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GRA - Q4 2011 W. R. GRACE & CO. EARNINGS CONFERENCE CALL

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OVERVIEW:

GRA reported full-year 2011 sales of $3.21b and adjusted diluted EPS of $3.94. 4Q11 gross profit was $287m and adjusted diluted EPS was $0.89. Expects 2012 sales to be $3.25-3.35b.

CORPORATE PARTICIPANTS

Mark Sutherland *W R Grace and Co - VP IR*

Fred Festa *W R Grace and Co - Chairman & CEO*

Hudson La Force *W R Grace and Co - CFO and SVP*

CONFERENCE CALL PARTICIPANTS

Mike Sison *KeyBanc Capital Markets - Analyst*

Rob Walker *Jefferies & Company - Analyst*

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PRESENTATION

Operator

Good day ladies and gentlemen. Welcome to the fourth quarter 2011 WR Grace and Company earnings conference call. My name is Deanna and I will be the operator for today. Later we will conduct a question-and-answer session. (Operator Instructions) As a reminder today's call is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Mr. Mark Sutherland, Vice President, Investor Relations. Please proceed.

Mark Sutherland - *W R Grace and Co - VP IR*

Thank you, Deanna. Hello, everyone and thank you for joining us today, February 1, 2012, for a discussion of Grace's fourth quarter results released this morning. Joining me on today's call are Fred Festa, Grace's Chairman and Chief Executive Officer; and Hudson La Force, 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 on 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 conditions. 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 measures 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 question-and-answer. We want to remind everyone that this webcast 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 now turn the call over to Fred.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Thanks, Mark. Hello everyone and thank you for joining us this morning. Before we discuss the results for the quarter, and our outlook for 2012, and 2014, I would like to bring you all up to date on our most recent developments pertaining to our Chapter 11 emergence. First, as announced

Tuesday morning, the US District Court denied all objections and confirmed Grace's plan of reorganization in its entirety. The court's ruling is quite extensive, more than 180 pages, the ruling appears quite robust. Though our team is still in the early stages of review, we are gratified that two federal courts have now ruled that our joint plan is fair to all parties. The parties have 30 days in which to file appeals of yesterday's District Court ruling.

Second, last night we announced an agreement in principle, with the claimants in Libby, Montana, and certain other parties, to settle all Libby related objections to our plan of reorganization. We're excited about this agreement, because it eliminates further appeals from these parties. This agreement in principle is subject to the execution of definitive agreements and approval of the Bankruptcy Court. The news of the past 24 hours represents a dramatic advance in our path to emergence.

Keep in mind that emergence depends on a number of factors, including whether there are any further appeals to the joint plan and whether Grace may emerge with those appeals outstanding. But, it is due time to put the plan into effect so that money can be begin to flow to claimants who have been waiting to be compensated, and we can move forward as well. There is not much more than we say on these developments at this time, so please understand if we are not able to completely address your questions. As material developments occur in this process, we will keep you informed and if necessary, schedule a teleconference to review these with you.

Now let me turn to the business and discuss our 2011 performance. I am very pleased by our strong finish to the year with solid contributions from both business segments. For the full year, sales increased 20% to $3.21 billion, adjusted EBIT increased 47% to $479 million, which was the top end of our outlook. Adjusted EBITDA increased 35% to a $599 million, and adjusted EBITDA margin improved 210 basis points to 18.6%. For me, these superior financial results demonstrate our organizations agility and focus in addressing last year's challenges.

Although we enter 2012 with a number of economic uncertainties, we are very well-positioned. In addition to our historical strength, I would like to highlight three points. We have the right exposure to the emerging regions which are expected to grow two times mature markets. In 2011 these emerging regions represented 32% of our revenue. In the last 18 months, we have invested $140 million in plant capacity that provides us with either new products or productivity improvements necessary for market success. And we are disciplined in our cash and working capital management which provides us with the financial flexibility necessary to fund our growth plans.

Based on our annual operating plan recently approved by the board, our outlook for adjusted EBIT is in the range of $510 million to $530 million, an increase of 6% to 11%, compared with 2011. And we project adjusted EBITDA in the range of $630 million to $650 million, representing a midpoint margin of more than 19%. Our 2012 plan assumes that overall demand growth continues, but with some slow patches for certain products and geographies. We expect modest volume growth in the US and potential volume declines in Europe, and we expect emerging market growth to continue although at a slower rate than this year.

Earnings should be fairly resilient given our pricing opportunities and the flexibility of our manufacturing operations. Longer-term, we are sending a new earnings goal of $850 million in adjusted EBITDA by 2014 which represents a 12% CAGR from our 2011 results. Last quarter, I put a stake in the ground, and we will continue to grow by building on the success we have achieved over the last several years. Specifically our growth in earnings. Global market conditions will no doubt be a factor, but we will drive earnings with our new products, our new capacity investments, and our productivity efforts.

Hudson will provide additional comments on our 2012 and long-term outlook, later on the call. In closing, I'd just like to reiterate my confidence in our organization. Based on our demonstrated track record over the last several years, I like our odds for success, not only in 2012, but for the long-term. With that, here is Hudson.

Hudson La Force - *W R Grace and Co - CFO and SVP*

Thank you, Fred. Please turn to page 5 and we will start with a quick review of Grace's overall results for the quarter. Sales increased 19% due to improved pricing and higher sales volumes, while currency translation was slightly unfavorable. About two-thirds of the pricing increase was due to the rare earth surcharges and our refining technologies business, and about one-third was due to base price increases achieved across all of our businesses. Gross profit increased $287 million, up 19% year-on-year, and gross margin was 34.8%. The year-on-year increase in gross profit dollars was due to improved pricing and sales volumes, partially offset by higher raw materials costs. Gross margin for the year was 36.1%, an improvement of 80 basis points, compared with 2010.

Adjusted EBIT increased 36% to $108 million, largely driven by higher sales. Adjusted EBITDA increased 28% to $138 million as adjusted EBITDA margin improved 120 basis points to 16.8%. For the year, adjusted EBITDA margin was 18.6%, an increase of 210 basis points from 2010. Adjusted operating cash flow was $127 million for the quarter, and $417 million for the year, an increase of 13% over 2010. Adjusted EBIT ROIC was 35% on a trailing four quarter basis compared with 27% in the prior year quarter. Adjusted EPS increased 44% to $0.89 per diluted share. As detailed in the appendix to this presentation, we made adjustments to EPS for Chapter 11 and asbestos related costs, for restructuring charges, and divestment expenses, primarily related for the repositioning of our construction products business and for discrete tax items. Adjusted EPS for the year was $3.94 per diluted share, a 50% increase compared with 2010.

Let's review our results in more detail beginning with Grace Davison on pages 6 and 7. Davison's fourth-quarter sales increased 21% as improved pricing more than offset a small decline in volume. Gross profit increased 22% and gross margin improved 20 basis points to 35.8% as improved pricing and productivity more than offset the impact of raw material inflation and lower sales volumes. Segment operating income was $130 million, up 27%, driven by a higher sales and slightly higher gross margin.

Sales in our Refining Technologies business increased 45% due to improved pricing, which more than offset a small decline in sales volumes. Pricing includes the effects of the rare earth surcharges first implemented in Q4 2010. Nearly 80% of our FCC catalyst customers have now adopted at least one of our low or no rare earth catalysts formulations, up from about 70% at the end of Q3. Initially introduced to reduce rare earth costs at equivalent performance, these catalysts have been well received by customers, who continue to use them even as rare earth costs have decreased. The small decline in sales volumes for refining technologies reflects some slower demand in North America late in the quarter, and a tough compare due to particularly strong orders in Q4 2010. For the full year, refining technologies sales volumes were up 3%, in-line with the global growth for FCC catalysts. Our market position remains within our historical leadership range.

Let's move on to our Materials Technologies business. This business' sales increased 1% as a 5% increase in prices more than offset a 4% decline in sales volumes during the quarter. We saw a decrease in customer demand for packaging products in the mature markets in Q4. We lost some volumes to packaging customers as we raised prices to recover significant material cost inflation. In engineered materials, we saw strong volume gains in consumer end uses, modest gains in industrial end uses, and down the volumes in coatings. Weak volumes in this business reflect weaker economic conditions in Q4 and inventory positioning by customers before year-end, particularly in the Europe. We are confident in our ability to increase our sales volumes in 2012, particularly given our new silica products and capacity. Our new silica capacity in Latin America and Asia are targeted primarily for renewable diesel refining and consumer applications. Demand for these higher value applications remains strong.

Our Specialty Technologies business continued its solid growth with sales increasing 8% for the quarter and 11% for the year. Sales of our polypropylene catalysts continue to grow at double-digit rates due to our strong position with Middle East producers who continue to operate at high utilization rates. Operating margins improved as favorable pricing, sales volumes, and manufacturing performance more than offset increased manufacturing fixed costs resulting from our recent capital investments. Commercial trials for our new polypropylene catalysts are now underway at our recently expanded facilities in Worms, Germany and Albany, Oregon. These investments will provide needed capacity for continued double-digit growth in 2012.

Please turn to page 8 and we'll discuss our Construction Products business. GCP sales increased 14% in the quarter due to higher sales volumes and improved pricing, which offset a small unfavorable impact from currency. Gross profit increased 11% to $83 million, and segment operating income increased 4% to $21 million. This was the segment's fourth consecutive quarter of year-on-year improvement in sales, gross profit, and operating income. Sales in North America and the emerging regions each grew 15%. We continue to execute our growth strategies in these markets, and we have won a number of high-value commercial and infrastructure bids, including significant opportunities in Latin America, the Middle East, and Asia. Sales of our specialty building materials products grew 18% in the quarter, excluding our Q3De Neef acquisition. Including the De Neef acquisition, sales of these products grew 35% in the quarter. The acquisition was modestly accretive to EBIT and EBITDA after all acquisition and synergy costs incurred in the quarter.

Construction chemical sales in Europe declined 5% with particular weakness in southern Europe. We do not forecast a near-term recovery in southern Europe and in Q4 announced the restructuring of our concrete chemicals business in Spain and Portugal. Gross margin was 32.7% for the quarter and segment operating margin was 8.4%. Improved pricing and productivity are not fully offsetting the combined impact of higher raw material costs and additional operating costs of new plants in the emerging regions. For the full year, gross margin was 33.8% and operating margin was 9.8%. We achieved good operating leverage in the Americas and Asia, where demand has been growing, but margins remain low in Europe where demand is still weak. Repositioning actions completed in Q4 will improve our operating margins in 2012, but we do not expect to achieve our 12% operating margin target until conditions in Europe stabilize or improve. We remain focused on profitability in mature markets and growth in the emerging regions.

A few final comments on Q4, before we turn to our 2012 outlook. We recorded a charge of $16 million in Q4 for the estimated cost of additional asbestos remediation at 7 former vermiculite processing sites. These 7 sites were previously closed and EPA had stated that no further action was needed. In Q4 however, EPA informed us that further remediation was required. We expect to complete the remediation over the next two years.

On taxes, our book effective tax rate for the year was 32.5% but, we focused more on our cash tax rate, which was 10% for the year. Adjusted operating cash flow was $127 million for the quarter, and $470 million for the 12 months, an increase of 13% from last year. Net working capital days were 59 days at the end of the fourth quarter, and 55 days when adjusted for higher rare earth costs, down from 62 days at the end of third quarter. Adjusted operating cash flow includes $142 million of capital expenditures for the year up 25% from last year. Last, cash and cash equivalents, including restricted cash that will be released in emergence, totaled almost $1.2 billion at the end of the quarter. Cash grew by over $70 million during the year after deducting almost $200 million for capital expenditures and acquisitions and $265 million of pension contributions. Our liquidity and cash generation continues to be very strong.

Let's turn to our 2012 outlook on page 9. As Fred said earlier, our 2012 outlook for adjusted EBIT is in the range of $510 million to $530 million, an increase of 6% to 11% compared with 2011. We project adjusted EBITDA in the range of $630 million to $650 million. We expect sales to increase $3.25 billion to $3.35 billion. We plan to manage our businesses to achieve balanced sales growth during the year, with a 4% to 5% increase in sales volumes and a 4% to 5% increase in base pricing. We expect to increase sales volumes in businesses where we have introduced significant new products and added new capacity, and we expect to improve pricing in those businesses where we have the strongest technology and market positions.

We expect these increases in sales volumes and pricing to be offset however, by a significant decrease in rare earth surcharges and unfavorable currency translation. At current market rates, the rare earth and currency headwinds total over $200 million for 2012. We expect gross margins to remain in our 35% to 37% target range. We expect raw material inflation to moderate from 2011, with total inflation in the low single digits for the year. We assume our book effective tax rate for 2012 will increase slightly to 33% largely due to changes in regional earnings mix. More importantly, we expect our cash tax rate to remain low at 12%.

The US dollar strengthened significantly against the euro at the end of last year and is now trading in the low $1.30s. Our outlook assumes an average dollar euro exchange rate of $1.30 for 2012, compared with an average of $1.40 for 2011. In addition to the sales impact, the stronger dollar against the euro and other currencies is a headwind to earnings growth of about $20 million in 2012.

We expect pension expense to increase to $78 million, from $63 million in 2011, due to the significant decrease in long-term interest rates. Our plan assets performed well in 2011 returning over 7% for the year. But that is more than offset by the decline in discount rates which impacted our underfunded position and increased our 2012 pension expense. Together, currency and pension earnings headwinds total about $35 million and reduce our earnings growth rate by roughly 7 percentage points. We are focused on mitigating this impact through increased productivity in our manufacturing operations and reduced operating expenses.

Turning to cash flow, we assume that adjusted operating cash flow will be in the range of $500 million to $520 million, an increase of about 20% from 2011. As you know, we put a significant priority on managing for cash and will continue to do so in 2012. Managing for cash is even more important during times of increased volatility. We expect to reduce our networking capital days during the year as we drive toward our goal of 50 days networking capital. We expect capital expenditures to be $150 million with an increased focus on cost reduction and productivity projects that will reduce our unit manufacturing costs. You may recall that we made an accelerated contribution of $180 million to our US pension plans in Q1 2011. We have filed a motion with the bankruptcy court to make a second accelerated contribution this year. If approved by the court, we will contribute an additional $73 million to our US pension plans in Q1. This provides significant, immediate cash tax benefits and a very attractive IRR. The benefits of this accelerated contribution are assumed in our 2012 earnings outlook.

With nearly $1.2 billion in cash and equivalents we must actively manage our cash balances and related risks. We have about $150 million in Europe with most of that amount in euros in Germany. We expect to use this cash to help finance our exit from bankruptcy, and it is hedged at an average exchange rate of $1.40 per euro. Other cash balances outside the United States are well diversified as to currency, country, and counter-party. We actively seek to reduce these exposures as part of our working capital and currency risk management activities.

Last, let's turn to page 10 to discuss our long-term earnings target in more detail. As you recall, in mid-2010, we presented 2013 goals for sales growth of 8% to 10% per year and adjusted EBITDA margin of 20% of sales. We are on pace to achieve these goals ahead of schedule. We think it is appropriate at this time to establish updated long-term goals and to present our goals in a simpler framework. As Fred said earlier, our updated long-term goal is at least $850 million in adjusted EBITDA by 2014. This represents a 12% CAGR from our 2011 results. We expect the growth in adjusted EBITDA to come from three sources. $150 million to $200 million in growth from new products, geographic expansion, capital investments, and underlying market growth. $50 million to $100 million in margin expansion due to increased operating leverage, productivity improvements, and pricing, and up to $50 million in accretive bolt-on acquisitions.

With that, we'll open the call to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mike Sison.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Good morning, guys. Congratulations on a strong end to the year and good news from the courts.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Thanks, Mike.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Fred, in terms of the agreement with Libby, can you just walk us through what needs to happen there? Do you need to present to the courts, and do they need to approve it? How long does that take? What is the process for the appeals there?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Yes, well let me just back up. We've got the affirmation of the plan from the federal judge, in conjunction -- or 24 hours later, as you know we agreed with the plaintiffs around the Libby plan to settle their objections and that encompasses, as we've talked before, Libby is the most complex piece of our Chapter 11 case. It has a lot of tentacles to it, and this agreement, in principle, encompasses all those tentacles. So it's being papered, it's being discussed, it will be presented to the bankruptcy court, hopefully within 30 days, and get expeditiously approved by the bankruptcy judge. So, that's a big step in moving forward.

Now, as you know, there is still other folks that may or may not continue to object to the plan. I think they need to read our plan of reorganization or -- I mean, read the opinion by the judge, and they'll make a determination based on that whether they want to file any further appeals or not. And, that will happen within the next 30 days.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay, great. And in terms of your outlook for refining technologies and ARC, can you give us a feel for the type of growth you're expecting in 2012 versus 2011?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Yes. Overall, on the FCC side, we saw about a 3% growth. As you know, with the environment coming out of the fourth quarter this year and into the first quarter, margins -- our customers' margins have been impacted, especially the East Coast and especially with some of the announcements from some of the major refineries on potential shutdowns and so on. We expect to see some short-term volume impact from that, but we are very confident as we go into the -- throughout the year, that we will get back -- recover any of those shortfalls in the early part of year, and we should be growing at our normal 3% to 4% with the market growth.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay. And then for ART?

Fred Festa - *W R Grace and Co - Chairman & CEO*

On the ART side, I think it is going to be a strong year for ART, both on the resid side to processing for fixed-bed and ebulating-bed. We are seeing a lot of activity on the distillate side, a lot of bids being placed out there, and I am confident we will win our fair share of those bids. So, I feel very good. Very good about the ART position.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay and last question. In terms of the Europe restructuring for construction are you -- you got the ball rolling. Are you done in sort of what you wanted to do, and what's the benefits as we head into this year?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Yes, we are done and it was primarily around the Iberian Peninsula, Spain, and Portugal. We've made some nice improvements there. We're cautiously optimistic on the construction side. The weather in North America, especially on the East Coast, has been good. The weather in Europe has been good. We get any kind of volume, we will leverage well. So, we're in a good position, we've done what we need to do in the fourth quarter in Europe, and we'll wait and see here.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Great. Thanks again.

Operator

Laurence Alexander.

Rob Walker - *Jefferies & Company - Analyst*

Hi, this is Rob Walker on for Laurence.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Hello, Rob.

Rob Walker - *Jefferies & Company - Analyst*

Hi. Just in terms of adjacencies, you guys mentioned new products in your bridge to 2014. I guess, which of the most promising adjacencies in your portfolio, roughly how large could they be, and then to what extent are those included in your 2014 guidance?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Well, if you look, they are not too far adjacent from what we've been doing. It's similar to what we've been doing over the last two to three years. We didn't have a polypropylene catalyst portfolio three years ago. Now, we have the leading polypropylene catalyst portfolio in the world.

So, it was really moving from a polyethylene to a polypropylene. I think you'll see it in the adjacencies sides in our chemical catalyst business, as we continue to do a lot of effort around that, that is very close. So, to answer your question, and the same thing on the construction side. You look at our construction piece of it, the building products materials, through the acquisition of De Neef, through the acquisition of Wuhan, in China, where we expanded the building envelope side of it, that world's in play. We don't have anything too dramatic into this plan.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay and then just to clarify, in terms of the appeal settlement, how many parties are left who could potentially appeal, that may delay the emergence and who would those be?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Let me give you -- I have always characterized it as three big groups. One, being the general unsecured creditors, who want default interest rate versus the plan, the plan that was negotiated with them. And as you know, we have an arrangement in the plan of reorganization that we can emerge with that issue still outstanding if they want to fight this to the last court which would be the last appeal. That's one.

The Libby is then the other, which has been a detailed entanglement, and we have resolved that one. We have a small objection on the property damage side, which, I mean, if you read the two opinions by the judge, those are very strong opinions. And then a couple of other, I will call them cats and dogs, that have to be resolved. And again, I think it will be incumbent upon these individuals to read the opinions by the judge and the detail that he went to in citing cases and so on.

And just to refresh everyone, the next appeals would be different than this last appeal. The last appeal was based on the facts. To appeal further you have to appeal based on the law, that there was something different regarding the law that has been violated here. For lack of a better term so --.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay great. And then on Materials Technologies, did you see -- do you think Q4 was a trough or do trends remain weak into Q1?

Fred Festa - *W R Grace and Co - Chairman & CEO*

When we had our third quarter call, and I think everybody sensed this, we were nervous coming out of Q3 and going into Q4 around the material side of it. We had said the packaging volume -- the packaging the [old directs] -- the packaging volume was low because of some of the pricing -- that increases that we needed to recover, and we were willing to give up some volume at that point in time.

On the material side, going into the quarter, we saw some volume, and it was primarily in Europe, related around distributors, and some in Asia around distributors. We came out of the fourth quarter a lot stronger on the silica side then we went in to the fourth quarter. So, I feel better about our position right now than I did three months ago.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Great. And then if I could just ask the last quick follow-up on FCC margins. I guess, where do you see those versus reinvestment economics, for Greenfield capacity?

Fred Festa - *W R Grace and Co - Chairman & CEO*

You know, I still think there is room to grow the margins on the FCC side of it. The FCC plant is a major investment, and with the new products that we put out, and the industry has accepted over the years, I think there is still room for pricing improvements. These new products, being either the low rare Earth or the no rare Earth products, are generating substantial benefits to our customers, based on the slate of crude that they are cracking. So I'm continued to be confident that the markets will be acceptable, and our customers will be acceptable for more pricing as that pricing is generating more value to them. So, as we've said before, we'll continue to manage the FCC business for margin, and we'll continue to introduce new products and new technology.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Great, thank you.

Operator

Jim Barrett.

Jim Barrett - *CL King & Associates - Analyst*

Good morning, everyone.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Hello, Jim.

Jim Barrett - *CL King & Associates - Analyst*

And congratulations on the emergence news.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Thank you.

Jim Barrett - *CL King & Associates - Analyst*

Fred, your goal for 2014 of 8% topline growth, can you tell us what your assumptions are as to your expectations for volume growth, versus price mix, versus acquisition related growth in that number?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Let me talk about that. The overall volume growth, or sales growth, and we'll put volume into it. We think we can grow at two times GDP. Global GDP, we've estimated in this range of about 4%, given where we are in the emerging markets side. We also think we are well-positioned if construction markets recover. And, we have not -- we are not assuming a robust recovery in the construction side of it.

Around the pricing and productivity, I'm not going to split out the individual pieces but, across our product slate we have room in pricing. We have room in pricing on the FCC side of it, we have room in pricing in construction, and we have room in pricing in some of our other product lines. We're very disciplined on the productivity side for 2012, a big push in the productivity will be around both our operations, as well as our supply-chain. So, I hope that gives you enough color, Jim.

Jim Barrett - *CL King & Associates - Analyst*

That's helpful. Now, should I view the underlying growth in -- at Grace Davison, any different than construction, over this time frame?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Yes. I would view the Davison growth side in the early part of the cycle lower than the construction growth rate in the early part of the cycle. As you know, the Davison side is coming off a couple of good years, and it's also, candidly, it's got the rare earth side in it, as well. But from a market perspective, the construction in the early side should be a little bit more robust.

Jim Barrett - *CL King & Associates - Analyst*

And just two quick questions on construction. You had 18% organic growth in the building material product line. I know you had equally strong growth in Q3 in the overall segment, and you're -- are you seeing evidence in North America that the market for nonresidential products is improving? You indicated you are only cautiously optimistic at this point.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Yes, I mean -- yes. We are, but it's selective. It's selective regionally, that's where it's selective on the infrastructure side of it in certain regions, not across all of North America but, as I said, we're cautiously optimistic. We're seeing some green spots, and we hope they continue.

Jim Barrett - *CL King & Associates - Analyst*

And then finally your January 1 price increase on add mixtures. Can you tell me to what extent, so far, you've been able to realize that -- those price increases?

Fred Festa - *W R Grace and Co - Chairman & CEO*

It's too early. We are going through it right now. We've got a lot of customers -- too early -- I think. If you read some of the early reports, I think some of our customers were happy with their fourth quarter, as the weather was good and some stabilization, so that's always a positive, but it's still too early.

Jim Barrett - *CL King & Associates - Analyst*

Well thank you very much.

Operator

Patrick Duff.

Patrick Duff - *Gilder, Gagnon, Howe & Co. - Analyst*

Yes, hi. Good morning everybody. Let me add my congratulations on a great year, and best of luck as we go forward here. Couple of questions. The pension plan, with the contribution here in the first quarter, where would that put us on a funded status now on the plan?

Hudson La Force - *W R Grace and Co - CFO and SVP*

Pat, this is Hudson. We're going to be around 90%, maybe a little bit better.

Patrick Duff - *Gilder, Gagnon, Howe & Co. - Analyst*

Okay, great.

Hudson La Force - *W R Grace and Co - CFO and SVP*

Assuming long-term rates don't drop anymore.

Patrick Duff - *Gilder, Gagnon, Howe & Co. - Analyst*

(laughter) I don't know how much more we can go. All right, good. And then, as we look at the 2014 program, I mean -- this pretty much looks like kind of an extension of what you've all been accomplishing here in the last few years. But I just wanted to confirm that the need for capital to achieve the targets, as you played out, would be kind of comparable to what we've been spending here the last couple of years. Kind of in that $130 million, $160 million range.

Hudson La Force - *W R Grace and Co - CFO and SVP*

From a CapEx perspective, yes, Pat. We would like to be spending more on bolt-on acquisitions than we have over the last couple of years, but the cash generation that we would expect during this three-year time period is more than adequate to finance this growth. That is not something we are concerned about at all.

Patrick Duff - *Gilder, Gagnon, Howe & Co. - Analyst*

Right. No. I didn't think so, just wanted to confirm. Okay. And then just one other question, if I may. Some of the efficiency programs that you've been started on, kind of internally, kind of -- right sizing some of the support operations and what have you, any update there? I know you are -- you've got those incorporated in the guidance, but I'm just wondering, maybe, if you could just share a little bit on what you all are attempting to do there, and what the expectations should be as far as, maybe, overhead in support for the businesses?

Hudson La Force - *W R Grace and Co - CFO and SVP*

Sure, Pat, I will break it into three big buckets for you. The first is, what we've been working on over the last couple years, to centralize some of our operations and to simplify some of our processes to get better productivity out of those activities. I think about this as back office things, like finance and back office processing, and our supply-chain, and HR operations. 2012, sorry -- 2011, was the year where we really started implementing those changes. We sought part year benefits in 2011, but you'll see bigger benefits in 2012. But overall, relatively modest, in terms of their importance in our productivity program.

The much bigger opportunity is what we're doing with our sourcing activities. We spent about $2 billion a year in direct and indirect materials, and we've made some investments in 2011 to improve our sourcing capabilities, with very little benefit in 2011. You'll see more of that in 2012.

And then the third bucket, the most recent opportunity that we've developed, is around really building a truly global, one Grace organization. You remember, at the end of last year, we announced a promotion for Greg Poling, to our Chief Operating Officer position, and it gives us the opportunity to simplify our business structure, and we think there's some efficiencies there. That's something that we're just getting started on, but you will see some benefits around that in 2012.

Patrick Duff - *Gilder, Gagnon, Howe & Co. - Analyst*

Okay. So in terms of the overall programs then, the three buckets, and obviously there's different quantities coming out of each of these. How much of this do you think would be captured in 2012? If you can't -- you don't have to put the number, but just on a percentage basis. And then what would be realizable in either 2013 or 2014?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Sure. I mean -- I think, the full opportunity here is a point of margin expansion. We'll get a lot of that in 2012. We won't get all of it in 2012. I'd be disappointed if we got less than 0.5 of margin in 2012, but I think the full opportunity is one point or better.

Patrick Duff - *Gilder, Gagnon, Howe & Co. - Analyst*

Okay, that's great. Thanks very much.

Operator

Dana Walker.

Dana Walker - *Kalmer Investments - Analyst*

Good morning, everybody.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Morning.

Dana Walker - *Kalmer Investments - Analyst*

Could you folks talk about, with rare earth pricing having come off of the highs a fair amount, how you feel about the stickiness of the take-up and adoption of the low to no rare earth FCC catalysts?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Yes, Hi, Dana, it's Fred. We feel very good about it. As mentioned in the pre-call remarks, about 80% of our customers have either trialed or converted to it. Having the rare earth prices -- pricing come down right now, our customers are seeing enormous benefits across their product lines by using the new catalyst. Now, just remember, slate, crude is getting dirtier, harder to crack. Propylene is getting tighter. So catalysts that can crack the heavier crude, catalysts that can generate more propylene, are benefit across the globe to our customers. So, I am not concerned over that issue.

Dana Walker - *Kalmer Investments - Analyst*

How should we measure that? It is one thing to say that 80% are using or trialing, and yet it is quite another thing to say that 80% of your customers volumes have become these low to no.

Fred Festa - *W R Grace and Co - Chairman & CEO*

I am -- trying to understand the question? How should we measure --?

Hudson La Force - *W R Grace and Co - CFO and SVP*

I think, Dana, what you're trying to get at, is what's the volume -- what percentage of our volume is on the low or no rare Earth catalyst?

Dana Walker - *Kalmer Investments - Analyst*

Correct.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Okay.

Hudson La Force - *W R Grace and Co - CFO and SVP*

We have not said, Dana, but it's a significant portion of our volume.

Dana Walker - *Kalmer Investments - Analyst*

Okay, that's helpful. Hudson, on the cash tax delta versus your effective tax rate, remind us how long you expect that delta to persist?

Hudson La Force - *W R Grace and Co - CFO and SVP*

Well, we intend it to persist in 2012, whether we exit bankruptcy this year or not. And then once we do exit bankruptcy, we will generate an NOL, it's over $1 billion at this point, and we would expect that to be five years, maybe five years to six years at this point, where that NOL would shelter our US earnings, and we would enjoy that low cash tax rate during that time period.

Dana Walker - *Kalmer Investments - Analyst*

Thank you. And then, on the topic of the construction products business. You've been on the wrong end of price cost here for obvious reasons, materials going up, and soft end-markets. Do you foresee between now and your 2014 timeline that you would turn that around? Even if you are not expecting to complete volume recovery?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Yes, Dana, it's Fred. We do. And we feel good about that given some of the recent takeoffs or -- slowing of some of the inflation, some of the underlying raw materials. But as the markets strengthen, our customers strengthen, we should be on the positive side of that.

Dana Walker - *Kalmer Investments - Analyst*

Finally, for me, you've described that, at least in an intermediate term, as a 12% objective return business. Based on the IP and the value added that you provide, should that in time -- should your ambition be higher?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Oh, it is higher. I mean, we were -- during the peak of the markets, we were at 15%, above 15%, and with the global footprint that we've expanded, even through the trough here, so my expectations are above 15% for that.

Hudson La Force - *W R Grace and Co - CFO and SVP*

I'll add one thought, Dana. That's a P&L margin. Our construction business has a very low capital intensity, and so the returns on capital, even at current margin levels, are very attractive in the business.

Dana Walker - *Kalmer Investments - Analyst*

Thank you. Congratulations.

Operator

(Operator Instructions)

Joe Stauff.

Joe Stauff - *Susquehanna Financial Group - Analyst*

Morning. Thanks for taking the question. I just have two structural questions for you, please. A follow up on the pension question earlier, have you defined what the expected return on plan assets is that you are using going forward? And then second question is, regarding the process risk and the potential agreement, and so forth with Libby and others, could you remind me or us, whether the costs to the Company have been defined within a particular range, and I guess, is there risk to that particular range going up? If that makes sense?

Fred Festa - *W R Grace and Co - Chairman & CEO*

Joe, just to clarify, you're talking about the remaining uncertainties on the plan and these potential appeals?

Joe Stauff - *Susquehanna Financial Group - Analyst*

Correct.

Fred Festa - *W R Grace and Co - Chairman & CEO*

Okay. Well, I'll answer both of your questions. The plan -- the assumption we have on plan assets and the pension is order of magnitude 7%. I don't have the specific number in front of me, but that's pretty close. And then in terms of the remaining appeals, kind of the remaining uncertainties in our plan, I think they're really measured in time more than in dollars.

There is an uncertainty at this point whether there'll be additional appeals after this 30 day, or when this 30 day appeals deadline comes up, but in terms of the dollar effects, these are all dealt with our plan, the plan has now been approved by two federal district -- federal judges, the plan has been in place for three years. We do not expect our plan to change at this point.

Joe Stauff - *Susquehanna Financial Group - Analyst*

Okay. I appreciate that. And just to clarify, on the pension question, was it a similar rate last year? In terms of --?

Hudson La Force - *W R Grace and Co - CFO and SVP*

It's actually been dropping. Our asset mix is shifting towards more of a fixed income from equity. Our actual return last year was in the mid-sevens and I think we are assuming around seven, going forward.

Joe Stauff - *Susquehanna Financial Group - Analyst*

Okay, thanks very much.

Operator

And this concludes the question and answer portion for today. I would now like to turn the call back to Mark Sutherland, Vice President Investor Relations, for closing remarks.

Mark Sutherland - *W R Grace and Co - VP IR*

Good, thank you, Deanna. This does end the Q&A portion of the call, and I'd just like to close by saying, on behalf of the entire Grace team, thank you for participating in today's call with your questions and your interest in Grace. And we look forward to talking with you later.

Operator

Ladies and gentlemen, thank you. This concludes today's conference. You may now disconnect and have a great day.
