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GRA - Q4 2016 W. R. Grace & Co Earnings Call

EVENT DATE/TIME: FEBRUARY 08, 2017 / 2:00PM GMT

OVERVIEW:

Co. reported 4Q16 sales of $441m. Adjusted diluted EPS for 2016 was $3.10 and 4Q16 was $0.95. Expects 2017 adjusted EPS to be $3.30-3.55.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the W.R. Grace & Co. fourth-quarter 2016 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Tania Almond, W.R. Grace Investor Relations Officer. Ma'am, you may begin.

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

Thank you, Kaylee. Hello, everyone, and thank you for joining us today, February 8, 2017. With me on the call are Fred Festa, Grace's Chairman and Chief Executive Officer; Hudson La Force, President and Chief Operating Officer; and Tom Blaser, Senior Vice President and Chief Financial Officer. Fred will start with the highlights, Hudson will review more detail on operations, and Tom will go over the financials. Then we'll open it up for Q&A.

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 condition.

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

With that, I'll hand the call over to Fred.

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

Good morning, and thank you, Tania.

Grace had a strong finish to the year. We continued to achieve good margin improvement and effectively used our cash to set up performance for 2017. We saw topline revenue growth both year over year and sequentially and delivered $119 million of adjusted EBIT, or $0.95 per share.

Catalysts revenue and earnings both were up 7%. In our materials business, revenue was up nearly 3%, excluding our divestitures earlier in the year, with segment earnings up double digits. Our ART joint venture with Chevron had both the strongest quarter and best year ever.

Regionally in the quarter, North America performed as expected, Europe had good growth, and Asia, including China, showed growth for the first time in several quarters.

As you know, share repurchase and dividends remain core components of our capital allocation strategy. I'm pleased to announce that we are increasing our dividend 24%, effective with the first-quarter dividend. Additionally, our Board has authorized a new share repurchase program of up to $250 million, which we expect to complete within the next 24 to 36 months.

As we enter 2017, we continue to see positive trends in several areas. We plan to increase adjusted EPS in the range of 6% to 15%. We see strong demand across our polyolefin catalysts portfolio and promising activity in our licensing business. In addition, methanol to olefin is well positioned to leverage recent successes into significant growth this year.

On the materials side, our fine chemical business is strong and growing. In our silica business, we see the continuation of 2016 second-half growth into 2017. We are also seeing a favorable price environment in many of our product lines this year.

In the FCC business, a key Middle East customer had an unplanned shutdown due to a fire in January. We won't discuss customer-specific details; however, we are continuing to work closely with them as their operations return to normal. We are not currently supplying this facility and don't expect to in the first quarter. We are evaluating our supply-chain options and insurance options around business interruption. We have built a sufficient range into our outlook to allow for a variety of scenarios, including the possibility of an extended outage for that key customer. We're confident we'll be able to manage through this with positive outcome and we continue to expect FCC volume growth for the full year.

Lastly, we are achieving significant operating productivity and cost improvement across all of our businesses. Overall, we believe we are taking the right steps to achieve adjusted EPS growth of 6% to 15%, topline growth of 3% to 6% despite a stronger dollar, continuing our track record of earnings growth with strong cash flow to reinvest in our future and return cash to shareholders.

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

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

Thank you, Fred. As Fred mentioned, we finished 2016 with very strong performance across our businesses and we took actions to set up solid topline growth and cost productivity in 2017. I'll briefly review Q4 and then focus on our plans for 2017.

Catalysts technologies performed well in Q4, with good growth and good margins. Our refining catalysts business grew earnings mid-single digits, with strong contributions from ART and our business in the Middle East.

Specialty catalysts grew in North America and Europe, as expected, and we were pleased to achieve growth in China and the rest of Asia. We continue to see strong demand for our high-performance CONSISTA non-phthalate polypropylene catalysts.

We have made good progress integrating our polyolefin catalysts acquisition and finished 2016 ahead of our earnings and synergies goals. We delivered a mid single-digit contribution to 2016 earnings from the acquisition.

Our materials technologies business grew in Q4, excluding the divested product lines. We saw strength in our pharma and chemical process segments. North America and Europe performed as expected, and Asia and Latin America improved. Current inventory channels -- current channel inventory levels are normal.

Let's turn to 2017. Grace's position is the value leader in our markets. Value leadership is a business strategy based on our demonstrated ability to create competitive advantage and financial benefit for our customers. It is a key factor in winning and retaining business and strengthening our partnerships with our customers.

In refining catalysts, leadership means continuing to extend the performance of our catalysts for our customers. In this business, we expect demand for transportation fuels to grow 1% to 2%, with additional growth from higher propylene production and refinery FCC units and penetration of new and existing accounts with our catalysts technology.

High industry utilization rates set up 2017 as a favorable pricing environment.

ART also benefits from its value leadership position. ART combines Grace and Chevron technologies to provide high-performing hydroprocessing catalysts in several different refinery applications. Sales growth is driven by growth in transportation fuels, but also higher global fuel standards and the significant investment in hydroprocessing units refiners have made and continue to make. ART had a very good 2016, growing earnings almost 50% over 2015 and has good visibility to its 2017 demand.

For specialty catalysts, leadership means delivering the combined technology and manufacturing capabilities of Grace's leading polyolefin catalysts position to our customers. In this business, we expect end-market demand growth of at least 4%, plus the full-year benefit of our polyolefin catalysts acquisition, adding up to double-digit sales growth in 2017. This growth is driven by bringing new technology to customers to help them improve their products, operations, and profitability.

As mentioned last quarter, lower licensing and chemical catalysts sales are headwinds for 2017. However, recently we've seen an uptick in licensing activity that bodes well for 2018 and 2019. We now have the biggest licensing opportunity pipeline since we bought this business at the end of 2013.

In materials technologies, leadership means connecting our deep applications expertise with customers to develop new high-value end uses for our silica and fine chemicals technologies. In this business, we expect mid single-digit sales growth from higher demand and improved pricing, consistent with market growth. On a reported basis, this growth will be offset by the effect of the divested product lines last year.

In 2017, we will continue our strong emphasis on productivity and cost improvement. Late last year, we began looking at our fixed costs and operating expenses in a more comprehensive way. This has led to a whole new set of opportunities that we're excited about and expect to deliver over the next couple years.

Let's touch on capital investment and then I'll turn the call to Tom. Capital investment is core to our future growth and productivity. We actively manage the timing of our growth projects to ensure they are well aligned with demand growth and the timing of customer investments, and we have a robust pipeline of productivity investments that help us reduce costs and operate our plants at high levels of performance.

We continue to move forward with the planned expansion of our single-site polyethylene catalysts plant to supply that fast-growing segment and with our planned FCC catalysts plant in Abu Dhabi, which supports strong regional growth in the Middle East and Asia. These capacity additions are designed to ensure we have the right capacity to support our future growth and are timed to meet segment demand.

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

Tom Blaser - *W.R. Grace & Co. - SVP, CFO*

Thank you, Hudson.

Grace's fourth-quarter sales were $441 million, up 4% versus Q4 last year as reported. Overall, Grace's adjusted gross margins of 43% expanded 60 basis points compared with the prior-year quarter. Adjusted EBIT for the quarter was $119 million, up 11%. Operating margin was 27%, up 170 basis points over last year. Full-year adjusted EBIT was $400 million, up 16%. Adjusted EPS for the quarter was $0.95 per diluted share, up 32% from last year, while full-year adjusted EPS was $3.10 a share, up 42%.

Adjusted free cash flow for the year was $236 million, which compares to $257 million a year ago. This was shy of our target of at least $250 million for the full year, as we opportunistically acted in the fourth quarter on some international tax planning strategies, which contributed to our 27% cash tax rate for the year. This sets us up for a cash tax rate in 2017 of 8% to 10%.

Our adjusted EBIT return on invested capital on a trailing four-quarter basis was 24%, as reported, flat with year-end 2015 and up slightly versus last quarter. Reported ROIC will continue to improve as we realize full-year earnings and synergies of the acquisition.

In the fourth quarter, we opportunistically spent $140 million on share repurchases at an average price per share of just under $69. Repurchases for the full year were $195 million. As of December 31, we had $34 million remaining on our existing share repurchase authorization. And as Fred mentioned, we announced both a new $250 million repurchase plan and a 24% increase in our quarterly dividend to $0.21 per share.

It's worth noting that since February 2014 the Company has returned over $1 billion of its cash to shareholders through share repurchase and dividend.

Let's review our 2017 outlook and then we can open the call for your questions. We're establishing our full-year guidance for 2017 to include adjusted EPS to be in the range of $3.30 to $3.55 per share, using our effective tax rate. Using our cash tax rate, adjusted EPS increases to the range of $4.40 to $4.65 per share. We expect sales growth between 3% and 6%, adjusted EBIT in the range of $415 million to $440 million, and adjusted EBITDA in the range of $525 million to $550 million. This guidance assumes an average euro exchange rate of EUR 1.05 for the year, compared with EUR 1.10 last year.

Looking to our business segments, we expect catalysts technologies' earnings to increase mid- to high single digits for the year. Specialty catalysts will grow at a higher rate than refining catalysts for the year. We expect ART earnings to be down slightly, with a tough comparison to last year, and the sales to be more weighted toward the second half of the year, due to the variation in refresh cycles of the product offerings.

In materials technologies, while revenues are expected to be flat, due to the product lines exited in 2016, we see mid to high single-digit earnings growth through mix shift towards our higher-margin fine chemicals business and a healthier market in Asia.

Turning to Q1, we will follow our normal sequential step-down from Q4, though more pronounced by our key customer's shutdown. Sales and earnings will grow sequentially as the year progresses. We expect catalysts earnings to be up low single digits over last year and materials technologies earnings to be up double digits, reflecting the favorable comparison to the China inventory correction last year. Net net, we expect Q1 earnings to be up low to mid single digits over last year.

Looking out over the rest of the year, we see strong demand for our FCC and polyolefin catalysts products, positive activity in our licensing business, and we have good visibility to the acceleration of the ART business throughout the year. On the FCC side, we have captured the upside and downside scenarios in our outlook range.

With respect to inflation, our guidance assumes slightly higher input costs year over year.

We project corporate costs between $65 million and $70 million and pension expense to be about $13 million. Interest expense for the full year is expected to approximate $79 million.

Our capital investments are projected to be $155 million. This includes the capital required to achieve certain synergies from the polyolefin catalysts acquisition and, as Hudson mentioned, reflects our continued focus on timing our investments to align with our customers' demand and the market.

We expect 2017 adjusted free cash flow to be between $265 million and $275 million, including the favorable impact of our low cash tax rate. Cash flow phasing is expected to be equally distributed between first and second half of the year, similar to last year.

In closing, we are focused on driving topline growth and remaining committed to our disciplined approach of profit improvement, cash generation, and capital allocation management as we continue to deliver increasing value to our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Christopher Parkinson, Credit Suisse.

Christopher Parkinson - *Credit Suisse - Analyst*

Thank you. Over the last year, you've been implementing some new sales strategies, including a national accounts program and greater focus on price for value strategies. Can you just update us on how you perceive the success of these initiatives, and then just comment generally on how you expect these benefits to roll through catalysts pricing throughout 2017 and 2018? Thank you.

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

Chris, this is Fred. I'll turn that over to Hudson. He is intimately involved in that program.

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

Thank you, Fred, and thank you, Chris. It's a great question. So over the last year or so, we've done a number of things to really bring a different focus to our sales and marketing efforts.

You mentioned the national accounts program. That's a piece of it, but it's just one piece of a set of activities that we've put in place to drive better topline growth and continue to drive our margins, and we're starting to see the results of that. We saw it in Q3 and Q4 and that's really the foundation that we built 2017 on. We're saying 3% to 6% topline growth. That's got a little bit of currency headwind in it. Call it 4% to 7%, I think is the number, on a constant-currency basis. Some of that is price, most of it is volume, and we expect to continue to get the margin expansion that comes with that growth and that operating leverage.

Christopher Parkinson - *Credit Suisse - Analyst*

Great. Thank you. And then, on the last call you mentioned a $10 million to $12 million headwind for both lower licensee revenues and spec hat activity this year. But it sounded like you are a little more positive on the licensee activity this year. And also, in China BDO prices have been on the up and up, so which I'm assuming is increasing some turnover. Can you just generally comment on that number and what your expectations for the balance of the year and what's embedded in the guidance? Thank you.

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

Chris, it's Fred again. A number of our licenses fell off in the fourth quarter, and as we go into 2017, it is creating that headwind on that side of it.

I think what Hudson referred to in his comments -- or I know what Hudson referred to in his comments are we have seen a significant uptick in activity around quotes for new licenses and so on. So as we rebuild that pipeline back up, there's a lot of positives there on that side of it, and those positives will play itself out over 2017 and we'll start seeing the results of those in late 2017, early 2018, 2019, on that side of it.

On the BDO side, I'll turn it over to Hudson. I don't think we've seen any difference.

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

Nothing that I think is noteworthy. As Fred said, we've seen an uptick in licensing activity. It's a fairly strong signal, frankly, that 2017 should be the bottom for licensing. There is a longer sales cycle, as Fred said, which means it's really 2018 or 2019 when we start to see those benefits, late 2017 on a couple of them. But we have not seen that bottoming out in the BDO market yet.

Christopher Parkinson - *Credit Suisse - Analyst*

That's great detail. Thank you.

Operator

Robert Koort, Goldman Sachs.

Robert Koort - *Goldman Sachs - Analyst*

Thanks very much. I was curious. When you have customer issues, given the customized nature of your catalysts offer, can you repurpose material you had from one customer to another? Or what can you do to sort of offset that temporary hold?

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

There is a lot of options. Again, this is a new issue, as you know. The fire was, I don't know, three weeks ago or so, and we wanted to be cautious on our approach to this and cautious in our guidance on the ranges of this side of it.

We will work our supply chain to repurpose some of that. We're working with them on how do you get that unit started up, and as well we want to look at our insurance options around that because we've gone through this before. It is a significant piece; we went through it with Rita, and when some of our customers were down, we were able to recover some of our costs on that side of it.

So, again, it's early. The good news is we're working with them on this -- on the unit itself. We're in there every day and we do have those options. But we wanted to be transparent on that range, that if it is an extended outage, which an extended outage would be very late in the year, we wanted to be able to have a range that we were comfortable with.

Robert Koort - *Goldman Sachs - Analyst*

Got it. And then, a mark that investors have been certainly acutely focused on is the pricing in catalysts. You showed some sequential progress. Can you characterize what's driving that? And should we expect that to continue to aggregate as you go through 2017? Or what's sort of the path forward?

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

So Bob, this is Hudson. This is the result of multiple months -- really, multiple quarters -- of work that we are starting to see pay off in our results, and it's a combination of a technology-driven price, where we're bringing better technologies to our customers and we've using that as an opportunity to increase our average prices. There's an element of this that's customer mix. We are working to make sure that our customer portfolio is a group of customers that fully values our technology.

We've built a strong foundation for 2016. We started to see some results in Q4 and I think that will continue -- I know it will continue as we go into 2017. I think that 1% to 2% of price that we've talked about for a long time is still the right way to think about it, but we're starting to see some of the results of the work we've done.

Operator

Ben Kallo, Robert W. Baird.

Ben Kallo - *Robert W. Baird & Company, Inc. - Analyst*

Just back to the UNIPOL. If I remember correctly, it was around a $50 million EBITDA business, so when you look out to licensing pipeline, I think, Hudson, you mentioned 2018/2019 is shaping up. How do we just think about that? I guess any kind of sizing that you can do for us on that opportunity.

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

Just in terms of sizing it, Ben?

Ben Kallo - *Robert W. Baird & Company, Inc. - Analyst*

Yes, just for the pipeline there.

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

So, a couple points. The EBITDA number that you quoted was for the entire UNIPOL business, which is mostly catalysts. The licensing business is an important part of it, but that number was mostly driven by the catalysts volumes, which have been terrific. Our catalysts volumes on what I'll call the legacy UNIPOL technology have been up double digits since we bought the acquisition. This is -- when I referred to the CONSISTA non-phthalate polypropylene catalyst, that's a technology we acquired with that acquisition and it's been a real winner for us.

On the licensing side, that $10 million to $12 million headwind that we mentioned with licensing and BDO, probably a bit more than half of that is licensing, and I think we have the opportunity to turn that around and completely recapture that headwind as we get into 2018 and 2019.

Ben Kallo - *Robert W. Baird & Company, Inc. - Analyst*

Okay. That's helpful. And then on capital allocation and the balance sheet, can you guys just give us an update there on what priorities are and how that relates to M&A opportunities as well? Thanks, guys.

Tom Blaser - *W.R. Grace & Co. - SVP, CFO*

Sure, Ben. It's Tom. So our stated capital allocation approach is to prioritize our capital and R&D to grow the topline, and after that, we really focus our efforts on returning value to shareholders while keeping our debt within the range of 2 to 3 times EBITDA, while looking at M&A as well. That's the priorities for -- and continue to be the priorities for 2017.

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

And I would add one other thing, Ben. I think Tom and the team did a nice job of tax planning at the end of 2017 -- end of 2016 to position us well for 2017 on a low cash tax basis so we've got enough dry powder there to accommodate all those goals.

Operator

Chris Kapsch, Aegis Capital.

Chris Kapsch - *Aegis Capital - Analyst*

Good morning. I was hoping to get a little clarification on the current guidance for 2017 with respect to the fire affecting your FCC business. Does the guidance contemplate that refinery being shut down for just the first quarter or something beyond the first quarter? And then, if you could just provide any color on timing, and then, also, the guidance, I assume you're saying that it currently does not contemplate any insurance recoveries also.

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

Chris, it's Fred. The guidance is on the low end that we don't expect that refinery to come up until late in the year. Late in the year is some time into the fourth quarter. That's the low end of it.

On the top end of it, we expect it to come up during the second quarter, as well as expecting some of the other favorable signs we're seeing in the market to come through on it. Insurance is a wild card on this. We'll pursue it, but how that plays out, that's not factored into the guidance range at this point.

Chris Kapsch - *Aegis Capital - Analyst*

Okay. And then, just if I could follow up on the ART joint venture and the commentary about the HPC catalysts market. It sounds like you have good visibility. Can you just characterize maybe the backlog of that business? I think you said it might be -- the cadence of the earnings from the joint venture might be a little second-half loaded. Maybe that's a comparison thing. But can you just talk about the backlog and the demand, maybe by region? Is the demand you are seeing more domestic or is it balanced globally? Any color on that would be helpful.

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

Sure, Chris. This is Hudson. A couple thoughts. I wouldn't characterize the demand as stronger or weaker in any one region. This is a truly global business that we operate on a global business.

And what drives demand from a regional perspective really is the location of the hydroprocessing unit. The biggest investments over the last few years have been in the emerging regions. They've been in Asia principally, the Middle East to a lesser extent. We have a great business base in North America, but those are investments that were made earlier in time.

In terms of the strength of what we're seeing, we had a good selling year in 2016 and a lot of that showed up as 2016 volume. A lot of it's going to show up as 2017 volume. And the other thing that we've done, and I feel pretty good about this, is we've improved the margins in that business. We've done it by making sure that we're competing to win with our best technology. We've said no, thank you, to some bids, frankly, that were inappropriately aggressive and we've really tried to improve the quality of that business as well.

Chris Kapsch - *Aegis Capital - Analyst*

That's helpful. Thanks for the color.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Thank you. When I look at Slide 5 on the catalysts and the regional sales breakdown pie chart there, sequentially emerging regions went up 400 basis points, went from 36% to 40%, and developed Asia also went up four percentage points, from 8% to 12%. Could you bridge that for us of how the regional areas jumped that much?

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

This is a combination of FCC catalysts and polyolefin catalysts, John, and probably the single biggest driver in the emerging-region slice is that big customer in the Middle East that was at full run rates in the fourth quarter. On the developed Asia side, that's really driven by our polyolefin catalysts business and the success of those products in those markets.

John Roberts - *UBS - Analyst*

And you are over 50% now in Asia in emerging regions there. Would you expect that to stay generally above 50% and continue to creep up from there?

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

I think yes, based on really the position of our polyolefin catalysts business, and that's where most of the licensing opportunities are coming from.

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

And just to add on to that, that's where a lot of the recent investments have been made, both in the Middle East, as well as Asia on both the new refiners as well as the petrochemical side. I think you may see a little bit of a shift in 2020 as some of the North American Gulf Coast assets start coming on, but for the near term, we should be balanced that way.

Operator

(Operator Instructions). Mike Harrison, Seaport Global.

Mike Harrison - *Seaport Global Securities - Analyst*

Hi, good morning. I was wondering if you could give an update on expected synergies from the BASF acquisition? Is that integration going better or worse at this point than you would have expected?

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

It is going well. We're really on track from a timeline perspective. We're right where we wanted be.

The results from that work are a little bit better than we had planned, both on the topline and the bottom line, but we're right on track. And what that means is the organizational integration is 98% complete, the cultural fit, bringing the sales teams together, the R&D teams together. I think we've got a couple more milestones in the back office that will pass through this quarter.

The big synergy opportunities are in the manufacturing plants and we're starting to see some of those already, better utilization in the plants we acquired, but the big payoff will not be until 2018 because there's capital investments required to get the big payoff that we want. Those investments are underway at this point, but we won't really see the benefits until next year.

Mike Harrison - *Seaport Global Securities - Analyst*

All right. And then in terms of the materials business, I was wondering if you could give some color on what kind of traction you're seeing with some of the new products that you've been introducing during the second half of 2016?

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

I like the progress that we've made, both on -- when you think about where the new products were targeted, pharma end uses, some consumer end uses, and the chemical process end uses, different products for different applications in those broad end-market segments. This is what we're looking to add -- this is an awkward way to say it. Let me try again.

So this business grows at a premium to the markets that it serves. The reason it grows at premium to the markets it serves is because of these new products, and we pick up a point or two of revenue because of the benefit of these new products. That's a better way to say it.

Mike Harrison - *Seaport Global Securities - Analyst*

Thank you very much.

Operator

Laurence Alexander, Jefferies.

Laurence Alexander - *Jefferies LLC - Analyst*

Good morning. Two quick questions, first on mature technology. Can you give a little bit more detail on the improvement you're seeing in Asia? Like, which markets? And secondly on catalysts, can you give a little bit of perspective on your innovation cycle and if there's any step-change products that we should be thinking about over the next couple of years that would change the three- to five-year outlook?

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

So, Laurence, this is Hudson again. The biggest driver from a pure mathematical perspective in Asia for MT is we are not seeing the inventory correction that we saw this time last year. That's part of the math as you think about bridging 2016 to 2017.

But more fundamentally, we're in a great position there. We're actually looking now at how do we get more product into the region from our existing -- or global manufacturing base. It's being driven principally by coatings end uses, not exclusively, but that's really where we're seeing the strength. It's the bigger slice of the pie there for us, anyway.

On the catalysts innovation cycle, I'll split it into two parts. On the FCC catalysts side, we went through a nice round of innovation two years ago now -- 2015, I want to say -- where we were introducing new products to the market. This is the ACHIEVE series of products that I'm thinking about that started to gain traction in 2016 and I think that continues to be a plus for us as we head from 2016 to 2017.

On the SC side, on the polyolefin catalysts side, we acquired some terrific technology with the UNIPOL acquisition a few years ago. We referenced that already. The value of those technologies is still growing in our portfolio. It's still an opportunity for us to continue to drive penetration in the market.

There's a new wave of innovation that has been kicked off with the acquired technology from last summer, and it's sparking new ideas, new ways to combine these technologies. Those products really haven't started to hit the marketplace yet, and so there's a little bit of a difference in terms of cycles, depending on which business you're talking about.

Laurence Alexander - *Jefferies LLC - Analyst*

And then just quickly, if I may. What do you need to do internally to get to the top end of your range for the year?

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

Laurence, it's Fred. We need to, as we said, have the Middle East refinery come up in the second-quarter time frame, as well as get the positives and capture the positives across some of the other business units that we're aggressively going after.

Operator

Chris Shaw, Monness Crespi.

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

I was just sitting here, across the news came a story about a fire at another refinery in the US, so let's hope it's not one of yours.

But I was going to ask about the Mideast plant, the refinery that's down. If it's extended and you have, I guess, some spare capacity, do you see yourself shopping that around? I guess what I'm really concerned more about is would that impact sort of the momentum that the industry seems to have on FCC pricing going forward, or would that be something you would be very focused on and not try to impact that momentum?

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

I like -- more than I like. I love the gains we made in 2016 in repositioning our portfolio with the current customers we have, what we did in 2016 around our capacity and taking out some of that low-end margin capacity, so we will be very, very cautious not to disrupt what we have done and what we have accomplished in 2016. So I think we're in a good position right now, the industry is in a good position, and I think you get my point.

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

Okay. Great. And then on the licensing side, I'm not 100% sure how it works in terms of timing and when you recognize revenues and all. When you sign an agreement for licensing, is there an upfront payment and then -- or is it all just a license -- revenue on each use or something? I don't know how that sort of filters into the topline.

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

So, Chris, it's Hudson. Think of it from two different perspectives. There's a cash flow stream, but then there's a revenue recognition stream, and they are -- just the way the rulebook works, they are a little different. We typically do get an upfront payment with the license, and then we'll get payments along the way and usually there's a payment at the end of the period when the customer's unit comes online. But the revenue recognition is designed more to match the work that's being done, and so it tends to get smoothed out during that period.

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

So even if you signed a bunch of agreements at the end of the year, it wouldn't be -- that upfront cash payment would be cash and not recognized all follows that, right?

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

You'd get a little bit of it, but it's not like you get 80% or something on the first day. It gets recognized over 18 months or two years, depending on the cycle with the particular customer.

Operator

Thank you. I'm showing no further questions at this time. I'd like to turn the call back to Ms. Almond for closing remarks.

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

Great. Thank you, Operator. We'd like to thank everyone on the call for joining us today. If you have any follow-up questions, you can reach me at 410-531-4590. Have a great day. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a wonderful day.