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EDITED TRANSCRIPT

GRA - Q3 2012 W. R. Grace & Co. Earnings Conference Call

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OVERVIEW:

GRA reported 3Q12 sales of $777m and adjusted diluted EPS of $1.04. Expects 2012 sales to be approx. $3.15b.

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CORPORATE PARTICIPANTS

Mark Sutherland *W.R. Grace & Company - VP of IR*

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

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

CONFERENCE CALL PARTICIPANTS

Rob Walker *Jefferies & Company - Analyst*

Mike Ritzenthaler *Piper Jaffray & Company - Analyst*

Mike Sison *KeyBanc Capital Markets - Analyst*

Jim Barrett *CL King & Associates - Analyst*

Patrick Duff *Gilder, Gagnon, Howe & Company - Analyst*

Chris Shaw *Monness, Crespi, Hardt & Company - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen,and welcome to the third quarter 2012 W.R. Grace & Company earnings call. My name is Karissa, and I will be your operator today. (Operator Instructions). As a reminder this conference is being recorded for replay purposes. I will now turn the conference over to your host Mr. Mark Sutherland, Vice President of Investor Relations. Please proceed.

Mark Sutherland - *W.R. Grace & Company - VP of IR*

Thank you, Karissa. Hello everyone , and thank you for joining us today October 24, 2012, for a discussion of Grace's third quarter 2012 results released this morning. Joining me on today's call are Fred Festa, Grace's Chairman and Chief Executive Officer; and Hudson LaForce, our Senior Vice President and Chief Financial Officer. Our earnings release and the corresponding presentation are available on our website . To download copies go to grace.com and click on Investor Information links are available in the upper right corner of the page.

As you know, some of our comments today will be forward-looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected or implied due to a variety of factors. Please see our recent SEC filings for more details on the risks that could impact Grace's future operating results and financial condition.

We will also discuss certain non-GAAP financial measures which are described in more detail in this morning's release and on our website. Reconciliations to the most directly comparable GAAP financial results and other associated disclosures are contained in our earnings release and on our website.

Our comments on forward-looking statements and non-GAAP financial measures apply both to the prepared remarks and to the Q&A. We want to remind everyone that this web cast contains time-sensitive information that is accurate only as of today. Any redistribution, retransmission, or reproduction of this call without Company consent is prohibited.

With that, I will turn the call over to Fred.

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

Thanks Mark. Good morning, everyone, and thank you for joining us. Our businesses delivered solid performance this quarter. Let me share with you what I liked about our results.

First, all three business segments delivered higher sales volume and improved base pricing. On a consolidated basis, we achieved organic growth of 5% in the quarter. For the year-to-date organic growth is 7% inline with our historical growth rates. Second, I continue to be very pleased with our performance in the emerging regions where sales increased 17% in the quarter. With weak economic conditions in the advanced economies our strong performance in the emerging regions validated our continuing investments there. Third, our margin performance continues to be strong. Gross margin in quarter three and year-to-date was 36.7% at the high end of our targeted range of 35% to 37%.

We took cost reduction action early in the year to ensure we properly positioned for the 2012 macro environment. Adjusted EBITDA margin increased 40 basis points year-over-year to 20.4% in the quarter. On a year-to-date adjusted EBITDA increased 80 basis points to 20.1%. We have achieved our 20% adjusted EBITDA goal one year ahead of schedule.

When we developed our 2012 operating plan last year, we knew that quarter three was going to be our most difficult quarter of the year. We knew we would have a tough comp against the strong 2011 third quarter due to the lower rare earth surcharges and the flow-through of rare earth inventory cost. We communicated these issue to you early and we worked hard to ensure our performance was as strong as possible.

As you know, we have set three long-term performance goals. Adjusted EBITDA of $850 million by 2014. Sales of $4 billion by 2014 , and cumulative three year adjusted free cash flow of more than $1.2 billion. We are well positioned to achieve these goals. What I also like is the potential of our targeted growth programs to lead to further growth opportunities down the road. Our business leaders recognize this and are ready to deliver.

As you know we are investing in FCC catalyst in the emerging regions including our Abu Dhabi joint venture and our catalyst acquisition in China,leveraging our polyolefin technology and investments globally,improving our product performance and competitive position in Materials Technology and capturing Construction Products growth in North American, emerging regions, and commercializing new technology in construction chemicals. Over the next 60 days to 90 days we will complete our 2013 operating plan. There is significant uncertainty in the global operating environment. Developing our plan, we will continue to focus on those things that are within our control and mitigate the risks of those thing that are not. We will share 2013 outlook and assumptions with you in early February.

Before I conclude my remarks, I would like you to bring you up to date regarding the most recent developments in our bankruptcy. The settlement with the Libby related claimants has been put in to affectresulting in the withdrawal of three appeals to our plan of reorganization. There are now five appeals pending before the Third Circuit We are in the middle of the briefing schedule which will be completed by year end . We expect the Court to hear oral arguments in quarter one. Following that, we will await the Courts ruling, which we continue to believe will be in our favor on all the appeals. Given this process , we view the fourth quarter of 2013 as the most realistic timing for emergence.

As I have stated in the past,operating in Chapter 11 is not a hindrance to our strategic plan or how we run the business. The only real impact has been on our ability to return cash to our shareholders. We will continue to keep you up to date as events unfold over the coming year.

I will now turn it over to Hudson to provide more specifics on the quarter.

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

Thank you, Fred. Please turn to pages four and five, and we will start with a quick review of Grace's overall results for the quarter. Page four shows the four key measures we use to evaluate our performance, and page five shows additional year-over-year and sequential comparisons.

Sales in the quarter were $777 million down 10% from last year. Organic growth of more than 5% was offset by lower rare earth surcharges of about 9%, and unfavorable currency translation of 6%, year-to-date organic growth has totaled 7%. Adjusted EBITwas $129 million down 9% from last

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year. Adjusted EBIT margin increased 20 basis points to 16.6%, and adjusted EBITDA margin increased 40 basis points to 20.4%. Good productivity and good operating expense control drove the growth in margins.

Adjusted free cash flow was $286 million for the year-to-date compared with $155 million last year. The growth in cash flow was due to improved working capital performance. Adjusted EBIT ROIC was 35% on a trailing four quarter basis compared to 33% in the prior year quarter. Adjusted EPS was $1.04 per diluted share.

Let's turn to Catalyst Technologies on page six. Third quarter sales for Catalyst Technologies were $299 million down 19% from the prior year quarter. Base pricing and sales volume increased 8%, but were more than offset by lower rare earth surcharges and unfavorable currency translation totalling $100 million or 27% of sales.

FCC catalyst base prices and sales volumes grew 13% in the quarter led by strong sales in the emerging regions. Sequentially FCC catalyst sales volumes increased 1% from Q2 to Q3 and 7% from Q1 to Q2. We are very pleased with the progress we have made replacing sales lost due to the previously announced refinery closures. This closures accounted for $22 million or 7% of sales in the 2011 third quarter. Polypropylene catalysts continue to grow double-digits. Sales of polyethylene catalysts decreased in the quarter however. Several large customers reduced their polyethylene catalysts inventories some by as much as 1 month to 2 months in response to weaker demand in Europe and slower growth in Asia.

Catalysts Technology gross margin was 40.5% for the quarter and 41% for the year-to-date. Segment operating margin was 30.8% an increase of 40 basis points year-on-year and 30 basis points sequentially. The cost of the Q2 plant turnarounds are behind us and margins have improved.

Our share of ART's net income was $5 million down $1 million from last year reflecting the lumpy order patterns typical of this business. For the first nine months ART's net income was up 5%. We expect ART to have a good fourth quarter with earnings up double digits for the full year. We expect continue growth in catalyst sales volume in Q4 and continued improvements in base pricing , but this organic growth will be more than offset by approximately $90 million of lower rare earth surcharges, unfavorable currency translation, and the impact of the previously announced refineries closures. We have begun engineering work on the Abu Dhabi regional FCC catalyst plant, and continue to expect the plant to start up in 2015. We recently received the required Chinese government approvals for the Noblestar Catalysts acquisition and we expect to close in Q4.

Let's turn to page seven for Materials Technologies. Third quarter sales for Materials Technologies were $214 million a decrease of 3% compared with the prior year quarter . Organic growth totaled 5%, but was more than offset by $18 million of unfavorable currency translation. Emerging region sales volumes increased approximately 10%, lead by strong demand for engineered materials and packaging products. Sales in the advanced economies were weaker however especially in Europe where demand slowed notably at the end of the quarter. We are more cautious about demand in Europe than we were 90 days ago.

Gross margin was 32.8% compared with 33.3% in the prior year quarter and 33.5% in the 2012 second quarter. The decrease in gross margin primarily reflects $2 million in cost related to the Q2 plant turnarounds. We expect gross margins to return to prior quarter levels in Q4. Although earnings in the this segment were weaker than we wanted , we remain pleased with our progress in this business . Organic growth is up, underlying gross margins are up , and our business leadership team is laying strong foundations for solid performance . We are on the right path to deliver improved gross margins and operating margins through 2014.

Please turn to page eight for Construction Products. Third quarter sales for Construction Products were $263 million a decrease of 4% compared with last year. Pricing improved 1%, and sales volumes grew 1%. Sales in North America were impacted by reduced demand for our residential reroofing products due to last year's mild winter and the early start to this year's reroofing season.

Sales of specialties construction chemicals increased approximately 4% after growing 14% in the prior year quarter. Sales in Western Europe were impacted by unfavorable currency translation, continued market deterioration, and our decision to exist low margin businesses in the region. We remain cautious about construction activity in Western Europe.

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Emerging regions sales growth was strong, and we continued to be excited about our opportunities there. Sales in the emerging regions grew 13% in the quarter and are now 35% of segment sales . Latin America, the Middle East and emerging Asia all posted double-digit sales growth year-over-year.

We completed the (Inaudible). acquisition in the quarter and are very pleased with the early results there. The acquisition was accretive to operating income in the quarter. The integration is on schedule, and we are confident in achieving our targeted synergies. Segment gross margin improved 90 basis points to 35.4%, and segment operating margin improved 280 basis points to 13.9%. Segment operating income grew 22% to $37 million this segments best quarter for operating income since the 2008 third quarter. Construction Products delivered very good earnings growth this quarter driven by good operating leverage in North American and in the emerging regions and improved profitability in Europe.

Let's turn to our all outlook on page nine. Consistent with our comments last quarter, we are narrowing our 2012 adjusted EBIT outlook to $510 million to $520 million an increase of 6% to 9% over 2011. We expect adjusted EBITDA to be in the range of $630 million to $640 million. Our business fundamentals are solid , but the economic environment continues to be challenging. Polyethylene markets have softened, Europe is weaker than we expected 90 days ago, and the pace of U.S. commercialconstruction activity remains uncertain.

Here are some of the updated assumptions for our outlook. We expect full year sales of approximately $3.15 billion . In Q4 we project the total impact of lower rare earth surcharges , the stronger dollar, and previously announced refinery closures to be about $110 million compared with Q4 of last year. We expect our gross margins to continue to be at the higher end of our 35% to 37% target range , and we expect our expense productivity initiatives to continue. We expect an average Euro exchange rate of $1.28 per Euro for the fourth quarter compared with an average of $1.34 per Euro for Q4 2011. We expect a full year effective tax rate of 33.0%, and we project about 77 million diluted shares outstanding.

Two final notes before we open the call for your question. Corporate costs declined 16% year-on-year . We started 2012 with a strong emphasis on cost and that approach has paid off as economic uncertain as has increased during the year. On taxes we are pursuing a purposeful strategy of maximizing the present value of all of our tax attributes including current year attributes and the NOL we generate at emergence . With the delay in our bankruptcy, we have the opportunity to reassess our tax strategies for 2012 and 2013. To maximize the value of our current tax attributes we may elect to pay between $30 million and $50 million in U.S. federal income taxes this year. If we do , our cash tax rate would increase from 13.5% year-to-date to about 23% for the full year. We are still evaluating our opportunities and these amounts may change.

With that, we will open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And your first question will come from the line of Laurence Alexander of Jefferies. Please proceed.

Rob Walker - *Jefferies & Company - Analyst*

Good morning. This is Rob Walker on for Laurence.

Mark Sutherland - *W.R. Grace & Company - VP of IR*

Hello, Rob.

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Rob Walker - *Jefferies & Company - Analyst*

First, can you help quantify the various year-over-year headwinds to catalyst EBIT in the quarter? You have done a good job highlighting them qualitatively, or if it is easier once these headwinds past, what do you believe is a normalized profit run rate in the segment?

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

You want to talk about the surcharge sales headwind?

Rob Walker - *Jefferies & Company - Analyst*

Profits this quarter were down about $20 million year-over-year . If you could help bridge that $20 million versus inventory costs, (Inaudible) turnaround.

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

I am sorry. Okay. On the sales line hopefully we are clear there it is $100 million lower rare earth surcharges and the unfavorable currency. What is flowing through on the earnings line are these capitalized rare earth inventory costs that are finally flushing through. I think as we discussed earlier as we were buying rare earth last year, we were buying it at higher values than current costs and we were buying more rare earth. We are FIFO accounting company, so as the rare earth costs have come down and our quantity of rare earth owned has come down then that has flowed through those capitalized cost.

Rob Walker - *Jefferies & Company - Analyst*

Sure. Can you help quantify what that impact was versus the 20 million delta year-over-year.

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

It is the lions share of the delta, Rob.

Rob Walker - *Jefferies & Company - Analyst*

Okay. So maybe for a normalized profit we could add that in and you think that would be more of a normalized run rate?

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

On a normalized profit basis our gross margins have run 41% year-to-date, that is what we expect them to be for the full year and our EBIT margins I think are 31% thereabouts year-to-date, and you can assume that is a normalized level.

Rob Walker - *Jefferies & Company - Analyst*

Thanks. As a follow-up on GCP. Very good quarter. How much the profit improvement was due to action you have taken in Europe to exit some of the lower margin businesses, and where do you see margins going near term, and then on a longer term basis where could they be peaking relative to the prior peak?

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

Rob, this is a Fred. I really like what we have done in construction products and how we have positioned it , and the actions the team have taken. Even on reduced volumes in Europe our profitability was up modestly from this year to last year. At an operating margin of 14%, we have said with a full recovery -- that was about the average 14%, 15% in the past. We said with a full recovery there was no reason that this segment could not be in the 18% as high as 20% operating margin perspective.

Where we sit today is we like what we have done in the emerging regions. They have grown very nicely for us. In North American the residential recovery is just starting . We generally will tell that with our chemicals tell that by at least six months because the building that accompanies that will really be in the residential side. In the commercial construction activity in North America that did take a little bit of a pause, and we are not sure if that is just because of some of the uncertainty out there around financing or whatever, but it has taken somewhat of a pause. There is no reason to think that will not come back either.

Again just to recap , I like what we are doing the growth in the emerging. I like the leveraging up on the volumes especially in both Europe as well as North American , and I like the costs that we have taken out that allow us to have this 300 to 500 higher basis points of margins going forward.

Rob Walker - *Jefferies & Company - Analyst*

Thanks I will jump back in queue.

Operator

Your next question comes from Mike Ritzenthaler of Piper Jaffray. Please proceed.

Mike Ritzenthaler - *Piper Jaffray & Company - Analyst*

Good morning. Breaking down the revenues geographically the nearly 40% of sales in emerging regions is encouraging for the total Company sales. I was wondering if you could provide a little context around emerging region growth in catalyst with ex surcharges since volumes were resilient, pricing was strong , and perhaps touch on how those regions are shaping up versus your strategy for capacity expansion since you have mentioned Abu Dhabi and China.

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

Mike this is a Fred. We feel very good about the positioning. Listen when we lost the refineries or the closures the shutdowns earlier in the year we didn't feel good about that, but in the end what is playing out is, the refineries in the advanced economies; Europe and North American, are running at higher utilization rates. That means ultimately they are going to use more catalyst as they run at higher rate. In addition we have been able to get our growth on the FCC catalyst as well as the hydroprocessing side in the emerging regions both the Middle East as well as Asia. That has been very supportive of the strategy that we have, and as you know, we expect to continue to grow in China as well as the Middle East with the investments we are making.

Mike Ritzenthaler - *Piper Jaffray & Company - Analyst*

That makes sense. It looked like free cash this quarter and looking at the trailing nine months was particularly good. My question is around how much further the improvements and efficiencies in working capital can be pressed in general before the supply chains start to see some stress?

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

If you look I think we were at 63 days networking capital at the end of the third quarter. That is not world class yet. If you look at that compared to what we have done on some others, we think we can break the 50 day barrier and we will reevaluate it. Given our manufacturing assets positioned around the globe helps us dramatically. Having FCC plants in North America as well as Europe having assets in the silica side around the world as well as the construction dramatically helps. We will continue to push on that and there is no reason that we will not get that working capital down below 50 days, and we will see where it goes from there. I feel good about.

Mike Ritzenthaler - *Piper Jaffray & Company - Analyst*

As a follow up to that, are there other levers that can or need to be pulled on the corporate level to hit that $1 billion plus free cash target?

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

No, it is really about the profitability; growing to the $4 billion of sales , having that gross profit margin in the 35% to 37% range, and managing our working capital effectively.

Mike Ritzenthaler - *Piper Jaffray & Company - Analyst*

Great. One last one from for me. On the cost reduction initiatives that you started earlier this year have they largely played out , or are we still in the seventh or eighth inning, and are there new initiatives that you can envision to drive further efficiencies?

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

Mike, this is Hudson. The actions that we took were announced at the beginning of this year largely in the Q3 P&L. We executed quickly on that, but we are continuing to look at new opportunities. There was a restructuring charge in Q3. It wasn't much, I do not actually have the number, $1 million to $2 million I think reflects continue repositioning of our manufacturing footprint primarily in Europe this quarter. We did some things in Europe this quarter to continue to fine tune our manufacturing footprint in Europe , and we are looking at other opportunities to continue to take costs out where we can.

Mike Ritzenthaler - *Piper Jaffray & Company - Analyst*

All right. Perfect. Thanks guys.

Operator

Your next question comes from the line of Mike Sison of KeyBanc. Please proceed.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Hi guys. Nice quarter.

Mark Sutherland - *W.R. Grace & Company - VP of IR*

Hi, Mike.

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Mike Sison - *KeyBanc Capital Markets - Analyst*

In terms of your outlook for 2012 it would imply the fourth quarter is going to have pretty good earnings growth relative to most in the sector that are going to struggle to do that. Fred, could you give us a feel for maybe in each of the segments where you see the growth coming from?

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

Yes, thanks Mike. If you think of the catalyst side as Hudson said we will get growth in both the FCC as well as the hydroprocessing in the fourth quarter. Our polypropylene catalyst should continue to grow double digits in to the fourth quarter. The polyethylene, which we talked about was impacted in the third quarter, we are cautious about that. We know customer maintain about three to six months of our catalyst inventory, and we saw it in the Middle East and Europe then take it down to one to two.

So we are cautious not projecting that they will go back to that level. That would be an upside if they did. If you think about our materials business we are generally looking at relatively flat between the third and fourth quarter maybe some growth in the emerging regions may be offset by some of Europe. And on the construction you get the seasonality affect because of weather in the northern hemisphere, but we are still expecting some good growth based on leveraging and the emerging region growth on both revenue and profitability.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay. Great. And then in terms of these rare earth costs, can you give us an update of where they are at now and where you think they are going to go if that is even possible?

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

Mike, they have retrace probably 90%, 95% of the run up. They are almost to the level that they were a couple of years ago. In terms of future direction we don't know. We don't claim to have a crystal ball on this. For our business the best is certainty . Whether it is at a low level or high level, it is better for us to have a predictable level of rare earth that helps us serve our customers best , but we do not have a view up or down.

Mike Sison - *KeyBanc Capital Markets - Analyst*

If the pricing stays stable through the end of year, than the negative impact would end?

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

From what is in our actual P&L yes , but we will have the year-over-year affects through the first half of next year. The rare earth surcharge started to really come down the first part of this year. Q3 was a big step down, Q4 will be a big step down, so you have the year-over-year compare issue. But what is actually in our P&L will be very, very small by the end of this year.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Got it. Fred, you rolled out a lot of exciting new products in FCC catalyst using lower rare earth are those technologies still accepted by customer? Are they asking to go back? Can you give an update on that?

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

We did as you said, and we feel very good about it. As a matter of fact, we are continuing to reformulate some new grades of FCC product that will have a balance of both in it. You will see us continually to do that, and we will be rolling those out during the fourth quarter and the first quarter.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay . Last question, you gave us a little bit more color on the 2014 goals the (Inaudible). acquisition and such. But if you think about the organic upside potential to 2014 , do you feel pretty good about being on that track despite what we are seeing in the economy and such?

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

It is clear the economy has slowed somewhat in the third quarter specifically Europe, but as we look to 2014 we still feel good about that outlook that we have and I feel good about the programs we have behind it and I feel good about the investment side.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Jim Barrett of CL King & Associates . Please proceed.

Jim Barrett - *CL King & Associates - Analyst*

Good morning everyone.

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

Hi, Jim.

Jim Barrett - *CL King & Associates - Analyst*

Fred, a question for you on North American specialty construction chemicals. Cement and concrete prices are starting to rise at least regionally has that historically provided your business with an umbrella to raise prices or do you need something more than that to justify a price increase to those industry?

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

Is a great question. And obviously , Jim, you have been around the block on this before. Generally when cement prices raise it means two things; it means volume should be following, as well as for us historically it has been able to enrich the pricing on the chemical side. So we are obviously looking at that as those announcements take place.

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Jim Barrett - *CL King & Associates - Analyst*

I see. OkayAnd then on a separate subject, the inventory destocking you are seeing in polyethylene catalyst any sense as to how much more potential room could there be for your customers to liquidate inventories? Is there a minimal weeks supply they need to operate their plants? If you could just give us a general perspective on that.

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

As I said generally depending on the region they will keep up to six months, three to six months, of inventory on the specialty catalyst the key component. We think selectively it was reduced one to two. Supply chains have been getting shorter, but I generally feel without another economic downturn it has reached the level of where it is going to be. If there is a dramatic downturn that would affect these units to stop obviously they would relook at it, but I think it is a correction that has been leveled off.

Jim Barrett - *CL King & Associates - Analyst*

Okay. That is very helpful. Thank you very much.

Operator

Your next question comes from the line of Patrick Duff of Gilder . Please proceed.

Patrick Duff - *Gilder, Gagnon, Howe & Company - Analyst*

Good morning , guys. Thanks very much . I had a couple of questions, I will try not to take up too much time. First, I never would have thought we would still be in bankruptcy now , but , Fred , I think you have given a very conservative outlook of how much longer this may take. The question is, if by some chance -- and I do not know why , but if by some chance the emergence did not occur by Q4 of next year, would that in any way impact the 2014 objectives? Where I am going on that is, you continue to have a sub optimum capital structure and the longer you are in bankruptcy you talk about returning cash to shareholders or making better use of the cash and your balance sheet is hindered by the bankruptcy, so if for any reason there is a delay could that potentially impact the 2014 goals?

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

Pat, we believe the answer to that is no. And let me clarify. What we are unable to do is pay a dividend or buy our share back to return cash that way. But the cash that is on our balance sheet to be able to use strategically for investments, acquisition that has not been impacted, and I don't see that being impacted whether we emerge in the fourth quarter or the first quarter of 2014. We have proven and we have worked through this process long enough, quite long enough , that our capital structure does not hinder us from operating.

Patrick Duff - *Gilder, Gagnon, Howe & Company - Analyst*

Okay. Great. Thanks for that. I want to turn attention to Europe. In a couple of the segments you called out the particular weakness in Europe . Hudson, you said your outlook there is deteriorated from what it was 90 days ago. If we looked at the overall decline in sales for the EMEA segment, how much of that is the surcharge embedded in that particular geographic region as opposed general economic conditions? If I remember , it was like a 17% decline in the EMEA segment of the Company. So how would broke that between surcharges and then just normal business?

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

There is a surcharge components of that, Pat. I don't have the specific number. But what you are also seeing is a stronger dollar. A big piece of that is the year-over-year change in the Euro, dollar exchange rate. And we did exit some businesses in Europe that is affecting the year-over-year. This is decisions that we made in the construction business. We actually closed a plant, a construction chemicals plant, in Southern Europe that is in the year-over-year compare, and we walked away from low margin business in Southern Europe that is in the year-over-year compare. So the effects are much bigger , currency surcharge these pull back we have done in construction then it is a downturn in the economic environment in Europe. As you know, I think European varies country by country, but they are at zero, some countries are slightly negative some are slightly positive . That is about 1 point worse than what we thought at the beginning of this year. The macro environment is softer, but the bigger effects are these other items we have been talking about.

Patrick Duff - *Gilder, Gagnon, Howe & Company - Analyst*

Okay. What I am thinking here is, as you sit down to do the budgets for next year, you said you may be a point behind where you thought things were going to be this year, but it seems that some segments of the economy over there have had such a dramatic contraction over the last 90 days or so that they may just start bottoming from a standpoint of they have just contracted so much. Not getting into the budget, but what are you thinking about the European business looking into next year?

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

Let me give you a little , Pat, some qualitative around it. We like the positioning of the refining catalyst business. I think ultimately the shutdowns are going to help , will help going into next year as refineries higher utilization on the catalyst side. On the Materials Technology side across the board , to your earlier question, we think it is 1% to 2% in that range where it has gone. So if it bottoms and comes back, that would be great. We like how we are positioned there and we like how we are positioned on the margin side. We are assuming and we are counting on improved margins in that business going forward.

In the construction business we have taken it down to a level where any bounce as you saw we were down dramatically on volume there in the third quarter and still increased our profitability so any bounce at all will help us on that side. For us Europe is a big piece of the equation , but you have to remember a lot of the European production gets exported out of there as well exported to the Middle East exported to Eastern Europe , so what actually gets consumed there is less than what you would see on a piece of paper.

Patrick Duff - *Gilder, Gagnon, Howe & Company - Analyst*

Okay. Great that is really helpful , Fred. I appreciate your thoughts. Thanks again guys all you have done for the shareholders.

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

Thanks , Pat.

Operator

And your next question comes from the line of Chris Shaw of Monness Crespi. Please proceed.

Chris Shaw - *Monness, Crespi, Hardt & Company - Analyst*

Good morning, guys. How are you doing?

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

Hi, Chris.

Chris Shaw - *Monness, Crespi, Hardt & Company - Analyst*

If I could just drill down a little bit more in to the FCC demand or the volumes there. They seem pretty good for the quarter and your competitor had pretty good volumes . I know you attribute some of it to emerging markets. It seems higher than I would think overall fuel demand would be, so do you know what is happening there? Are there new plans that came online? Is it some sort of loading , or is it really fuel demand that high in those regions?

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

It is a combination of the new plants that have come online in China we are participating in that, Middle East as well as India coupled with in the advanced economies utilization rates of these catalyst are up. As these plants run higher and as we look at our customers margin the refinery margins are up. The third quarter our customers margins were up, so they are running these units harder and are using obviously more catalyst on a volume basis.

Chris Shaw - *Monness, Crespi, Hardt & Company - Analyst*

Okay. Good. And then this is for Hudson. On the -- probably do not know the account well enough , but the voluntary paying some taxes in the U.S. what does that actually do? Does that save you some money in the future? I was not clear what was going on there.

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

Sure. This has to do with the way the tax code treats the use of NOL. The tax code gives a priority to NOLs over other tax attributes , meaning you have to use the NOLs first. Other attributes that we have would have been pushed off in to the future and could even have expired and then some attributes are not available if you are in a NOL position. We thought we would been in a NOL position this year because of the timing of emergence that is obviously pushed off to next year, and that free' s up those tax attributes to be used this year. Another quirk of the code is though is to be able to use these attributes you actually have to pay some amount of tax.

What we are trying to do is figure out what is the right amount of tax to pay this year to maximum the present value of the current tax attributes balance against the present value of the NOL. And our purpose was to give you a heads up on this. It is a work in process obviously, but we didn't want you to be surprised if we did decide to pay some taxes this year.

Chris Shaw - *Monness, Crespi, Hardt & Company - Analyst*

Okay. Sounds good. Thanks.

Operator

(Operator Instructions). And your next question is a follow-up from the line of Laurence Alexander of Jefferies. Please proceed.

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Rob Walker - *Jefferies & Company - Analyst*

Hi, guys. It is Rob Walker again. Most of my questions have been answered just one or two things to follow-up on. In FCC catalyst you lost about 7% of volume sequentially , the 22 million, you still managed to grow 1% sequentially so core volumes were up roughly 8%. Is that distorted due to the Q2 turnaround , or is the point that higher utilization rates are making the delta? It feels like you are shaping up for a very good volume year 2013.

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

One point of clarification, Rob, the 7% headwind was a year-on-year headwind, and the sequential growth was 1%.

Rob Walker - *Jefferies & Company - Analyst*

Okay. But the volume order you lost was mostly started in Q3 you had some lost in Q2, right? So most that of that would have occurred in Q3.

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

Yes most of it, but there was still a significant impact in Q2 because there were refineries closures in Q1. We had expected those , and those were in our expectations for the year. We talked about one refinery closure in Q2 that we did not expect at the beginning of the year, but there was already a year-over-year headwind in Q2 .

Rob Walker - *Jefferies & Company - Analyst*

Okay. Thanks. So core volumes are up much less than that?

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

Yes , but the broader point from our perspective is we have made very good progress replacing the volume we have lost because of these plant closures.

Rob Walker - *Jefferies & Company - Analyst*

Okay . In following up on that point because of that progress would you assume that looking into Q1 which is normal a seasonal down quarter for you guys as you are seeing new winds and maybe more emerging regions replace that developed regions is it possible you could see an abnormal seasonality and have that up sequentially?

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

It is certainly possible , Rob, but we are not going to talk about 2013 yet.

Rob Walker - *Jefferies & Company - Analyst*

Okay. The last thing was you talked a lot about polyethylene catalyst and volumes just on price has the volume weakness affected your ability to hold price there and was price up either sequentially or year-over-year this quarter? Thanks.

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

It does not affect our pricing and our pricing is improving.

Rob Walker - *Jefferies & Company - Analyst*

Great. Thanks, guys.

Mark Sutherland - *W.R. Grace & Company - VP of IR*

Thanks, Rob.

Operator

And there are no further questions. At this time I would like to turn the call over to Mark Sutherland for closing remarks.

Mark Sutherland - *W.R. Grace & Company - VP of IR*

Thank you, Karissa. I want to thank everyone for joining us on today's call . I am available for follow up questions. Please feel free to reach me on my direct line (410)531-4590. Again, thank you for joining us today.

Operator

Thank you very much. This concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.

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