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EDITED TRANSCRIPT

GRA - Q2 2015 W. R. Grace & Co Earnings Call

EVENT DATE/TIME: JULY 29, 2015 / 03:00PM GMT

OVERVIEW:

GRA reported 2Q15 sales of $782m and adjusted diluted EPS of $1.19. Expects 2015 constant currency adjusted EPS to be $5.15-5.25.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the W.R. Grace and Company 2Q 2015 earnings conference call. (Operator Instructions). I would now like to introduce your host for today's conference, Ms. Tania Almond from W.R. Grace Investor Relations Officer. Please go ahead, ma'am.

Tania Almond - ***W.R. Grace & Co. - IRO***

Thank you, Christy. Hello, everyone, and thank you for joining us today on July 29, 2015. With me on the call are Fred Festa, Grace's Chairman and Chief Executive Officer, and Hudson La Force, our Chief Financial Officer.

Our earnings release and corresponding presentation are available on our website. To download copies, go to grace.com and click on the investor tab.

Some of our comments today will be forward-looking and are made under Section 27A of the Securities Act and Section 21E of the Exchange Act. 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 discuss certain non-GAAP financial measures, which are described in more detail in this morning's earnings release and on our website. Reconciliations to most directly comparable GAAP financial measures and other associated disclosures are contained in our earnings release and our website. Our comments on forward-looking statements and non-GAAP financial measures apply both to the prepared remarks and to the Q&A.

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

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

Great. Thanks, Tania, and welcome to our -- welcome, everyone, to our call.

I'm pleased with our results for the second quarter. We delivered strong growth in construction products, expanded margins across the Company, and produced exceptional cash flow. Adjusted EBIT was up 5% at constant currency on significantly improved gross margins. Adjusted EBIT return and invested capital increased over 31%, reflecting the high quality of our businesses.

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The economic environment remains uncertain, and growth has been slower than we expected at the beginning of the year. Sales volume growth was strong in North America but weaker in other regions. Asia grew, but more slowly than in the first quarter. Continental Europe declined slightly. In the Middle East, we saw double-digit growth led by growth in catalysts.

In Catalyst Technologies, we achieved our Q2 earnings goal and made significant progress positioning our refining catalyst business for the future. We secured some strategic commercial positions and transitioned out of other positions in preparation for new volumes expected in late 2015. We would have loved to keep some of these positions longer, but these transitions are never perfect. Strategically, I'm very happy with how our catalyst business is positioned. We have strengthened our commercial positions in North America, the Middle East, and Asia and are building a solid foundation through our capacity investments in this business.

The end markets we supply are healthy. Demand for transportation fuels and plastics is good, and utilization rates are strong for our customers. Our specialty catalyst business continues to perform well, with good demand for new and existing products. We are on track to deliver double-digit earnings growth again this year.

In material technologies, engineered materials and Darex sales were weaker than expected due to lower demand in Europe and the emerging regions. We continue to lean out costs and improve productivity to expand margins in these businesses. We saw double-digit demand growth in our discovery science business, driven by growth in our customers' pharmaceutical products. In engineered materials, we are well-positioned to capture modest demand growth expected in the second half and are focusing our technology and commercial efforts on faster-growing silica end markets.

Construction products had an excellent quarter and an excellent growth in good market conditions. We have positioned this business to capture commercial construction opportunities around the world and to benefit from stronger growth in North America residential and infrastructure spending. Our operating margins of 18.7% during the second quarter indicate the strength of this franchise.

During the second quarter, we performed as plan. We secured and positioned our FCC business for the next three to five years. We leaned out costs across our operations, generated strong cash flow for future investments, and increased our return on invested capital to over 31%. The global market environment continues to be volatile, with some regions performing better than others. During these times, we are focused on simplifying our operations, introducing new products, securing our market positions, and managing our working capital.

Let's turn to the separation. We've made significant progress preparing for the separation and are on track to close in the first quarter of 2016. I remain excited about the opportunities this separation will create for both companies. It's clear from GCP's strong performance that the time is right for this transaction.

We expect to file a Form 10 next week. The filing will include the carve-out financial statements for new GCP from 2012 through the end of the first quarter, and we will be on the road in August and September and look forward to discussing the separation with you.

I will now turn the call over to Hudson to review the quarter and our outlook in more detail.

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

Thank you, Fred. Second-quarter sales were $782 million, down 7% as reported and up 1% in constant currency. Currency reduced sales by $65 million or 8%. Segment gross margin was 40%, up 140 basis points over last year on lower manufacturing costs and improved pricing and product mix. Adjusted EBIT was $157 million, down 6% as reported and up 5% at constant currency. Currency reduced earnings by $17 million or 11%.

Adjusted EPS was $1.19 per diluted share, down 3% and up 13% at constant currency. Adjusted free cash flow was up 9% to $200 million, driven by very good working capital performance, more than offsetting higher interest payments.

Grace has a low cash tax rate resulting from our NOLs. For the six months, this resulted in a $40 million favorable impact to cash flow, equivalent to $0.55 per share. For the full year, we expect the favorable impact to be about $95 million or about $1.30 per share.

Let's turn to catalysts technologies. Catalysts technologies delivered strong profitability in Q2. Gross margins were close to year-ago levels, which included strong licensing sales and increased 450 basis points from Q1, driven by lower manufacturing costs and improved product mix. Sales volumes decreased 1.5% primarily due to lower licensing segments. Catalyst sales volumes were essentially flat, with lower FCC sales offset by growth in specialty catalysts. Specialty catalyst volumes continue to see strong growth, driven by customer demand for new and existing products.

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Let’s move to Materials Technologies on page 7.

Materials Technologies is seeing significant headwinds from the stronger dollar and weak demand in Europe and the emerging regions. Nevertheless, gross margin increased 220 BPS to 37.2% on lower manufacturing costs, better product mix and improved pricing. Cash flow performance continues to be good, increasing 10% year to date. We expect these headwinds to continue with moderate constant currency sales growth in the second half. We expect full-year gross margin and operating margin to be in line with the first-half average as deflation benefits begin to moderate and product mix re-balances.

Please turn to page 8 for construction products. GCP had good sales volume growth of 6%, with 3% growth in SCC and 10% in SBM. Sales volumes were up double digits in North America, emerging Asia, and the Middle East.

Segment gross margin of 38.6% increased 240 basis points primarily due to better sales volume and mix and improved pricing. Segment operating margin increased 310 basis points on better gross margins and good cost control. Earnings grew 20% as reported and 35% at constant currency. GCP continues to track to our mid-cycle operating margin targets of 16% to 18%. We expect GCP's good growth to continue in the third quarter at similar margins.

Let's touch on our outlook, and then we will open the call for your questions. We are tightening our adjusted EBIT constant-currency outlook to the low end of our original range. We are also tightening our adjusted EPS constant-currency outlook and raising the bottom of our range $0.10. Our outlook for adjusted free cash flow is unchanged.

Specifically, we now expect adjusted EBIT to be $675 million to $685 million on a constant-currency basis, an increase of 8% to 9% over last year. We expect adjusted EPS to be $5.15 to $5.25 per share on a constant-currency basis, an increase of 16% to 19%. We estimate the currency headwind and adjusted EBIT at about $60 million and to adjusted EPS at about $0.55 per share.

We expect overall Q3 results to be in line with Q2. In catalysts, as Fred described, we are working through timing on new account volume in our FCC business that has reduced our volume expectations for Q3. FCC sales volumes will grow sequentially from Q2, but not as much as we expected 90 days ago, and we will grow further in Q4. In specialty catalysts, Q3 sales volumes will be a bit lower than Q2 primarily due to order timing after five quarters of very strong performance.

As you complete your models for Q3, please remember the $14 million gain related to the termination of our retiree medical plans that was included in our 2014 Q3 earnings. We expect Q4 results to be stronger than Q3 as the benefit of new catalyst volumes begin to impact earnings. We expect at least $430 million in adjusted free cash flow for the year.

Overall, we are on track with our original 2015 business goals. Although we are below the midpoint of our earnings and EPS ranges, we feel very good about the progress we have made positioning our Company for the future. Our strategic position in catalysts is strong, our construction products business is growing very well, and our cost and repositioning initiatives remain on track in materials technologies and throughout the Company.

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

QUESTION AND ANSWER

Operator

(Operator Instructions) Brian Maguire, Goldman Sachs.

Brian Maguire - ***Goldman Sachs - Analyst***

Fred, great news on the new FCC. It sounds like a new commercial arrangement there. Wonder if you can give a little bit more color on just exactly what region that is coming in and the expected annual contribution from that. It sounds like it's going to start in the fourth quarter, but maybe give a size for the annual impact you would expect there.

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

Yes, let me -- as you know, I don't want to get into unit-by-unit specificity. But I can tell you during the second quarter, we secured some goods commercial volume in some key regions for us not only in the Middle East but as well as in Latin America and in Asia.

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What it will essentially do, Brian, is we will be in the fourth quarter -- we will be full. Our capacity volume will be really at -- revenue and capacity will be matched into that period of time.

So for us, it's a good position to be in. I think it's a good position for the industry to be in. And as we look at it, not only the Middle East -- Middle East is very important for us strategically. Not only very important for FCC, but it's a big part of our polyolefin business as well as our hydroprocessing through the ART venture, and a lot of these customers are interconnected. So we feel good about where we are on that side of it.

Brian Maguire *- Goldman Sachs - Analyst*

If I remember, I think your utilization was probably somewhere in the mid-90s before. Does that imply maybe a mid-single-digit pickup for the 12 months you'd have the new business?

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

In our second quarter, our utilization did drop somewhat. It had some of the Latin America orders -- we had a timing on Latin America orders. It would drop in the lower 90s, so you can do the math from there.

Brian Maguire *- Goldman Sachs - Analyst*

And then presumably you are shedding some volume. I think that -- if I interpret your comments right for the third quarter to prepare for the new customer wins, presumably those are some of the lower-price or lower-margin volumes if you get to pick. And I guess that begs the broader question, does this create an opportunity for pricing in the industry or for you specifically maybe if you are sold out and you are able to pick exactly who you want to sell to and at what prices.

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

Margins are good. Margins are good in catalysts, and they are good in the FCC side of it. As you look across, pricing has been relatively flat. I think the FCC business is going into -- is going to be in a good place from a commercial standpoint the end of this year going into next year. I think we have weathered through the ups and downs of the oil. Our customers, the refineries, are running very well and taking a lot of catalysts, and the margin they are making is good. The products have been changed over to accommodate some of the new slates being the tighter oil as well as the other oil around the world. And this competitive repositioning, it seems, has been -- is slowing down. So I think we are -- I think, summing it up, I think we're in a good place and I think that will bode well, and we will see as we go into it around pricing.

Brian Maguire *- Goldman Sachs - Analyst*

Great. Thanks very much.

Operator

John McNulty, Credit Suisse.

John McNulty *- Credit Suisse - Analyst*

Congratulations again. Looking at the construction business, certainly the margins had some nice lift. I guess I'm wondering how much of it is some of the raw material relief that you were expecting to see in that business? And I guess how should we be thinking about that going forward?

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

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A lot of it is not contributed to raw materials on that side of it. A number of it is contributed to some of the positioning we've done, leaning out the cost position across it. Very good margins on our SBM to building product side as we've gotten some good productivity out of our supply chains on that piece of it. The margins going forward should be pretty consistent to where they are in the second quarter.

John McNulty - ***Credit Suisse - Analyst***

Okay, great. And then with regard to the materials business, the volumes definitely were a little bit, I guess, weaker than what we were expecting. I guess can -- and you had given a little bit of color as to some of the geographies where it was weak. Can you walk us through the product lines that might be struggling a little bit there so we can get a handle on how to think about them going forward?

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

Yes, if you think of our materials technology, you have really got three product lines. You've got EM, which is silica dominated; discovery science; and then the Darex piece of it.

In our engineered materials business, North America was good around the silica side. It was really Europe. We were thinking, maybe hoping, a little bit of a bounce-back we'd start to see in the second quarter in Europe. That hasn't played itself out as well as in Asia. And in Asia around the silica side.

So we have positioned the business to make sure that costs are at a great point. So if we've got to compete in some of these emerging markets, we've got some profitability to be able to compete. So we want to get some of that volume back. But I think as we look forward, Europe is still volatile on that side. Will it bounce back? We're not sure at this point in time. Asia, we want to be able to position to be able to compete in the emerging regions, and we are competing on the cost side.

Darex has trailed off a little bit. Some of it has been Latin America on the food side of it. But Darex continues to generate strong cash flow, margins continue to be stable, and we are well-positioned there for how we are operating the business.

And finally on our discovery science, which related to some of our silica piece and some of our specialty, that's been very well on the pharmaceutical side. And we've got an uptick forecasted with some good order patterns in the second half.

John McNulty - ***Credit Suisse - Analyst***

Great. And then maybe just a last question. With the split fast approaching, I know you have been working, it looks like, to really lean out the cost structure. Do you think you can -- when the dust settles -- when you look at the cost structure and the cost of splitting or the dissynergies around splitting, do you think you can offset any potential dissynergies from the split?

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

That is our goal and that's what we're working toward. And I think by the end of the third quarter, we will be able to give you a definite affirmative on that. But we are working very hard on it. You can see it in our cost positions today.

John McNulty - ***Credit Suisse - Analyst***

Great. Thanks very much for the color.

Operator

Mike Ritzenthaler, Piper Jaffray.

Mike Ritzenthaler - ***Piper Jaffray & Co. - Analyst***

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Fred, I'm wondering if you can provide a bit more granularity around the FCC volumes being down this quarter. It sounds like that business is still contending with timing from a couple of outages and some trialing. But I guess as you look into 3Q, it sounds like some of that is still spilling into 3Q. Is that fair to say? Maybe just a little bit more color around that.

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

Q2 was, versus last year on that business, really down, and it was only down as a result of some timing on some orders in our -- one very large Latin American customer on that side of it. We had forecasted it; we knew that. That went with our thinking as we planned out the beginning of the year to take our Curtis Bay outage.

Q3 is more of -- as you are repositioning a portfolio, it would have been wonderful to end one day one and start another day two. And some of that is just some of the timing.

There is changeovers happening. Our refineries have been running very hard for the first six months. I think we've got some planning -- some planned turnarounds in the third quarter, but the health of the FCC business is good. It's very good.

Mike Ritzenthaler - ***Piper Jaffray & Co. - Analyst***

Excellent. Thanks. I was wondering, too, about -- still staying within the catalyst business, if you wouldn't mind discussing some of the assumptions that went into the analysis around the ART Lake Charles HBC facility that's coming online the next couple of years. I think that, as we've talked about it, it appears as though the new upgrading capacity that consumes some of these catalysts was already being constructed, and this was sort of a timing issue with that. But I guess I would be interested in some of your thoughts, too, around how that industry shapes up over the next one, two, three years.

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

Yes, we spend a lot of time with our partner -- our joint venture partner, Chevron, on looking out at where these units were, what the stage of construction was, going beyond just the license side of it. And we will continue to watch that closely. Our capacity doesn't come on until 2018. We know the industry needs it. We will continue to watch it as the steel goes in the ground. If it slows up based on some dynamics around the whole oil side of it, we will be able to variablize that and dial back if we have to. But right now, I think over the next six to nine months we will know if it's on that dead-on pace or if it's got to be dialed back a little bit.

Mike Ritzenthaler - ***Piper Jaffray & Co. - Analyst***

All right. Fair enough. Thanks, and congrats on a good quarter.

Operator

Jim Barrett, CL King & Associates.

Jim Barrett - ***C.L. King & Associates - Analyst***

Fred, on Grace Construction Products, the pricing was up 1.8%. And I heard your regional commentary. Can you break out the pricing by the two major product lines and tell us what the pricing -- current pricing picture is specifically in North America?

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

Yes. You know, North America, we are following some of the prices on cement, as you could expect in North America. But I would say that we're not over-driving that side of it, but we are more in the following mode. Some of the pricing we have gotten around the globe is in Latin America. We are trying to stay out ahead of some of the inflationary pieces of it. And around our SBM, it's really product mix. As we have brought out some new products, we have gotten better margin and better price from those products.

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Jim Barrett - ***C.L. King & Associates - Analyst***

Terrific. And you may have answered my second question; is that why SBM, at least in the quarter, grew so much faster than construction chemicals?

Jim Barrett - ***C.L. King & Associates - Analyst***

Yes, you know, there's great -- the good -- there's very good commercial activity around the globe. And our SBM products has been benefited from that side of it. That's really the reason.

Jim Barrett - ***C.L. King & Associates - Analyst***

Okay. Terrific. Well, thank you very much.

Operator

Tyler Frank.

Ben Kallo - ***Robert W. Baird & Co. - Analyst***

Hey guys, this Ben Kallo from Baird. Thanks for taking my question.

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

Hey, Ben.

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

Hey, Ben.

Ben Kallo - ***Robert W. Baird & Co. - Analyst***

You guys have shown -- this might be a pretty comprehensive question, but as much detail as you can give would be great. You have shown great margin improvement over the years across all segments. As you look ahead, could you just walk through materials, catalysts, and construction, what the number one driver for each of those on expanding margins -- the next step is?

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

I'll start with materials. Materials has been really leaning out from an operational standpoint. As you know, we made some big investments in our Curtis Bay around the drying capacity, around our silica gel. We've made some in Europe around pack-outs and so on. So it's around the operation side.

In materials going forward, you shouldn't expect to see that same increase of margins. What we're trying to do is make sure we've got our products positioned to be able to capture some of the volume upside and be able to, candidly, compete in some of the emerging regions on that piece. So you won't expect to see the volume uptick from there.

Around GCP, around the construction side, the leverage comes on volume. The leverage comes on volume, as we get more volume and an uptick in our FCC side of it, you are seeing it in our operating margin as well as in SBM, the building product side from mix.

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Catalyst is about productivity and running out and leaning out these operations. The four weeks or so turnaround that we did at Curtis Bay was focused on how do we get better reliability, better metrics and performance around productivity across the globe. So that is probably more a half-a-point type of margin expansion.

Again, we don't want to overdrive the margins and sacrifice and sacrifice the gross side of it as well. And I guess I finally add -- we talked a lot about FCC. Our specialty catalyst business has very good margins. And as we continue to roll out the new products like our Phthalate-Free products and the specialty catalyst, that mix helps us.

Ben Kallo - ***Robert W. Baird & Co. - Analyst***

Thanks. That's very helpful, Fred.

Operator

(Operator Instructions) [Edlain Rodriguez].

Edlain Rodriguez – ***UBS - Analyst***

Just one quick question on catalysts. Can you talk about that pricing there? It seems like pricing is up and down, and it doesn't seem to be very consistent with volume. What is the key driver for pricing in this business? Can you remind us again?

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

The key driver in catalyst pricing is product technology. And over the years, we've done an excellent job driving new product technology into the market. And when you look over a multi-year time period, we've, as I said, I think done an excellent job getting price for the value that we are creating for our customers.

Over the last couple of quarters, as our customers have repositioned their refining operations after the decline in crude oil, we have had some customers switch to different catalyst formulations. And as we talked, I think it was in the Q1 call or maybe the Q4 call, I've forgotten. We said that our pricing may be flat for a couple of quarters, but you should watch the gross margin line. And I think we have been able to deliver on that gross margin expansion as we have worked through this period.

Edlain Rodriguez – ***UBS - Analyst***

Clearly that's the case. Another quick one on construction products. What are you seeing in Europe? Because I think last quarter, you mentioned that you were seeing some improvement. Has this been the case this quarter? And what's the pace of business there? And also in North America, for that business, did you have any adverse impact on weather? Because a lot of companies have noted that weather has been a problem for outside work. But have you seen anything -- did you see anything this quarter?

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

This is Fred. I'll take the weather first. We did see some around the Houston area, which -- in the Southeast, which is big for us, and that really was primarily reflected in our SCC side of it. The chemical side of it. So we did see some -- that impacting our second quarter.

Europe is mixed. We're well-positioned in the UK, and that market continues to do well for us. Southern Europe is down, and we haven't forecasted any pick-up. The other piece that we include in Europe and we include EMEA -- we include the Middle East, and the Middle East is good. Middle East has been good on big jobs as well as some SBM activity.

So, again, it's this mix. Each region is -- you're going to break up into different parts, and our people are working very hard to understand specifically how to penetrate and how to attack each of these different sub-segments.

Edlain Rodriguez – ***UBS - Analyst***

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Okay. Thank you very much.

Operator

Mike Sison, KeyBanc.

Mike Sison - ***KeyBanc Capital Markets - Analyst***

Hey, guys. Nice quarter.

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

Hey, Mike.

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

Hi, Mike.

Mike Sison - ***KeyBanc Capital Markets - Analyst***

Fred, I wanted to ask, and I think you mentioned this to some degree. But when you think about the top end of the guidance that you reduced, it sounds like was most of that FCC timing, that will come back in maybe the first half of 2016. And -- or were there some other things, maybe materials, that was a little bit weaker? You mentioned Darex and other areas.

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

Yeah you nailed it Mike. You nailed it spot-on. One was one quarter of FCC, where we thought it would be higher, as well as we thought there would be a pick-up in Europe in the material side. We have taken that down in this forecast. The world is volatile; we'll see. We'll see what happens on both of those.

Mike Sison - ***KeyBanc Capital Markets - Analyst***

Okay, great. And then I think you mentioned you've picked up some new positions in catalysts. Are these new contracts coming from the trials that you've done with the new products over the last year? Are they new refineries coming onstream in the Middle East? Can you give us a little bit of color and timing of those new relationships?

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

It's across the board, Mike. And, again, I don't want to fall in the trap of talking about individual units. Let me just give you a general -- if you think of the Middle East, the Middle East is very important for us. We've had the leading position in FCC. As you know, there's new capacity coming on. We want to maintain our leading position there, not only in FCC. But as you look across in the specialty catalyst side of it as well, there's a lot of interconnectivity between those, and we've done very well on that side of it coupled with our hydroprocessing with the ART joint venture in that region.

In addition, around all of FCC, it's important to be strong in North America as well as Asia. If you think of FCC going out in the future and around this refinery, North America will continue to be very strong, Middle East will be very important -- very, very important, as well as Asia. And not to diminish Europe and Latin America, but so -- our strategic focus has been in those three regions.

Mike Sison - ***KeyBanc Capital Markets - Analyst***

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Great. And then, I think -- if you think about pricing as you move into 2016, it sounds like operating rates are getting nice and tight for the FCC industry. How do you think about pricing for yourself as you head into the next couple of years?

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

First of all, we've got to deliver and demonstrate on all of our customers and contracts and technologies that they've -- that we've committed to. So that's first and foremost. We have to get that all set and lined up, and I'm confident we can do that. And then as we look at the market and as we look at what the refiners are doing, and assuming refinery utilization rates continue to be healthy and our technology continues to deliver on what we've given them, I think there will be market opportunities out there.

Mike Sison - ***KeyBanc Capital Markets - Analyst***

Great. Thank you very much.

Operator

Chris Kapsch, BB&T Capital.

Chris Kapsch - ***BBT Capital Markets - Analyst***

Just a couple of follow-ups on the FCC business. Just generally as you anticipate layering in new business wins in FCCs later this year, just wondering if you could talk about the implications on your overall mix in that business.

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

Mix around the globe or --

Chris Kapsch - ***BBT Capital Markets - Analyst***

Yes, I guess the overall mix of the FCC business. If you are -- and presumably if you're sold out, if you're getting meaningful new business, you're having to maybe rationalize certain customers, so that could affect mix. Just wondering if you could provide any color on that.

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

The way to look at it and the way to think about it and judge us as we go forward will be around our margins. And we are forecasting our margins to be very consistent going out to the next two quarters. And as we get closer into forecasting 2016, we will give you some of that color in 2016. So overall, the mix will be about the same.

Chris Kapsch - ***BBT Capital Markets - Analyst***

Okay. You mentioned -- or Hudson mentioned in his comments responding to another question about -- given the drop in oil price, how that's sort of affected maybe some of the refining customers trading down a little bit. But we haven't talked about -- obviously the shale paradigm is upside down from where it might've been a year ago. But when shale was booming, with the light tight feedstock mix increasing, you guys introduced new products; one was the propylene maximization.

You had good uptick, I think, of new products, both heavy resid and propylene maximization. Just wondering if those are the products that refiners are trading away from, or any more granularity on this idea that refiners with lower oil prices have opted for maybe lesser quality or lower price catalysts in the near-term, anyway.

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

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Chris, this is Hudson. The propylene max and heavier resid products were really for customers outside of North America. And they are still running those crude slates, and we haven't really seen any change in the demand for those products.

Chris Kapsch - ***BBT Capital Markets - Analyst***

Got you. And then just last one on FCCs, the new business pick-up that you anticipate later this year, does it affect the -- your timeline in terms of your investment in new capacity in the Middle East? Are you going to try to accelerate that timeline? Or maybe you could just update us on the timeline more generally in terms of the expected capacity addition over there.

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

Yes. The expansion is still scheduled in 2018. I don't expect us to accelerate that. We are running the logistics hub in the third quarter, getting that all lined out. So that's really the schedule.

Chris Kapsch - ***BBT Capital Markets - Analyst***

Okay. And then if I could just follow up on one question on the construction business. There's a lot of corroborative evidence talking about the commercial construction cycle recovery. Can you guys provide any insights on the activity level you are having with -- at the specification level? In other words, a project activity like with architects. Is there -- as a leading indicator for that business, do you see that activity much stronger on a sequential basis? Or maybe just some qualitative on that. Thank you.

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

Yes -- no, you're absolutely right. The architectural index, we are seeing up. Strength is good in that side of it. As you look forward -- what affects this business, as well, there could be some lumpiness as you go. But, again, generally, architectural index is up. The number of bids we're bidding on is up, and to date, it's been very good.

Chris Kapsch - ***BBT Capital Markets - Analyst***

Okay. Thank you, guys.

Operator

I'm not showing any further questions. I would now like to turn the call back over to Ms. Tania Almond for any further remarks.

Tania Almond - ***W.R. Grace & Co. - IRO***

Great. Thank you, Christy. We just want to thank everyone on the call for joining us today. If you have any follow-up questions, you can reach me directly at 410-531-4590. Thank you, and have a great day.

Operator

Ladies and gentlemen, thank you for your participation today. You are now free to hang up.

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