's the world that the FCC Catalyst will be in for the next couple of years.

Chris Gleysteen - *MSD Partners, LP. - Analyst*

And there are no meaningful expansion projects on the part of competitors or -

---

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

The only one that we know of is ours in the Middle East.

Chris Gleysteen - *MSD Partners, LP. - Analyst*

What do you think annual debottlenecking industry-wide can be? Is that one to 2% of throughput?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

I don't think it is that high. I don't think it is that high. Maybe it's 1%, at that. I'm not - in that range.

Chris Gleysteen - *MSD Partners, LP. - Analyst*

Thanks.

Unidentified Participant

What are the dynamics of the ART JV? In terms of - is it perpetuity, who has the options to buy the other party out? I mean, how do you see that in the next three to five years? Or is it just steady as it goes?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

You know, it's been very good for both parties. I'm not going to get into the specifics on what either party can do on it. But at this point, both parties are happy. Both parties have moved forward in putting both technology in. And it generates significant cash for each of the partners.

Unidentified Participant

And just to clarify, you did mention that the - any investment for the art expansion will be purely from its own cash flows so that neither partner will be putting any of the balance sheet to work?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

That's correct. It generates enough cash flow to fund its own capacity. And if that capacity doesn't get funded, that cash gets returned back to the parents.

Robert Barrett

Two quick questions. One, what is the mix between integrated refiners and independent refiners?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Most of our customers are independent refiners.

Robert Barrett

So that'd be 60%, 50%?

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

I don't have a specific number in my head. But we do a majority of our business with independent refiners and state owned refiners.

Robert Barrett

And is there a - I know we talked about - and I asked the question previously - but is there an optimal price of oil where FCC demand is where, how you guys think about that? Where maybe the mix between integrated and independent - whether it's 45%, 60%, 90%, whatever the number is?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

You know, on the FCC side, there really isn't. Where it comes to play is on the new investments in the new exploration. If oil prices at the $30 level, you will see less investment being made at the refinery around some of the hydro-processing type units. That's where there will be less investments made.

And that was to my point, we will match our capacity expansions with the industry. But on the FCC unit, you're really not seeing that. That same dynamic.

Owen Douglas - *Robert W. Baird and Company - Analyst*

OK, Owen Douglas from Robert W. Baird again. Just looking at the materials technologies on slide 27 with the pyramid explaining about the specialty, semi-specialty, et cetera; you note there that about 70% of the second sales are from that highest margin, specialty applications.

You know with commodity being the no-go zone. So, can you talk a little bit about the semi-specialty applications. If you could, sir, tie that back to the end-market exposures of that. As well as what are your plans for, I guess, dealing with that portion of your portfolio.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Sure. So, this is actually a great question. What happens over the course of a number of years, is we'll develop an end-use application that at that point in time, is a high-value, a niche-type application. And it'll be at the top of that pyramid in the triangle at the top.

Over time, that individual application will tend to come down the value curve as our customers' businesses mature. Maybe competitors learn how to replicate the value that we're creating for our customers. And that individual end-use will start to migrate down the pyramid, if you're following me.

And then we'll let that business start to run off as we're bringing new applications into the top of the pyramid. So there's a cycling that occurs between the top of the pyramid and the middle as product applications mature. And then we bring in new product, new end-uses on top of it.

Bio-pharma type applications, probably the best example. That's a relatively new development for us. It does come in at the top of the pyramid. More mature applications and consumer coding applications, for example, furniture applications, have started to move down. And as long as we have that wheel turning, we're able to keep the majority of our business at the top.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

You know, if you think about it, as we said, we're almost at 40% margins in that the span from the top is 75% down to 20%. So, as we continue to move that up and recirculate that around, I mean, that's what gives us the competence to be able to go into these niches and to keep these margins where they are.

Owen Douglas - *Robert W. Baird and Company - Analyst*

OK. So, that's pretty helpful. Now, if you could, sort of, explain a little bit. So over the last, I don't know, 5 years, 10 years, whatever perspective time frame you think is appropriate; can you give a sense for whether you've noticed any shortening of that cycle? Between introduction of something high-end before it becomes a little bit more commoditized.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. I would say the cycle is probably accelerated somewhat with some of the Chinese capacity that's come on in the silica side on the low-end. So, the time of compression is made shortened somewhat with some Chinese commodity side that's come on.

But I would also say, we've widened up at the top-end. By looking at some of the bio-pharma applications as well as some of the nutraceutical side as well as some of the specialty colloidals.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

And I'll add, if I may, this isn't iPhones that are coming through every 18 months or 2 years. Even short cycle would be a decade or more.

Owen Douglas - *Robert W. Baird and Company - Analyst*

OK. Thank you.

Unidentified Participant

Elaina again, with Jenison. So you expect 40% of Catalyst earnings to be from specialty versus, I don't know, 36% to date. Can you get there organically? Or do you need M&A to get there?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

No. We can get there organically where we are. I mean, they have to - we will have to either build some capacity or we'll have to buy that capacity.

Unidentified Participant

OK. And then -

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

And that's part of that $50 million that Hudson talked about.

Unidentified Participant

OK. And has the M&A environment in specialty Catalysts changed at all? What's given you the confidence that you could have an opportunity to buy the capacity now versus two, three years ago when that it happened?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

There's been some general shifts in the - across the chemical industry. I'm not going to give the specifics, but similar to the Mike Sison question of what's happening with DuPont, then Dow and others, we have more confidence that we'll be able to - those will be available.

Unidentified Participant

Thank you.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Rosemarie Morbelli. Since I am new to the Catalyst world, I was wondering if you could help me understand the FCC new plant in Abu Dhabi. I mean, the market you said is tight over the next two years. Then I am assuming that this has to be a gigantic plant and if that's going to ruin the market itself?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. I mean, the refinery in Abu Dhabi, the Takreer Refinery, is the largest FCC in the world. We will build a Catalyst plant that is not world scale, but sized to the Middle East, and potential opening opportunities - both in the Middle East as well as India and Asia as they continue to develop.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

So no chance at that particular point, I assume that pricing is going to be pretty positive and no change in cutting that particular trend, kind of, in the bud?

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Yes. We, again, as we've talked about. We have, and you're new to it, we have three plants today making FCC Catalysts. One in Worms, Germany, one in Lake Charles and one in Curtis Bay. Curtis Bay is where we've taken out the 10,000 tons of capacity.

We will, as that plant comes on, as the market grows, we will make sure that we're in balance on that side of it.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Paul, we've got one just to your left.

Unidentified Participant

Hi. Thank you. Quick question. As you were contemplating the split, were there any other corporate structures that you were thinking about at the time? And a lot of times with the spin-offs, the investment community believes there's like a two-year rule associated with whether or not a company could be purchased, et cetera.

Depending upon whether or not there are any merger discussions that took place prior to the spin. So, if you could just refresh us. I forget what you've said about that in the past.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

Go ahead, Hudson.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

OK. So, this goes back a year ago now, to the first part of your question. We did think about other opportunities to create value. But as we worked through those options and thought about what was best for the two companies and the value creation objective that we had, we pretty quickly concluded on the spin as the highest and best way to do this.

In large part because of the tax advantage of doing this spin-type transaction. To the second part of your question, there is IRS regulation that governs mergers and acquisitions around a spin.

And the rule in plain language is that if you start a negotiation before the spin and complete it after the spin the IRS will presume that this was all part of a plan and the spin will fail to qualify for tax retreatment.

But that's the issue, is when it straddles the spin. If you, as an alternative, complete the spin - start a discussion and finish the discussion post-spin, then there's no issue.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

How are we doing? I know we have a hard stop at 12 o'clock. So, if you've got any other questions, let's get them out.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Tania, as you've listened to the discussion, is there anything that you think we've missed? Or anything we should revisit and add to?

Tania Almond - *W.R. Grace & Company - IR Officer*

No, I think we're good.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

OK.

Fred Festa - *W.R. Grace & Company - Chairman, CEO*

All right. So, I don't see any hands up. We're going to end this. Listen, I want to thank you for all coming out in this weather and braving the elements. We continue to believe that splitting this company into two does create a large, value creation opportunity.

And we're excited about it. And I think you're going to hear a great story and a great discussion from Greg and Dean this afternoon. So, thanks again.

Hudson La Force - *W.R. Grace & Company - SVP, CFO*

Thank you all.

PRESENTATION

Tania Almond - *W.R. Grace & Company - IR Officer*

OK, great everyone. I'd like to welcome you back from our break to kick off the second part of our program today. I will share, again, with you our safe harbor statement which will apply to our presentation as well as our Q&A.

Again, as we did in the morning session, when we get to Q&A, please make sure you use a microphone from one of the runners in the center isle when asking your question so the full audience in the room as well as on the webcast will be able to hear it.

With us to tell the GCP Applied Technology story, is Greg Poling, designated President and Chief Executive Officer for GCP. Greg started his career at Grace in 1977. I'll let you do the math, but I think he may have been in high school at the time.

But seriously, Greg has held positions across sales, marketing, business development and general management across all of Grace's business segments. He spent the first couple decades of his career on the construction side of the business. In November of 2011, Greg was elected Grace's President and Chief Operating Officer.

Greg will be joined by Dean Freeman, designated Vice President and Chief Financial Officer for GCP. Dean recently joined the team in September 2015. Previously Dean was with Watts Water Technologies where he was interim President and Chief Executive Officer after serving as Executive Vice President and Chief Financial Officer.

He also held senior finance and treasurer roles with Flowserve Corporation and the Stanley Works Corporation. Also with Greg and Dean is Betsy Cowell, here in the front row, who is serving as the Vice President of Financial Planning and Investor Relations for GCP.

Betsy is also newer to the team and has experience across finance, treasury, M&A, business development and investor relations, working with companies that include Greatbatch, Covidien, Stanley Black and Decker, and GE. With that, I'll hand things over to Greg.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Terrific, thank you, Tania. Rather than making me feel old, it was very nice. It's exciting to be here. We've been planning for a year and it's nice to be here kicking off today's meeting. I look forward to your questions and introducing you to GCP Applied Technologies.

And as Fred talked about, Grace has decided to split these two companies, and I think he went through a very nice explanation. From a construction products and Darex business, we think we will have a leading, specialty construction chemicals business in both construction and packaging.

We'll have a company with strong cash flow, strong margins, and ability to grow both organically and through bolt-on acquisitions, with sales marketing technical service focus with a geographic diversity that puts us in every major construction and packaging market in the world. This is a low-capital intensity business, as you'll see as I go through my slides.

It has a, interestingly enough, a very global footprint, but a simple manufacturing model and I think you'll see it's a relatively unique business model and one that we plan to grow in to the future. GCP will be our ticker symbol, we'll be on the New York Stock Exchange. One issue trading started today. There will be a one-for-one distribution ratio in terms of the dividend.

We tend this to be a tax-free spinoff to Grace shareholders for income tax purposes. I think Hudson's done a good job of going through all the thinking around the tax implications of the deal. We're going to be a leading provider of high value products and technologies in both the construction chemical specialty building materials and the packaging, specifically in sealants and coatings.

Our net sales will be just about $1.4 billion. On a trailing 12-month basis we generate $237 million of EBITDA. 17% EBITDA margins, which puts us in the top quartile of our peers in the segments in which we compete. We have about 50% of our revenue comes from construction chemicals, $718 million.

We have about 30% in the building materials business, just under $400 million on a trailing 12-month basis and our packaging business adds another close to $350 million of revenues, $341 million on a trailing basis. We're number one in about 2/3 of the segments in which we compete. Number one or two.

We're number one in the cement additives business, which I'll walk you through in a moment. Number two in concrete admixtures worldwide. You can see that's about an $8 billion market. The admixture market, the largest segment at about $6.8 billion. We sell on the cement, concrete, masonry markets. And I'll walk through how we enhance the durability performance and lower the cost of building materials when using concrete and cement. We're number one in a segment of the waterproofing business.

This is the high-end-market for pre-applied waterproofing systems. We sell membranes and weather barriers, as well as some roofing underlayment and residential reroofing and fire protection products. This market segment is quite fragmented, about $3.5 billion with the residential segment of the market quite large, and I'll walk through the special niche we have in that marketplace. And can sealants, which is about 23% of our revenues, very nice EBITDA margins in the segment, as you see, just under 23% on a trailing 12-month basis.

We're number one in the can sealant business. You'll see me refer to that as a segment that the company that Grace bought in the 50s invented. We've only been in this marketplace since 1921.

We sell sealants and coatings, oxygen scavenging sealants for specialty applications, as well as non-BPA containing coatings for metal can. This is about a $3 billion market where we have a leading position in the can sealant market and we participate in niche markets across coatings. Let me give you a little bit of what we think drives the macroeconomic trends for these business.

Of course, urbanization drives construction both spending as well as sophistication of the type of buildings being built or the infrastructure. Growing urban centers increase demand for specialty concretes as well as cement additives and also increases the use of waterproofing products as well as fireproofing for steel frame construction.

As population grows, both the demand for cans and building increases. It's fairly - this is why a significant portion of our markets are in the emerging parts of the world. We're strategically located near our market places. You'll see we have a footprint that reaches just about every construction market worldwide that has an opportunity for our products.

In the growth and construction spending, we'll talk about being about 2% to 4% from a market standpoint going forward. Building regulation code requirements, sophisticated building techniques, the ability to reduce labor all drives the need and penetration of our concrete admixture, cement additives and specialty building materials.

And we also reduce emissions in the use of construction as well as provide food safety in Darex. This is a very broad portfolio that's well positioned to benefit from these macroeconomic trends. Let me give you a little bit a pictures worth a thousand words. Today you probably didn't get stuck behind a ready mix truck with all the snow, but we do manufacture concrete.

If you see one of those trucks it more than likely has admixtures that helps the cost performance, the placement, the strength, the setting characteristics of concrete. Concrete is the most widely used material made by man in the world. We also sell additives to improve the performance of cement and reduce the cost of their manufacture.

We improved the durability and the lifespan of buildings in terms of use of our admixtures, and our specialty Pieri products are decorative in nature and are used by architects to improve the look and feel of a building. Our Ice and Water Shield is an underlayment for reroofing products. This is one of the areas in which we are in the retrofit market.

It's a specialty product with very nice margins, sold through distribution. I'll give you a feel for all the waterproofing businesses in some detail. We sell waterproofing for under bridge decks, high-rise construction, basements, tunnels, any sophisticated building where you want to keep air or wind or water penetration from entering the building.

At Darex we provide chemical protection, other kinds of functionality, oxygen scavenging, heat sealing, the removal of different types of contaminants to stay out of a can. It's basic protection for food around the world as well as physical abuse and protection against the environment.

We sell canned sealants, coatings, closures, and the coatings provide either a decorative or a performance function in a can. You'll see in a moment in each one of these segments we're significantly a very insignificant of the end-product cost of each one of these specialty applications that and I'll give you some data in that in just a moment.

We've pictured a building here with some tunneling, bridges and a list of the brands that contractors, ready mix contractors, cement companies, waterproofing contractors would know. Our ADVA Specialty Water Reducers would help you pump concrete to the highest high rise built in Singapore last year.

Our STRUX fibers would give you engineering support in your floor systems. Our clips would reduce shrinkage of concrete and eliminate cracking. Our fireproofing products would withstand a fire in a high rise building given occupants time to leave the building or the fire department time to arrive and put the fire out.

Our Verifi Concrete Delivery Systems would give you information on the type of concrete while it's manufactured within the truck. We sell strength-enhancing cement additives as well as grinding aids that reduce the emissions of and reduce energy cost for the manufacturing of cement.

Some of our specialty building materials give you below-grade waterproofing as well as Perm-a-Barrier which keeps air out of high rise construction. Silcor is a specialty liquid material. Ice and Water Shield would protect your residential roof.

De Neef would fix a building that would leak and our Betec grouts and mortars are high-end specialty grouts for specialty construction applications. You can see we're used primarily in nonresidential construction, infrastructure, commercial construction and repair applications.

We help cement, concrete, water penetration, air penetration, place-ability and performance across a wide type of building specifications and building types. I'm going to walk in to each one of the market segments in which we participate. Our largest building is in specialty construction chemicals.

This is about just shy of $8 billion market made up of concrete admixtures and cement additives. Concrete admixtures are placed in either a precast or ready-mix setting when you're manufacturing concrete to modify its properties. You can make a place faster. You can reduce its cost. You can have it placed in a cold environment.

You can have it retard itself in a warm environment, but is one of the few ways in which you can modify concrete's performance cost and durability. We can also enhance surface impairments and aesthetics of concrete and we can also monitor the data to help a concrete ready-mix producer improve its cost.

As I said, the big driver here is global construction spend. This is a core industry to the world. We also see the penetration and use of ready-mix and precast concrete increase in emerging markets as contractors move from site mix, concrete placed on a site usually mixed by hand, to ready-mix, reduces dust, lowers cost, increased performance.

And as you move across the emerging markets, you may be in a mature market like the US or Japan which would be 90%, 95%, 98% penetrative with ready-mix and precast versus high-end site work, some of that versus a place like India or China or Africa where it might be 50% or 10% or 20% penetrated.

So there's a penetration growth story here as the global economies use more sophisticated construction. Also building codes and concrete performance increase the use of admixtures. The cement business, which is the smaller segment, we're the leader in this market place and we formulate chemicals to help in the milling production of cement.

This is used world-wide in every market in the world and then we sell quality improvers which allows outside of North America, which is a Portland cement market, for companies to put low-cost fillers, those fillers could be limestone, [posolyn] materials, some fly ash.

Our chemicals then allow the cement that's in that mixture to have the performance with the lower cost materials. Again, global growth of construction drives our performance. Strength requirements is defined by both industry and code standards and the reduction of environmental impact.

This is why cement regulations over the longer term in some of the emerging markets will move to these kinds of materials because it lowers CO2 admissions. In the construction chemicals business you can see exc. currency. Our growth rates over the past few years have been just shy of 6%, 9% and just under 6%, again, in the last trailing 12-months of 2015.

We get these growth rates by being a technical and industry leader with very highly respected brands. We have segment leadership in those geographies in which we participate and we provide formulation, development and technical support to each one of our customers. You'll see in a moment we have manufacturing sites located around the world.

Strategically close to our customers in almost every geographic area in which we do business. We have literally thousands of customers and we do business in 110 countries. We invest in dispenser systems, storage systems in our customers' sites in many parts of the world like the US we own those assets.

And that gives us a stickiness relative to maintaining those businesses over a long period of time. Much of this business is contracted with our customers. I would estimate on the larger accounts in the more mature markets but globally about a third of our business is contracted.

From a strategic standpoint we plan to continue to extend our market leadership position in the global additives market and admixture segments. We also expect to grow in precast and shotcrete, which is a segment of this market where we are starting to see some growth rates because we've have lower market shares.

We're going to grow with the ready-mix adoption in emerging markets. We're going to continue to develop technologies that enhance the corporate performance of our products. One of the ways we maintain our margins in this business, and in fact have increased them over the past few years is to continue to introduce new products which provide marginal benefits to the customer.

And allow us to increase our margins. We invest in R&D to enhance cement performance in concrete products and we're going to expand our selling efforts into this specification world which is an area that has not traditionally been one focused on in construction chemicals. You'll see we have a larger goods large sales force in waterproofing business.

We think this is a strategy we'll be uniquely able to develop. The margins in this business are quite good. You can see the improvement over the past few years, primarily driven by the improvement in the North America construction market. I'll talk about cycles in a minute.

This business has a higher cost-to-serve model because of our sensor systems, our technical service capability and the number of plants and as you drive volume through that system, you get natural improvements in your margins. A little bit on the specialty building materials, this is a more fragmented segment.

The area that we call building envelope is about a $1.5 billion market. In to that market are sheet and liquid membrane systems that protect both new and existing structures that are primarily being sold in this segment into new construction. We also sell weather barrier products. This is a faster growing segment for us.

Where we manage to keep air and vapor penetration in buildings and this is for higher-end construction-type applications. Again, I've already talked about the drivers of urbanization, increased construction sophistication, code requirements and focus on conversation driving these market places.

In the residential market, we participate in a niche business in reroofing, home construction, residential construction in the North American market. Essentially if you have a shingle roof, you have snow like you did today and a freeze-thaw cycle, your roof leaks. You have an ice dam, causes leakage when they repair your roof.

They'll put Ice and Water Shield underneath that roof. It's the highest performance product in the segment and one in which we create a significant amount of value. All of the products in the SBM business on the waterproofing side as well as residential are sold primarily through distribution.

There is some direct contractor sale, but this primarily goes through a distribution network. What drives this market place is obviously severe weather, residential construction and reroofing activity, energy and durability requirements and we also have some new segments here on the weather barrier applications.

Some other specialty construction products, if you build a high-rise steel frame building, you coat that with a fireproofing material. Our product is called Monokote. We're a leader in this segment. We have chemical grouts used for leak sealing, repair and renovation of concrete structures.

We also have some specialty grouting materials. These are all high-margin specialty applications and many of the products across SBM are specified by architects, engineers or design-build per contractors and then placed by specialty subcontractors, many of whom have been trained by our technical service organization.

We have very strong brand leadership in the segments in which we serve. A global specification organization. We can specify with an architect in New York for a job in Amman shipped out of our plant in Dubai. And we have the capability worldwide to give that type of access to the market place.

Our residential sales force is focused specifically on the niche for reroofing applications. We have 14 manufacturing sites worldwide that make SBM products. You can see the margins for construction are best in class here running from 23%, to just under 26%.

We maintain these margins because of the specialty nature of the product, the distribution network, and the fact that their specified for high-end applications. We want to extend this product line both across the portfolio in to new products that have the same type of margin potential and specification activity.

We'll look for acquisitions in this segment as well as organic growth. We have a significant focus on marketing driving distribution, both in the residential fireproofing and repair niche segments which are very well understood by our organization. We'll continue to invest in the specification effort.

And, in fact, bring in some IT technology to allow us to specify a wider range of products moving in to this construction chemical as well as the building materials market place. And we'll continue to expand our footprint in this market. The last business is our Darex Packaging Technologies business.

We sell sealants for metal cans, beverage, aerosol and general packaging. We sell sealants for crowns, aluminum and plastic closures, and we also sell some specialty oxygen scavenging material, much of which ends up on beer bottles.

Drivers here are population growth, enhanced food safety around the world, metal packaging growth and demand for more sophisticated packaging and closures. You can see this is a geographically dispersed business with 20%, 33% in Europe and the Middle East and Africa, 25% across Asia Pacific, 24% in Latin America.

And North America comprising about 18%. The Darex business provides GCP applied technologies with scale on the revenue side, here $375 million. It gives us stability of cash flow to invest in growth areas across the company, with just around $80 million of EBITDA.

It has strong margin potential and existing margins. We have shared locations across the Grace organization with 2/3 of the Darex sites co-located with construction chemicals and these businesses both have the same heritage.

They came out of an acquisition the Grace company made in the early 1950s, a company called Dewey & Almy, which invented both Grace's admixture business as well as can sealants, and they've been headquartered in Cambridge Massachusetts where our primary laboratory space is as well.

The Darex packaging business has a global sales and technical service organization similar to our other businesses. We have the shared manufacturing footprint across construction chemicals. We have the broadest can sealant portfolio in the industry and the largest market share in can sealants.

We not only call on the can manufacturers but also the brand owners to get their approval and specifications for our products. We have food law expertise within the business, and very strong brand recognition. You can see this business in 2013 grew exc. currency at about 3%, was flat in 2014.

We gave up a little bit of growth in 2015 with a downturn in China, Latin America and some of the three-piece to two-piece conversion. This is primarily in food cans, where a customer would be making a can with a top, a bottom and a seam and if they install new equipment they eliminate the seam on the side and we obviously then no longer sell sealant there.

That conversion is migrated in North America and Europe. There are still some three-piece cans made but we had one - a couple of customers switch over last year and we have three-piece cans in Asia Pacific and Latin America as well.

We think this takes about a point out of the growth rate, both in our historical numbers as well as our numbers going forward for the next couple of years. We expand to continue to have a leadership position in can sealants and provide our customers with the highest level of technical service and protection for their food products.

We want to grow in some of the specialty coating niches, such as B-NI free coatings and our oxygen scavenger closures. We have R&D expertise, marketing expertise and a manufacturing footprint that, frankly, requires little capital investment to service this market.

And we're going to continue to generate very nice earnings and cash flow which we can reinvest back in to higher growth markets. With that, I'll give you just a little bit on our management team. We've been busy the past year. You'll see as I go through the names on the list that the operating management, many of whom were already with Grace.

And we've added some new talent to the team as well. Dean will talk to you in a few minutes. We're glad to have Dean with us from Watts Waters. He was CFO there, also served as co-CO for Flowserve. He understands operating, he understands how we make money and it's been nice to work with Dean the past few months.

For those of you who meet him, I think you'll see how excited he is to be with Grace. He'll be our Chief Financial Officer. We hired Zain Mahmood to come in as the President of SBM. Zain had currently been the CEO of a company called Demilec, which is in the insulating and coating manufacturer's business.

He had worked for Johns Manville running one of their larger segments. He has AlliedSignal Six Sigma background. He will have our operations, supply chain, as well as the SBM segment. In leadership under Zain has already been in place for a long period of time and will continue to operate our global SBM business.

Adam Grose ran the construction products business across all of our segments in Asia Pacific. Lived in Hong Kong, did a terrific job there. Came back and ran another Grace business for a while and we've now brought him back in to GCP.

He's very familiar with construction chemicals, knows many of the customers, and we're glad Adam's moved up to Boston to work in this business. Laurie Andriate has been the president of Darex business, will relocate to Cambridge and run Darex Worldwide. Bill McCall was our HR leader for the construction business within Grace.

He's lived in Europe as well, is currently in Cambridge. Karen Ethier ran the EH&S for all of Grace. As you might imagine, we now have 64 manufacturing sites around the world and Karen understands how we operate those facilities and run our global network. Naren Srinivasan is back and with us today.

He came from Hertz, ran their new business development. He's already with us in Boston and he's going to run both strategy as well as the acquisition efforts for M&A for bolt-on acquisitions for GCP. Jack Kapples is also with us today. Came from Covidien where he was Vice President. Been through a lot of spin activity in his history.

We're glad to have Jack as our chief counsel, so we've got a terrific team. We've been working together now for, seems like a long time, and we're ready to get going. Let me walk through a couple of investment highlights on the business. We have a leading position on worldwide scale to leverage our global industries.

I'll talk about this in a minute. We access a strong market, $14.5 billion. We hold the number one or two positions in many of the segments in which we participate. We then invest in R&D, not only in terms of product development but significantly in tech service which runs through the selling part of our P&L.

Marketing is focused on new product development and we also put capital on the R&D side in terms of some of our investments. We have five value-added products, you'll see that in our margins, but a low percentage of the end product cost. In almost all cases less than 5% or 6%, and I'll show you those numbers in a minute.

In the concrete admixture business it's lower. In a can we're less than a 1/10 of a cent in a $0.05 can. So, very low cost, but very high performance. We have a very high-touch customer-centric business model. After raw materials, selling and marketing is our highest cost within the P&L.

We have a diverse longstanding relationship with many of our customers. I left the construction business to run parts of Grace's Catalyst and materials business 15 years ago and I'm now back visiting customers that I'd done business with when I was in the construction side running construction chemicals worldwide.

We have a nimble, very low capital intensity business, and a very flexible footprint. We can add plants in the geographic locations for less than $2 million in many of the admixture and cement additives businesses. We think these are sustainable advantages. We have attractive growth profile and a history of strong margins.

Our margins and return on invested capital are as high as you'll see in the industry and we're strategically positioned to capitalize both on bolt-on acquisitions as well as organic growth. If you look at the market, I've talked about our positions in market, our growth rates across the segment.

We think construction chemicals globally should grow at about 3% to 4%. Similar with building materials, and the Darex packaging market is going to be GDP or slower. We compete with companies such as BASF, Sika, and regional and local players in construction chemicals. BASF has a very strong position in shotcrete opportunities.

And then in ready-mix and precast, number one worldwide, we would be number two. Sika, Carlisle, RPM as well as regional and local players compete across the building materials segment and you really have to get into each product niche.

And then talk about value engineering with architects and engineers to understand the types of trade-offs we make in getting our products specified. And in Darex packaging, on the sealant side we compete with a company called Altana and some regional players.

And in coatings the names you understand are PPG, Valspar, as well as some regional and local players in the coatings and closures market. This gives you an idea of the global footprint. You can see it's not intuitive. You have 65 manufacturing sites worldwide and technical support centers, but a low capital intensity. Historically we spend less than 3% of revenues on CAPEX.

About 50% of that is maintenance, 50% is growth so we can move that CAPEX depending on the market growth that we see. And in fact, what we've said going forward is the CAPEX will not go above 4% of sales as we make some investments in to information technology in some growth segments.

We have the capacity we need to grow these businesses. An admixture plant in to a new market would be less than $2 million and a building materials line about the same amount of money. We have facilities in over 40 countries.

We have carved out the infrastructure from Grace that did business in each one of these segments along with the regional accounting, the manufacturing, all the infrastructure at the regional level existed within the company. 36% of our sales are in the emerging markets.

And will continue to participate as those markets grow both consumption of beverage packaging as well as construction over the long term. As you can see today, some core countries, North America's 39%, 36% of that is in the United States. About 7% of our revenues is across the Middle East.

Europe is 26% total. Very good geographic balance. Asia Pacific is 25% of our business, but only 5% of our total sales comes from China. We do business across the Asia on markets as well Australia.

We've gotten very good growth rates recently in the Philippines, Malaysia, Singapore, Thailand, and a number of other markets across Asia. The UK is a nice position for us and has had a good construction market lately. We also participate in Germany and have a growing business in India.

We're very well-positioned for both growth and to manage the cost structure in any one of the regions or countries in which we do business if you get a downturn in construction as we're seeing today for instance in China and Brazil, offsetting that with growth in North America or Europe.

From a technology standpoint, we have over the past year consolidated the development activities in Cambridge. We have state of the art laboratories for all three of our segments in Cambridge, Massachusetts. It's a terrific place to high technical people. We have over 200 dedicated R&D professionals globally, 15% of those hold PhDs.

And we have some of the industry experts located both in Cambridge and our technical service labs around the world. A technical service lab would provide mixed design work, or support for customers in any one region whereas we will develop our technology and new products coming out of the Cambridge facilities.

That's a shift for us as we've tried to consolidate the R&D thinking along with the management of the company as well as marketing going forward. The company has over 800 patents. We try to upgrade our technology on an ongoing basis and these are barriers for newer entrants in to these segments.

We customize products across the product line and we provide high level of technical service in sales support. We take chemistry reformulation experts. We do not do much in the way of reaction chemistry or heavy duty manufacturing. This is a formulation and design business. We then use customer and market insights to develop products in our labs.

And we roll them out across our global network. We focus on critical functionality either to reduce cost, for instance our pre-proof products reduces the cost of labor to put down waterproofing. We capture some of that value. Concrete might allow it be pumpable in a high-rise structure. Or we give code approvals with our fireproofing products.

We're looking for performance attributes to either improve performance or reduce costs for the total building. We applied a discipline stage gate process to our R&D and we focus on turning out new products on an ongoing basis to improve margins. Just to give you an idea, people are always interested in what's the cost of our products relative to a position in the market.

This is truly a specialty chemical type of business from that regard. Cement we might be $0.70 a ton, and a cement manufacturer today in the US might sell a ton of cement for $110. If you're in the US market for concrete today you'd sell it by yard, but metric-wise maybe its $130 a meter, where globally we might have $2 of that value.

THOMSON REUTERS

If we added our verified product it might get as high as $3. If you're in the Japanese market, the highest penetrated admixture market in a world it would be $6. In pre-applied waterproofing, you can't really do the statistics because you take the cost of the building, the cost of the waterproofing is sort of meaningless.

You're really providing functionality to these structures. And as I said, in a can closure or sealant application, we might be a tenth of a cent on a $0.05 can. On a coatings application, 3/10 of a cent, but very high performance, so our customers pay for performance versus trade-off cost.

We provide a number of attributes and I think I've gone through each one of these in every one of the segments. Why do we think we can sustain our market positions and our value as well as our margins? First of all we continue to invest in R&D to upgrade our product line across each one of the segments.

We focus on product development, application expertise and industry knowledge. We hire people that know these types of productions. We have a global R&D platform with centralized capabilities where our researchers can interact and trade ideas and think about the business. Our sales and technical organization is global in scope and operated at a very professional level.

And we use project selling skills where we might call on an architect, as well as a contractor, a building owner, a design build contractor, a distributor in order to get our product specified, placed, trained and used on a job site. We do have integrated technologies across many of our segments, and as I've said, 65 manufacturing operations close to our customers.

We have plants in over 40 countries. We do business in 110 countries worldwide. Relationships with our customers, some of which have lasted over 25 years. We deal with many of the top tier customers in each one of these industries.

It's a stable customer base across all three segments. They're diverse. No one customer has more than 5% of our total revenue. So it's a very, very flexible business model across quite a diverse segment of customers and businesses.

How can we have a low capital intensity business with 65 sites around the world? That's because 47 of those manufacturing sites cost us $5 million or less. They are located in the geography we want to serve.

You could generate up to almost $200 million of revenue out of that facility. And you can run an ad mixture plan - submit ad mixture plan on a standalone basis with 3 to 16 people. You can see labor and conversion cost is a very small portion of what we do. Our expertise is in formulation, geographic diversity and the technologies that we sell. Not in capital intensity or conversion in manufacturing.

Our productivity comes from managing the supply chain and logistics rather than taking cost out of a manufacturing plant. Whereas in Grace, I focused my attention on how did the plant save money within their manufacturing operations.

Mount Pleasant, IL would be an example of a specialty building materials. That's a membrane plant in Tennessee. These plants cost less than $20 million. We have 13 of them located around the world. It could be a fire-proofing plant, it could be a membrane plant. Still, only 12 to 65 people.

Our largest manufacturing facility is a co-located plant between Darex and Construction Chemicals and it only has 200 people in it. We have 14 of what we call large plants and the investments in those facilities are anywhere from $50 million to $60 million.

Our margins in return on cash flow, we think, will be top quartile and will compete with anyone in the industry. You can see, in the last trailing 12 months on the third quarter, our EBITDA, this is on a further adjusted basis with all the carve-out accounting is about 17%.

Our cash flow conversion in that same period was 84% of cash. And we had return on capitals investment of 46%. This is a high quality business, again with low capital intensity.

One of the things people are interested in is how will we perform in a construction cycle going forward. Now, we've added the Darex business to GCP and one of the things that does is give us cash flow stability.

I think the EBITDA numbers, relative to 2009 and today, are not too dissimilar. But if you took that same period of time in construction, we went through the biggest construction down turn, at least in my long history, probably at least since the depression - construction down 35% in North America. At that same period of time, maybe 3% or 4% globally.

We made a living in the emerging markets, selling in the markets in which we saw growth. Today it's a little different. We're seeing some downturn in China, we're seeing some downturn in Brazil, but we're seeing our markets in North America, probably mid innings in terms of the recovery and continuing to grow.

With the European markets, especially in core Europe, starting to accelerate and we're seeing growth in those markets. We continue to see growth in the Asian, Middle East, parts of Central Asia. And with our cement additives we can take advantage of emerging markets when those market opportunities come.

You can see we lag the down turn because of the lag in construction spending. But our EBIT margins, this is without the Darex business, you could add another $90 million or so to this number - bottomed at $122 million of EBITDA. And our bottom performance, at the lowest point on the construction cycle, was about 13%.

At the time, North America was 39%. Today it's about 39% of our market. Frankly, during the downturn it was probably a bigger proportion because we had grown our business in other parts of the world.

We very much sustain very strong margins, cash flow in EBIT performance during their downturn that was as severe we've seen. We don't expect that to repeat any time soon. GCP Applied Technology is poised for growth.

We'll continue to leverage our sales. Technical service footprint worldwide, invest in R&D to increase our geographic position and our customer penetration, as well as our margins in new products.

Our products are highly valued by our customers and we try to differentiate in terms of the performance of those products. We target geographies to provide growth and we can scale our investment, in sales and marketing, to go with the growth rates in any given geography of the world.

During the downturn in North America we did take sales people out of the organization in order to maintain the margins going forward. In an upturn we added back to that organization. We give our customers solutions both from information services, enhanced technical service, and an understanding of the performance of our products.

Going forward we're going to look for bolt-on acquisitions. We think these are - the history that we have in this area is quite positive. We're able to buy companies in which we look for cost energies around our sales organization, the ability to take a new product and geographically extend it around the world, or to add an adjacent space to the geography, or a product line, in which we're in.

We think these bolt-ons will be very successful. We can buy them out of the cash flow generated from the business. We think that the growth opportunities for GCP are enhanced by the spin because we'll have an organization dedicated and focused to bolt-on acquisitions that meet our type of return criteria and in the segments in which we'd participate.

I've given you the overview of the business. With that, I'd like Dean to walk you through the financials. We're also going to give you a framework for how to think about the growth and some guidance for our performance for next year. Dean?

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Thanks, Greg. Good afternoon, everybody. First, let me just reinforce comments that Greg made about how thrilled I am to be here. And I'm not just saying that because I'm standing here.

I think I speak on behalf of Jack and Laurie and Betsy as sort of the new members of the executive team and we're just really thrilled to be a part of the team. And I know, personally, I'm just humbled to be part of an organization with the kind of leadership and talent that the company has. Excuse me just for a second here, I'm flipping pages.

So, I want to do four things with the time that I have. I'm going to talk a little bit about the capital deployment priorities, our financial policy. I want to talk a little bit about the - some of the histrionics of the financials and give you some perspective on the history.

I'm going to talk about the longer term five-year frame work and the guidance for 2016 and then I'll offer up some color on the capital structure. So, from a priorities for capital perspective, really four things, right? Four dimensions of the capital structure priorities.

Operations, we're going to drive cash. We're going to drive cash through margin expansion but also working capital efficiency. And we're going to protect the cash through our foreign currency hedging strategies.

We're going to invest capital in the business. We're going to target and invest in businesses and parts of our business that is high performing that will generate high returns for shareholders. And pursue bolt-on acquisitions that have high financial and economic synergy attributes to them.

We'll manage our leverage in a disciplined, thoughtful, way. The 3.1 turns, or 3 turns net, is a level of leverage that we're comfortable with. And we'll de-lever as we expand our EBITDA. And lastly we'll return capital to the shareholders in an appropriate way.

We'll follow that up first with our strategic review with our board on the broader strategic agenda to ensure that we're deploying capital that maximizes returns for our shareholders. So that will be coming up.

Again, just a broad framework, I think you'll find it balanced. It's faithful to the discipline and the prudence that I think Grace has demonstrated in the past. And provides us with all the flexibility we need to enable our strategic agenda.

From a financial perspective, let's just talk about the last years - the trailing 12 months, 2015 and 2014 ending in September. So, from a revenue perspective you see the numbers there on a Venezuela adjusted basis.

Really the story here is that the reported numbers are down about 4.4%, year-over-year. But if you look at the bottom there, on a currency impacted basis, is about 6.8% currency headwind. I think as we went through the balance of the year that number turned into even 7% or 8%.

We had a fair amount of currency headwind. I think of note in this analysis is that currency headwind represented, about $100 million of top-line currency impact. And if you look to the right we added $18 million, or about 8% EBITDA growth over the same period. And this just further adjusted EBITDA, et cetera. A definition you'll see the reconciliation in the back.

But, no matter how you slice it, it's very strong EBITDA performance in light of the currency headwinds. We can talk a little bit more about how we do that but, fundamentally, we operate in 40 different currencies in 70 different countries plus. We have natural hedging that happens through the currency cross rates.

We also have hedging that happens - sort of natural hedging that happens as a counter measure in our commodity costs. And then, lastly, we have active hedging programs where we protect the cash through a forward rate contracts.

So we manage the cash carefully. We manage the EBITDA expansion. And I think that as you see, 200 basis points margin expansion at the same time is reflective of the earnings power in the business.

There's a function that EBITDA growth see free cash flow, operating cash flow, up about 11%. We'll manage the capital expenditures and have managed the capital expenditures to just under 3% over the period.

Let me talk about the growth framework, and I think it's fairly straight forward. On the left hand side, you'll see the 5-year framework, and to the right you'll see the annual guidance.

This is sort of how we see the framework from a market growth perspective, and then our expectation of how we would play in that market space, as a function of the discreet strategies that we'll undertake. So we expect the global construction market to grow 2% to 4%. We expect our constructions businesses, essentially to grow twice that.

And that would include price, that would include market share capture, that would include geographic expansion and most importantly, technology and new products. Our global packaging business, that end-market is about a 1% to 3% end-market growth, and we expect our Darex packaging business to grow at somewhere around that rate.

This is not a high growth end-market, but I think, as Greg has demonstrated through the presentation earlier, is its very high-margins and very strong cash flows. And then lastly, bolt-on acquisitions of around 2% to 4% over the 5-year horizon.

And that will bolster our organic growth. And I think the way that this pencils out over the 5-year horizon, it's close to double digit growth over the 5-year horizon on average.

As we look at GCP, the 2016 guidance, so how does that play into the more-near term? We expect consolidated growth of 4% to 6%. I should point out that this is at the quarter end, third quarter 2015 foreign exchange rates, just to pin everybody to sort of the point of which we set this plan.

We expected adjusted EBIT to come in around $210 million to $225 million. You'll see the EBITDA number there. I think the DA is around $35 million. Tax rate of 32% to 33%. Adjusted free cash of around $100 million. And I know for those of you that are already working the calculators, I'm pretty confident we'll hit this number.

But again, I think we want to be prudent and cautious about how we see the cash flow. But I think it again points to the very strong free cash it will generate, certainly going into next year, but across the strategic horizon here to fund our strategic initiatives.

We see adjusted EPS of about $1.38 to $1.55. And I think it's footnoted below, amongst a whole bunch of other things, I think, let's see, it's about $71 million in shares outstanding I think is the number, with capital expenditures at no more than 4% of sales.

That's how we see the business. I think we feel very good about these numbers. If you look at - so if you do the currency adjusted and work through the construction businesses, you'll find that, on a constant currency basis, this is certainly not out of the box of a historic performance the business has generated.

If you go back into the presentation materials, you'll see in a couple of years both businesses averaged 6% to 9% growth so this is well within our wheelhouse to execute. And the cash, as I mentioned, is certainly there for us to perform on.

So, just a couple comments on the capital structure. We'll start - and this is September 30, 2015. Obviously, as we get towards the end of the year, that number will be higher. We've syndicated the credit facility, we've placed the term loan, we've launched the high yield, as you've seen.

We end with about $824 million of debt, net debt of about $725 million; there's a 3.1 turns. You know, we get often - folks would ask us why that structure? What makes sense about high yield verses the term loan, versus the revolver?

And I'll just make a couple comments. One, we've got a long term capital structure so you want long term debt on your balance sheet. Second, we wanted to ensure that we enable certain tax savings, certain tax benefits, that are accrued to the company and to GCP.

And third, that we wanted a sizing and a trenching that made sense in terms of liquidity and making sure that we had a successful offering. So I think it was thoughtful, I think was strategic, certainly in how we think about the business.

And again, I think we are well established and well suited for supporting our long term strategic agenda, generating internal cash flows that support not only the internal operations but also the acquisition strategies that we have identified.

Just a couple other comments. In terms of liabilities, again we got this question a lot, nothing unusual in terms of environmental liabilities if there's further questions around that, we'll be happy to answer them.

And again, nothing unusual with regard to US pension or foreign pensions that we've undertaken. We expected under the ERISA rules we'll have those fully funded. So that concludes my comments. Thank you very much, everyone.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Great. OK. So that's what we had to talk about. We have a flexible, low capital intensity, high-margin business with leading market positions in each one of our segments. We're looking forward to growing this business both through organic and bolt-on acquisitions.

And we're excited about the future here. I'd love to take your questions. So, if anybody would like to ask us, we have the mikes in the back and I think we're miked up so we can sit.

QUESTIONS AND ANSWERS

Chris Kapsch - *BB&T Capital Markets - Analyst*

Hi, Chris Kapsch with BB&T Capital Markets. Greg, so one of the rationales for splitting the companies into two was the disparate, strategic direction, particularly in terms of the difference in capital intensity of the two businesses.

You've elaborated on that some but is there any instances where GCP, when part of overall Grace, wasn't allowed to do acquisitions or projects that just didn't meet the criteria of the former parent Grace that you now see as open possibilities that have been in the queue just waiting for this transaction to happen?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, great question. Look, and I don't know if it was a matter of allowed to. There's a concentration of focus here that we think is going to improve the growth prospects for GCP. So one, as the operating leader of all of Grace, if I had opportunities to spend time on acquisitions with Fred or myself or us, we looked at the UNIPOL type acquisition that we last looked at.

The Catalyst materials business had higher margins. Sometimes the GCP businesses were diluted to those margins and we were protecting that margin piece. But we're going to have a higher focus here. We did do bolt-ons within GCP.

We think there's an opportunity to accelerate that. And clearly, we think the day to day management focus on the new products, the team that we put together should enhance the growth prospects. But I wouldn't say we weren't allowed to but we do think the focus should be a little more intense now.

Chris Kapsch - *BB&T Capital Markets - Analyst*

OK. And then another question about - and so Grace, overall, performance culture, Fred talked about earlier about the accountability ingrained in the culture and I'm sure that's something that you will continue.

But you mentioned a focus in terms of the productivity opportunity for GCP -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Right.

Chris Kapsch - *BB&T Capital Markets - Analyst*

-- extracting productivity from supply chain -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Right.

Chris Kapsch - *BB&T Capital Markets - Analyst*

-- and I'm just curious, and it sounds like Zain has been brought onboard and will partially focus on driving that process. But could you just elaborate on what the opportunity as you see is to further enhance productivity because obviously productivity's been a big part of the margin story for Grace for a number of years now. Thanks.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, first of all we will bring the discipline that we had in Grace. We're proud of being part of that heritage. We're going to look for how to create value in these businesses and support the margins, the cash flow.

We've got that discipline throughout GCP, but frankly there's a little different view here in terms of where we put our energies. And if you look at GCP, our raw materials are the biggest piece of what we buy, right, the convertibility.

Whereas if we were going to spend time in the Catalyst business on six sigma activities and hiring of black belts, which we would train them in how to take costs out of the manufacturing side running these big operations.

Here we've put those black belts into logistics, in supply chain. We try to match up our cash conversion with our supply chain. I put a new supply chain leader in who frankly understands currency movements as well as raw materials.

Because where we buy, how we buy, and when we put those products into our system can move money around the process. So we can get productivity by managing that process. The other thing that GCP's has historically done that we're going to put some additional resources to, is the management of substitutions.

As you might imagine, if you can get approvals for your products and you have a change in the cost of one raw material versus another, we can shift our customers to a product that provides higher margins and better opportunity for them. That substitutability is really a data management driven activity.

But we can put the six sigma black belt productivity to work on how to do that better. There's a process that we're developing to do it. The third area that's different from Grace in terms of our focus is as the currency movements here, we're doing business in a basket of 40 currencies.

We're actually naturally hedged in the euro. The euro drove a lot of discussion within Grace. Here we're looking at what happens to the real, what happens to the yen, what happens to the won. We can manage that currency impact and have a very good history of that if you look at our results in 2015.

We had great currency movements but delivered on the earnings. We want to focus that activity, as well. So productivity has the same backbone in terms of discipline but a different focus.

Dan Rizzo - *Jefferies & Company - Analyst*

Sorry. Dan Rizzo with Jefferies.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

OK, thanks. It's tough to see.

Dan Rizzo - *Jefferies & Company - Analyst*

That's OK. Could you just talk about the pricing dynamics, just given your size within the different end-markets and the products you offer? Could you just provide some color on how the pricing dynamics work and what to expect going forward?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, it's a good year. You're talking about the market dynamic and our size within the markets. And the biggest question comes there when you look at that chart on construction chemicals. And you see this - what I think it says $6.8 billion market, and we're a smaller slice of that.

You have to take the China market out of construction chemicals. It's about 50% of that total market and frankly we've made a choice over the last few - quite a while now, not to participate in the admixture market in China.

Why do we do that? Because that market doesn't support the customer service, the margin potential and the returns. Will it in the future? That's certainly possible. We play in cement additives. The cement additives market in China for us of our percentage probably about a third of our China sales, but it's a very small segment of the China market, because all cement's not treated.

As regulations increase you'll drive that. So on share basis, if you get into a North American market, the European markets, the Asian markets, you get a much more concentrated organization with one or two, potentially three players servicing those markets with geographically placed plants servicing the customer and industry.

The dynamic are actually pretty favorable, that's why we're able to do the margins. In building materials it's much more of a specified sale, where you're selling the dynamics of value engineering versus other materials. So it's hard to just look at what's the cost of our waterproofing product when we can take 30% out of the labor cost of placing that slab the way we waterproof.

It's a value engineering sale at the architect and contractor level that then you get specified and hold to specification. Darex is more like the model in construction chemicals. In sealants we have a very strong market position and the dynamics are quite good. In coatings we try to find niches were we can participate on performance and sustain our margins.

So each one of the markets is a little different in terms of the dynamics, but the market positions we have where we participate are quite strong.

Dan Rizzo - *Jefferies & Company - Analyst*

And then you mentioned, I think just talking about some opportunities given the volatile weather, and I think you mentioned residential, or maybe I misheard you, I thought in the past you were going to kind of stick to commercial and maybe multi family, and I was wondering if you are pushing into single family homes, or is that something for down the road, or just some color around that?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

If you take our revenues, the bulk of our revenue is out of new construction and the bulk of that revenue is out of commercial non-residential construction. We participate in re-roofing for residential.

If we could find a niche where we have a performance product for that segment like that, we would love to replicate it. But we're in the segment where we're able to provide performance that's differentiated.

Our admixtures end up in residential construction. As you get outside of North America probably a higher percentage because construction tends to be more urban apartment, multi- family type construction. We end up in a slab of a basement.

It's hard to know when a ready-mix truck, when we sell so many customers how it each ends up, but by far the bulk of our revenues is new construction, commercial application, non-residential, with infrastructure, high-rise, urban settings, those warehouses, those kind of buildings.

Unidentified Participant

I have a two-part strategy question and I hope it makes sense. Looking at the geographic map here, page 20, it's obvious that you're not in Africa, Middle East and Eastern Europe. So, sort of two-parts to that. A, is it what you mentioned about China, the maturity of the concrete and cement market, is that one of the reasons why you're not there?

And B, if you look at some of your competitors, Sika, one of the ways that they entered some of these lower types of markets is through the borders business.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Right.

Unidentified Participant

And Sika, one is clearly interested in the same growth strategy and trying to acquire them. Have you looked at that as your growth strategy and is that geographic expansion part of that? I hope this question makes sense-

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So, it's a great question. We actually do enter new markets. We are in Africa, South Africa. For instance, our next entry point for Africa will be a decision for instance in Nigeria. Nigeria a big cement producing country. They start to penetrate into ready-mix.

When we see that the business practices, the type of construction, the area would support a plant, we would look at instead of exporting up the coast or down from Europe, putting a manufacturing site, and most of the time we would enter with cement additives, which is the first product used.

You talked a competitor using mortars; we use our cement additives as an entry point. That's true in Central Asia where we're doing quite a lot of work there coming out of our facilities in Turkey. Actually in the Middle East, we have a very nice position. We tend to do quite well in the Emirates; much more sophisticated construction.

We're doing quite well in Oman, Qatar, places that are building infrastructure. But some of the countries with lower cost construction; we haven't made a decision to put a plant in. As we go into markets, Latin America would be an example; we would enter with an investment on cement and admixtures based on the maturity of the marketplace.

You know for instance, we have two construction chemical businesses in Vietnam, one in the north and one the south. We're growing quite well there. Do you move into Myanmar? That would be another decision. So you have to have a practice that allows you to conduct business in a proper way. You have to have an infrastructure that will support a small investment.

And then we would hire people and build out. So we have a similar strategy but we deploy with a little different products. Does that answer?

Unidentified Participant

Thanks.

Rob Walker

Hey, Greg, Rob Walker. On the two times market growth expectation.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes?

Rob Walker

What's it been historically over the last three to five years? Has it been about that and just have the drivers, have the tailwinds - are they the same? Are they any different at all?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, so if you look at our constant currency rate, we're right in the wheelhouse. In fact, some obviously years have been a little better. Some years construction chemical has been a little stronger. The SBM business has been quite strong recently. The pipeline relative specifications has been good.

We think our historicals more than back up at a constant rate, that growth rate. And as we've said, we try to manage between the top-line. You know, we don't worry too much about - we let our people make decisions on the marketplace in which we participate on a local currency basis, and then try to manage that through the P&L in terms of delivering the cash and earnings.

We'll continue to focus on that so - what was the second part?

Rob Walker

Just whether the drivers of site mix to ready-mix and building have changed? -

---

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes. No, look, I would tell you that the more recent changes are about emerging market shifts. The fact that China is not growing at the construction rate that it was. Brazil is off 35% with currency and then some more relative to construction market. You know, the Middle East markets continue to have good growth for us in the area we are despite the low oil.

Will that catch up? I think that the change in construction spending, North America being stronger. Europe's starting to see really recovery in some of the markets that we're in has been a bigger driver. The penetration story continues to move forward.

If you're in a higher growth area, you penetrate quicker because the more sophisticated construction, say it's your labor, or your moving quicker or you want to turn your cash faster, that's good for us. But fundamentally, the drivers haven't changed other than where are they building.

Rob Walker

Sure. And maybe just separately, on the acquisitions historically can you walk through maybe a typical kind of price you pay, what kind of synergies you get?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes. So, we make our decisions on an after synergy basis so we're not going to talk those multiples. You saw an example of that and Hudson talked about on the Grace side. We're looking for similar types of things.

We take cost out by consolidating sales organizations, manufacturing sites, taking products and geographically dispersing them in a wider area, putting them through a bigger sales force or adding an adjacent space without having to add either the manufacturing capability or if we had the manufacturing capability, not as much sales to take it geography.

We're looking for real cost synergies. A lot of them being driven by how we sell and what we could put through our selling model. On SBM we want to drive specified products through that model and if it fits our distribution margin, we'll look at adjacent spaces there.

On the admixture business, it tends to be a geographic play around density as you might think about the milk runs that we have in that business. Typically I would tell you we've sort of said, we expect the building materials to be sort of specialty chemical multiples in terms of the external view if it was given out.

And the construction chemical multiples tend to be lower than that historically.

Jim Barrett - *CL King and Associates - Analyst*

Greg, Jim Barrett at CL King. A few years back the Company used to quote the growth in emerging markets in totality somewhere in the mid-teens was a typical quarterly result. Can you tell us what your expectations are of your emerging markets in total as we go through late 2015, early 2016. And on a local currency basis?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

I can't give you the total because I haven't calculated it but if I run through them, we've been relatively flat in China. We've been down in Brazil. So those two emerging markets have impacted. Some of the rest, Latin America hasn't been bad for us relative to where we are. And I tell you our Asian businesses have been growing.

Our Middle Eastern business has been growing. Our Central Asia businesses have been growing. So we're getting some good growth in those segments. And I'll tell you, Eastern Europe has sort of followed the geopolitical trends.

Jim Barrett - *CL King and Associates - Analyst*

Thank you very much.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

You're welcome.

Ivan Marcuse - *KeyBanc - Analyst*

Hi, thanks for the presentation. Ivan Marcuse with KeyBanc. Just a quick question. On your - on your margins right now based on an LTM basis, you're at peak margins relative to where you've been the last decade.

So if you look at your - if we were to go through a slowdown in your markets overall, what's sort of the range within your EBITDA margins do you - do you envision - I mean are we at the same - I'm assuming your cost structure's changed from the 2009/2010 period today.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes.

Ivan Marcuse - *KeyBanc - Analyst*

So how do you think sort of the variability in your margins?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So let me - like, I'll answer it in two ways. One, the way we've improved the margins has been about a third leverage on the volume. So as we've seen the construction markets coming back especially off - across our fixed cost in the construction chemicals, we're getting some leverage on the volume.

We're getting some pricing mix across the system and that's about a third of the margin improvement. And the other third is this piece, productivity and the coming off on inflation relative to the deflation in the raw materials is about a third. And sometimes it's hard to distinguish. Now we give some of that back up, right, on the currency piece.

So, where do you want to count the deflation versus the currency. Going forward, we're in a stronger margin position today than we were going into the downturn for three reasons. One, we've done some restructuring.

You've seen those numbers come through Grace. Two, we have a higher proportion of the business in the SBM side of the business, and we've added the Darex's margins to that so we're starting from a higher base. So no way would we expect to be at the bottom on a percentage basis that we saw in that downturn.

And a third thing I'd tell you is that was a pretty severe downturn. What we will do in any region that we see slowdown is we're able to size our organization. We're able to manage our raw materials down because they come off where we're doing that and we'll really focus on protecting our position when those markets come back.

It's rare that we'll get out totally, although there's some markets where we've done that. We just don't see the recovery coming back. But I would expect our trough to be significantly better than what we saw in that downturn for the reasons I said, a higher proportion of North America, so we've got a better mix.

A higher portion of SBM, and we can take similar actions to what we did then.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

I'd just add that the - our visibility to new products, our technology infrastructure is much stronger today than it was in the past as well.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

You know, we will have to move if there's a down turn.

Ivan Marcuse - *KeyBanc - Analyst*

Just a quick follow up. You mentioned that your sales outlook was based off of currency rates in the third quarter. If you fast forward to today what does that - sales outlook look like?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So we've given guidance on a third quarter basis. We've run the numbers on the revenue impact. Currency has come off in the second half of the year, so we've got some currency especially the first half of next year. If that's your question.

When we ran the numbers to our operating plant, we saw it impacting revenue% and we didn't see much movement at all on the earnings or cash. So we think the model's sustainable. You know, there's always currency -

---

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Things can change, but -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

But that's so far relative to what we've seen January's not over, so -

---

Unidentified Participant

A few questions. The first one is, I know you used the word bulk just to characterize new construction versus refurbishment. Can you maybe provide a bit more colors to what that means, 90% infrastructure, 10% refurb?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

No, I think I said - we think we're about - if you look at the SBM business, we have two businesses that are retrofit specifically. One is the residential business and the other one is this sum of the grout, the De Neef's business is a repair and renovation business.

So, it's about 25 to 30% of the revenues in that segment are going into renovation and retrofit. In concrete it's a high proportion but it's hard for me to know that a ready-mix truck didn't roll over here when they're repairing a building but it's a much higher, I mean, it's 80% to 90%'s going to be new construction right.

I mean that's just what we do, ready-mix concrete tends to end up or precast concrete. So we're very much a new construction, non-residential business although we get into those other segments.

Unidentified Participant

The reason for the question is arguably, refurb is much less cyclical than a new construction focused business. So is getting into more refurb part of your acquisition strategy? If so, what are some of the areas in refurb besides what you have in membranes that you're looking -

---

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So -

Unidentified Participant

And then if tied to that is what percentage of sales come from self - your own sales force versus third-party distribution and how do you manage that?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So, on a business basis, you can just take it by the segments. Most of SBM goes through distribution other than fireproofing business. So, almost everything else goes through distribution with a little bit of direct contractor.

And with the concrete chemicals business and Darex's it's just the opposite. It almost all goes direct. I'm not saying here and there, we don't have an agent or distributor or whatever but for the most part, its direct sales. So that's the second question and it just sort of goes by the type of business model that we have.

And then in terms of renovation, some people would argue it's counter cyclical. You know, I don't know if it's not cyclical but you know it's less so. We like the repair and renovation businesses we have but we would have to have something that we brought to the party. It would have to have the kind of margins we have.

And if we were going to buy it we'd have to see the synergies that we're talking about. So sometimes in a segment that's outside of where we are, some of those cost synergies aren't quite as easy. If we can find that, we've done it. The De Neef was an acquisition, it was a renovator - repair and renovation.

And it was in a technology that was focused on concrete and waterproofing, so we really understood it. You know, we self-developed the membrane business, so we like that segment. It's just it's got to be where - you know what we understand.

Unidentified Participant

And then just on the balance sheet, 3.1 times net debt to EBITDA, what are the covenants related to that? Where are you? And then if you know in the worst downturn you had a 30% decline in EBITDA from peak to trough, if you have even half that, 15% to 20% decline in EBITDA, what does that do your - to that ratio and then how close are you to the covenants then?

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

So, we've stressed tested obviously the balance sheet across this. We've got a 4.5 times test on the revolver, and I'll just say on the high yield notes, we've got about a half turn of unsecured capacity, so we feel like we've got enough capacity within secured capacity.

We've got enough within the covenants to provide us the flexibility that we need and to acquire companies if we need to, or drive our strategic agenda, or to you know for dry power in the event that we have a downturn.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So, when we stress test the business, not this is not - I don't even want to bring it up because it's not our scenario - it was a stress test. The debt was slightly lower obviously but we - we did a big acquisition and had the 2008 downturn in the first year and we didn't cause ourselves a problem relative to our debt.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

We have many levers to pull. If you look at the asset-base of the company, the essential, we have less than $200 million of PP&E. We effectively have about $200 million of working capital and almost all of that is AR.

If you think about a downturn, in our ability to flex the operation, adjust cost and be responsive in markets that may be growing, I think which is sort of the entire framework of what Greg was talking about, you feel pretty comfortable.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

I think the number, what, 150 inventory all in a -

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

It's roughly 120.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

120.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

On a high-end.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Sort of match the payables. I mean, we can flex it.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

And that's matched with the payables, so it almost offsets.

Chris Shaw - *Monness, Crespi, Hardt & Co. - Analyst*

Hi, it's Chris Shaw from Monness, Crespi and Hardt. Just from a high level, you know if you'd asked me yesterday, which of the two companies would be paying the dividend today, I would have just thought, maybe you guys given that you know your sort of higher cash flow, or lower CAPEX intensity and maybe slower growth.

So, have you guys thought about paying a dividend in the future and if so, just you know what's your thoughts around it?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So what we've said is in the Form 10 we said we will not pay a dividend in the first year of the company. And what we've said, is we want to sit down with our board, take our strategic plan, look at the value creation opportunities we have and judge those going forward. So that's what we've said.

Chris Shaw - *Monness, Crespi, Hardt & Co. - Analyst*

And if I can follow up - I think you somewhat answered this before but the acquisition strategy - I mean it sounds like it's mostly bolt-on so does - I guess probably aren't that concerned about the higher debt cost going forward. It sounds like you could pay for most of those deals with cash flow.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So we made a choice going into what was, you know a difficult debt market. We understood we were going into it. We made a choice that said that the timing was more important than that change. We think as well, you know it changes the cash flow slightly and it doesn't change our strategic initiative going forward at all.

Chris Shaw - *Monness, Crespi, Hardt & Co. - Analyst*

Thanks.

Owen Douglas - *Robert W. Baird and Company - Analyst*

All right guys, Owen Douglas from Robert W. Baird. Just wanted to get a little color around the profitability. This is sort of excluding the Darex business and primarily focused on the FCC part of your business. Can you it a little color around the difference in margins according to the various geographic regions.

I mean I believe that a comment was made in the past that you know increasing construction activity in North America was you know a driver behind some of the margin expansion. So any color you can provide would be appreciated.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, I'd love to. It really doesn't have to do with the gross margins. Our gross margins across these segments are fairly similar. It's the cost to serve model. What we've talked about in construction chemicals, is we've put dispensers in our customers plants. We have multiple site locations to service segments.

We have a very good share position in North America. We have a strong sales organization. And then we have technicians that go out on the job site. That cost in the middle of the P&L is a higher cost to serve model. What you see when you look at the EBITDA margins between SBM, Darex and construction chemicals, it's all about that.

It's not about the gross margin piece. And our global gross margins aren't that different, but as we levered the - I don't - levers wrong - I went with the deck question. As we got improvement relatively to the North America construction market we saw that improvement in our overall margins and it's a bigger portion of the business.

That's how we saw the margin expansion and the reason it's a lower margin is that cost to serve model. It's inherent in the business to have that cost to serve model. It's a great business. It's just some more cost to get done what we need to get done. Does that make sense?

Owen Douglas - *Robert W. Baird and Company - Analyst*

Yes, it does, so I guess following along that vein then, if you were to think about that sales force, I guess and that cynical support behind it, according to the various regions, where would you say they're best utilized or leveraged and you know where there's greater opportunity to utilize them?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So look this is not a restructuring activity for us. We've done a lot of that. We have the infrastructure we think we need to grow this business. And we'll add sales resources where we see the growth and we'll put those resources in and we think we're about structured correctly for how we see each one of these markets today.

And we frankly have the ability to change that in local conditions as they exist and we'll do that. If you sort of look at our history, you'll see small restructuring charges going through the P&L at various times depending on what's going. When the European market came, we restructured portions of our European organization.

We'll do that but right now we think what we're coming into this with and I think Fred and Hudson made the point, we did the restructuring for the spin in front, not after. So, we like the size of the organization today, in fact, you'll see a little bit of increase - no, not a little bit. You'll see some investment in the R&D side.

We've already told you that we've run about 3%. We've gave us, ourselves, a little cushion on the CAPEX as we see the growth there. We don't have capacity needs right now but we put some growth capital in on investments and selling on CAPEX, a technology play in terms of how we bring our specifications distribution sales force and those guys together.

Some of our information management systems, so we're right now - we're trying to grow this.

Owen Douglas - *Robert W. Baird and Company - Analyst*

OK. And finally if you could, a little bit on the acquisition side of things, I think you mentioned that you'd expect there'd be about $100 million of cash flow, so I guess thinking about the size of bolt-on acquisitions, what really are the parameters around that in terms of, you know, is it really a $300 million, $400 million, is that bolt-on.

Or we should really be thinking more in terms of sub-$100 million?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Here I'll tell you this so, if we find something that has the profile we want to advance the business, the scale and size of that - it's more about how does it fit into our infrastructure, we get the growth. If you look back over the past four years, I think our average purchase price was about $30 million.

But we also said within Grace, we didn't pay much attention - as much attention to it as we think we should relative to the opportunities. What we've done bolt-ons, the biggest one we've done in GCP, I think was [60%], [70%], but -

---

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

[56%].

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

-- we've got the cash flow to buy the types of companies we need to get the growth profile we've put here and I'm not going to box myself in any more than that.

Unidentified Participant

Hi, just a follow up on the acquisitions actually. How robust is the pipeline? You know, it's difficult for us to understand how many opportunities you saw that were passed along because of the former corporate structure; that might be more suitable in the future?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So, may best answer to that without getting into specifics that we'd rather not talk about is look at the scale of these markets relative to our size. And we think there are margin - SBM, we think there are product line opportunities, geographic opportunities and specification extensions we can put into the SBM model.

And we've shown an ability to do that historically in the types of things we've bought. In construction chemicals, it's more a focus on geographic and consolidation opportunities. And you look at that marketplace; there are opportunities to continue to do that.

And we're going to do it in a disciplined manner so that we keep the kind of returns that we're used to, but we're going to - you know, we're not going to start out with those returns. We're going to have to take the cost synergies to develop those returns. Right?

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Rosemarie Morbelli with Gabelli. Since new construction is an important part of your growth, where do you think you stand in the new construction cycle at this particular point? Are we in the middle of this cycle? Are we still another four or five years out?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, so I think there's legs in the North America construction. We've sort of said, we think it's the middle innings. When we talk to people we think that's about right. We talk to our customers. We think European's at the beginning, in especially core Europe in terms of coming out. I'm having a hard time calling the Middle East. It's been good. Right?

But we'll see a while. We think - we think that the place where we're seeing spotty opportunities is in the emerging markets. Somewhere seeing good opportunities and the other ones are the obvious downturns. You're following those with economic and sort of geopolitical structure that you see.

We're going to take advantage of the ones that apply themselves to us. And it varies. We think overall that construction spending growth that 2 to 4%'s a pretty good number.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And does that include the China? I mean they have put a lot of money into assets and it looks as though this has kind of dried out?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

I mean we sort of said, the percent of China that we have today is about 5% of our total. If we see growth, we expect the cement additives market over the long term. The China market over the long term is a place we're going to participate. But right now we don't, you know, it's not going to have the kind of growth you've seen historically. It's just a fact.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And then moving over to Darex, you are anticipating growth rates lower than that of the market. Is that because of the switch from the three piece to the two piece scan or is there something else going on?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

No, I mean what happens to Darex, is we have that switch. We think our positions are pretty good. We're getting a little growth of the BP&I. We've got a broad range of formulations. We'll see how that transpires going forward.

We think there's some coating niches and frankly consumption - a couple of the big markets has had a little bit of problems with consumption especially on the emerging side, and as you saw there, it's one business primarily because of the sealant - I mean the coating side.

We're less North American centric so some of the US improvement although we've seen it, it's a smaller piece of our business. We've been a more European, Latin American business in Darex, so China's slower. So it's consumption. It's sort of the canned growth.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And on the coating side of the can coating, the non-BPA portion, how big is your participation? I mean we have Valspar, we have VPG. Everybody says they are the biggest. Where do you stand?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

We're a niche player. We've got a broad range of formulations. We're seeing good growth in that segment and we're not giving out our size in that segment.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

OK, thank you.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

You're welcome.

Unidentified Participant

And R&D question - what percentage of sales is typical for you on average to spend in R&D, and when you do look at acquisitions, is technology acquisition part of that thought process? That's sort of the first part. The second part, can you help me understand the payback on R&D?

You know, what percentage of sales coming from products development past five years for instance?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, so we have those statistics but the fact is, I think we ought to look at our top-line revenue growth and our margins. And we ought to judge our R&D spend on the quality of that business versus an internal metric relative to percent of sales. So, it's just so manageable, that statistic.

I've sort of said externally, look at our growth. Look at our margins. Are we getting the money out of the R&D? We're spending at the R&D line, a little less than about 1-1/2% -

---

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

1-1/2%.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

But the fact of the matter is our tech service organization, a lot of that runs through a selling line so there's a bigger portion of that. A big portion of our marketing is focused on development of new products and where those niches are.

And we've got some CAPEX that runs through on investment with R&D, so I think it's a higher number than that, then you just see on the R&D line. The organization thinks a lot about how to upgrade our products.

And but just to give a percent of new sales - I had a product manager give a very high number on a business that wasn't growing that much, and I said I'm not going to give that out. I think our margins, that's how we do it.

Unidentified Participant

Hi just a quick question on the competitive environment. So, if China and say the other developing regions were to contract a bigger slowdown, how, this is more of a question for you cement and concrete adds, how does the market change, the global market?

Do you see some of your competitors that were serving those markets start moving into, say, get more aggressive in North America? And then what is your visibility in terms of when you see these markets change? Is it - do you - is -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

No.

Unidentified Participant

-- your backlog 90 days or in that function?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

The first part of the - I didn't the second part. The first part of the question, the cement additives market in China just hasn't developed. There just not a lot of it. So I don't see that as a risk coming out of China. We see that market developing over time.

And we're focused on the niche that we think supports the business, and we've made some choices in the past not to participate in the admixture business in China. The admixture exists in China but it doesn't use the same structure as the rest of the world. I don't see that being exported. I mean that's a possibility anywhere but I don't see it.

We don't see it. It's just - they sort of buy chemicals at a low end. I see a potential for that business converting overtime but we're not putting that in our plan.

Unidentified Participant

Would there be a similar dynamic in, let's say Brazil, South America indeed?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

No, the South American market is developed very similarly to Asian, the Central - the other markets very similarly. And what we see in Latin America is the impact of construction spending and severe currency movements and some of the political issues that you've seen.

But in terms of the market dynamics, the way they make concrete, the way we sell cement additives, the share that we have, we very much like our position in Brazil, and some of these other countries in Latin America. We just got to get through, you know, it goes through some cycles and we're in a down cycle there.

Unidentified Participant

(Inaudible - Microphone Inaccessible)

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

We can get you one. Well - why don't we go here, and then we'll get you one -

Unidentified Participant

There's one here.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

No, they got it. We'll come back to you.

Chris Parella - *Bloomberg Intelligence - Analyst*

OK, Chris Parella from Bloomberg Intelligence. In terms of the CAPEX running at about 4% of sales now, where -

---

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Actually, it's less. It's been historically less.

Unidentified Participant

Less than that.

Chris Parella - *Bloomberg Intelligence - Analyst*

Right, and you said that you'll be investing more in the business. Where are you putting that in? Capacity and in what regions?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Right.

Chris Parella - *Bloomberg Intelligence - Analyst*

Or how would you be investing that little extra bit of CAPEX? And then can you go in a little more detail on your hedging program? Is it a certain% of revenue -

---

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Right.

Chris Parella - *Bloomberg Intelligence - Analyst*

-- on a quarterly basis? Or how do you look out at that?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So, let me take the CAPEX question. I'll let Dean take the currency question, if that's all right? On a CAPEX basis, what we've done, is said we won't go higher than 4% of sales. We know there's some investment. We think the information management part of this business is an opportunity.

How we sell, how we take those leads to our customers, how we drive specifications, how we manage data in some of our segments and some of that CAPEX is directed at that. OK, so that's a piece of it. And then the growth CAPEX that we've seen historically in terms of geographic expansion, it probably covers what we'd have going forward.

Our capacity utilization frankly it's not a number we focus a lot on because it's not a big impact for us. We've got the capacity to grow the business. You know, we may have to put in some lines for quality or new products and that CAPEX is, as you generate something new, you've got shift a line, or add blending - or an ability to manufacturer it within your framework.

That's what that CAPEX is for. So when, as they come out of R&D, if there's something we've got to add, we put some money there for it. It's not really a capacity story. And then do you want to answer the currency?

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Yes, so I guess broadly the way to think about it, over the course of a year, if you think about the hedging strategy we undertake to deal with foreign exchange risk that broad number's about $180 million over the course of a year. So that helps you scale a little bit.

Over the course of say a quarter or in a particular period it's only about $80 million a year that we can sort of identify risk associated with, and there's a proportion out of that $180 million, I should point out, there's only about $20 million that is too cost prohibitive for us to hedge, but that program exists today under Grace, we will lift and shift and actually, we've already brought the folks over.

That program will reside within GCP. And I'll also point out, it's highly integrated with our supply chain teams such that we just don't try to introduce hedges to offset the disagreeing currency risk but we also try to arbitrage cost and arbitrage foreign exchange as a function of where we purchase strategies we can take to arbitrage costs as well as foreign exchange risk.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

And it's really focused on cash, if that -

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

And it's all cash, I mean, it's cash driven. These are economic hedges. There's no speculation. On a very discreet basis and I think under generally usual circumstances but certainly we'll do this, we will take out a margin hedge - a discreet margin hedge that will get FISMA 33 treatment for.

But that's moving forward as we think about matching capital structures, foreign capital structures, we'll consider currency swaps and other strategies but for the most part that's how we manage it.

Matt Kupersmith - *Iron Compass, LLC - Analyst*

Hi, Matt Kupersmith with Iron Compass. Can you talk about how much of the Florida 8% growth is price and mix?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, it's been historically - price has been a bigger component of it historically and frankly in our guidance for 2016 we didn't put a lot of price.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Yes.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

And we're getting some mix and we're - you know, we want to capture this deflation piece and part of the way you capture that is not go after a lot of price.

Matt Kupersmith - *Iron Compass, LLC - Analyst*

And historically where you've lost a customer in the admixtures business, can you talk about the reason why that would be the case, and then also during the downturn, can you talk about the price action in - across the constructions chemicals business?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, I mean, generally you get some price pressure in any market in which your customers aren't doing as well as they might have been doing. That's what drives it, not sort of a fundamental issue. So, companies that are looking for help or purchasing organizations - it's not dissimilar in any other industry.

But we don't see real fundamental changes in our pricing driven around sort of the change in the construction spend, but you get - I mean it's obvious, right? People are doing less. They're looking across their businesses and trying to get some help.

What we'll do in that case is try to leverage the raw material piece and frankly the other thing you see in a downturn, is you might not have as much opportunity to sell up. So, you want speed of construction when you're not - when you're busy, you want higher end stuff getting built when you're busy.

So there's a little bit of mix when the downturn took off the margins. Right? But you see the rate. And the other part of the question?

Matt Kupersmith - *Iron Compass, LLC - Analyst*

Where you've lost customers?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, so we hate to lose them. But we have. You know, maybe we screwed up or somebody had a better relationship, somebody might have tried to take something on price. We work hard to win them back. There are relationships that exists in these businesses that go on for a long time and we work hard to maintain those.

We could get value-engineered out on a specification job. We work hard not to do that but if you have a building and maybe isn't going to be owned for a long time. They're going to take the cost out on the front end. Maybe they value-engineer you out.

We fight hard not to do that. But it's the cost performance tradeoff on the specifications that you lose and on the run rate businesses, the Darex and the construction chemicals, it's service. It's technical service. It's refreshing your product line. It's the relationship that you have at the sales level. It's somebody wanted to just make a change.

It's those type of things versus structural, usually. If that makes sense.

Matt Kupersmith - *Iron Compass, LLC - Analyst*

And then just lastly, when you look at the chemicals business and the building materials, which of those do you view as the better business? And in an ideal world, pricing aside, where are you looking to do more acquisitions?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Look we like them both, but clearly the SBM but clearly the SBM business has a higher margin profile and you've got this specification model. If we can find things to fit into that we're going to.

On the construction chemical side, there's a piece of that from an acquisition standpoint where you've got to have clear cost synergies, in my mind. That's how we've historically done it. Now, you can buy things in that business where a portion is an expansion and a portion is a synergy, so it's not always so clear. Right? But that's more the model.

Chris Kapsch - *BB&T Capital Markets - Analyst*

Chris Kapsch again, with BB&T Capital Markets. I just wanted to follow up on the scenario you laid out earlier about stress testing and a scenario we'd have a - I think you - I just want to understand what you - the stress test, how you've laid that out - a scenario where there might be as severe a downturn as we saw in the great recession, at the same time that you having a completed a sizeable acquisition?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, bigger than we had planned.

Chris Kapsch - *BB&T Capital Markets - Analyst*

Right, and so -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Then we stressed it as -

Chris Kapsch - *BB&T Capital Markets - Analyst*

-- and there was -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

-- if that was done the day we spun, and we said, what happens to the cash flow.

Chris Kapsch - *BB&T Capital Markets - Analyst*

OK.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

That's -

Chris Kapsch - *BB&T Capital Markets - Analyst*

And so -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

It was a test.

Chris Kapsch - *BB&T Capital Markets - Analyst*

-- and then you had plenty of cushion with respect to the [covantecne].

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Yes, I mean one of the things you look at is, I mean, if you just look at the chart we have, this says, here's how the construction business performed in worst construction downturn we've seen, and you add the Darex's cash flow to that.

Chris Kapsch - *BB&T Capital Markets - Analyst*

Right. So the question I had was, what, in that scenario, what was the bite size of that acquisition?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

It was big. It was a scenario. I don't want to, I mean, I probably should have never brought it out because people are going to say, oh, that's your scenario. That's not. It was a stress test.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

We stressed tested the balance sheet appropriately.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

And it's was sort of like banks stress - they stress something. It was just stress.

Chris Kapsch - *BB&T Capital Markets - Analyst*

Right. OK, and then, Dean, you had said - the words that you chose in terms of the - you said that you expect to deleverage as you grow EBITDA going forward, so -

---

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Right. Just the turns.

Chris Kapsch - *BB&T Capital Markets - Analyst*

-- we have to use that as the - take - that your free cash flow will be devoted more towards this acquisition strategy? Is that was big -

---

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

That's right.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Organic growth or acquisitions. That's right.

Chris Kapsch - *BB&T Capital Markets - Analyst*

Thank you.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Or shareholder value depending on what we think is the best going forward.

Steve Ferazani - *Cantor Fitzgerald - Analyst*

Hi, Steve Ferazani from Cantor Fitzgerald. I know you touched on this a little bit, but if you could expand on why not wait three to six months. Let that market settle down. What was the need to get it done now versus waiting? And two, just on that, how much harder were the markets than you were expecting when you thought about this?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

I mean, we said publicly - we sort of said relative to our original models is probably a point-and-a-half on the debt. Right? When we sort of framed it out. And the fact of the matter is, when we looked at the risk, there's no guarantee about the debt markets in the future or the past. We were ready to go. We were structured to do it.

The organization is fine. We were able to manage the cash flow without impacting our strategy, and we said that was less risky than taking the other scenario, and frankly where it's time to move forward with the business so we chose to go.

You know, it was more difficult from a market standpoint, and our reception frankly was quite positive and we were very enthusiastic about the reception and the way people looked at the business, how they talked about our business model. The time they gave us. The amount of expression of interest. We just got a crummy market.

If you could tell me three - any of the months from now with certain what that market would be, then I could put that into the model and decide. But I don't know what it's going to be.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Timing the market just didn't seem to make, under the circumstances seemed the best option.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

It was a manageable model.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

It's a three year call -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Right.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

-- On the bonds. It's relatively short-term.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

We were well advised, and frankly, it run - you know.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Yes.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Run the analysis.

Unidentified Participant

Hi, can you just talk about the return hurdle for acquisitions and I guess in a technical way, how you calculate it?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

What I want to say publicly about our return hurdle is that we're focused on maintaining the quality of these businesses. And we're going to look at after synergy returns and the cash and EBITDA the acquisitions are going to generate, and frankly, sometimes those aren't so transparent.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

This is -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

That's how we're going to judge it. We're going to say, can we put it? Can we take the cost and get the kind of growth that we want? And is the quality of the margin and the growth in the business going to add to our profile?

And I mean, this is a business that has a very high return on invested capital and frankly, you've got to build that out of these acquisitions, not buy it.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Yes.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

So, that's how I think about it. That's how we've thought about it in the construction business, as long as I've been involved in it, and it's worked very well.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

And that will be part of the framework that we review with our board.

Unidentified Participant

I guess I'll ask it another way. What's your view on the cost of equity for this business?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

I guess we're going to find out.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

I don't understand the question. What was the question?

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

What's the cost of equity in this business?

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Yes, we're going to find out. You're exactly right.

Unidentified Participant

And on your debt covenant, you'd mentioned a 4.5 times -

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Net debt, yes.

Unidentified Participant

-- covenant. And that's the revolver and currents covenant?

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Right.

Unidentified Participant

Or is that the maintenance and term loan?

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

It's the maintenance covenant under the revolver.

Unidentified Participant

And then the last thing on CAPEX, the - I understand you want to give yourself room, not more than 4%. As you think about some of the technology investments that you're making over the next two, whatever years, is that going to ramp back down to 2%, or is it going to - should we all be thinking about closer to 4% as -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Frankly, if we can generate the opportunities we think we can on the information management, I'd be happy to run at 4%. And if we don't see the growth and return on that investment, we'll take it back down.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Yes. Plus we have that -

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

I'd be very happy - what we think we can do with those investments, I'd be very happy to be at 4%.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Yes.

PRESENTATION

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

Because they're going to grow the business. Anybody else? Well, we very much appreciate your time -

---

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Thanks, everybody.

Greg Poling - *W.R. Grace & Company - CEO of GCP Applied Technologies*

-- with spending with both businesses here. You've got great businesses and we look forward to talking to you in the future.

Dean Freeman - *W.R. Grace & Company - VP, CFO of GCP Applied Technologies*

Thank you very much.
