



W. R. Grace & Co.

**Third Quarter 2015
Business Update**

Investor Presentation
October 22, 2015

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Talent | Technology | Trust

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Non-GAAP Financial Terms

These slides contain certain “non-GAAP financial terms” which are defined in the Appendix.

Reconciliations of non-GAAP terms to the closest GAAP term (i.e., net income) are provided in the Appendix.

Q3 2015 Highlights

Sales

- Strong performance in Construction Products with sales up 8.4% constant currency
- Q3 FX unfavorable impact to sales of ~\$55 mm

Adjusted EBIT

- About \$5 million better than our expectations
- Adjusted EBIT margin +80 bps

Recorded a charge of \$72.5 million related to Venezuelan operations

Adjusted Free Cash Flow of \$343 million YTD, up 2%

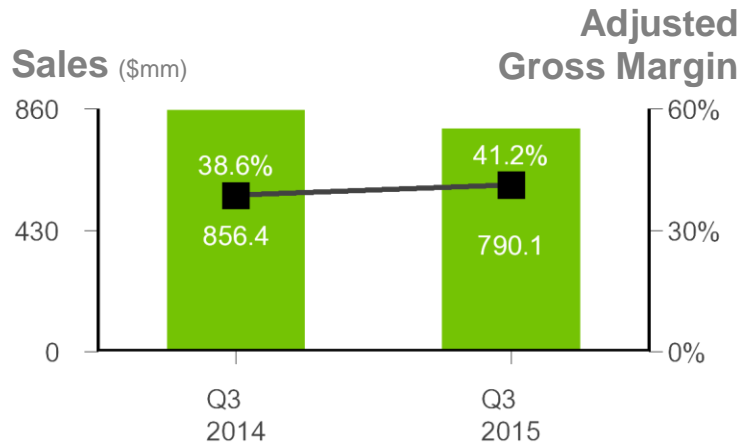
- Strong cash generation despite FX headwinds

Full Year 2015 constant currency guidance raised for Adjusted EPS

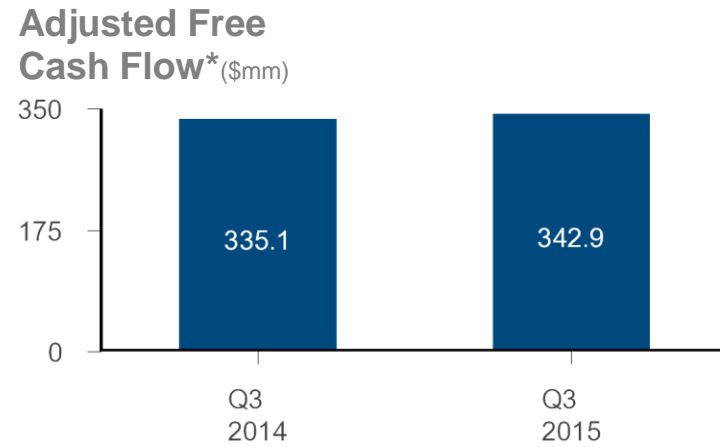
- Adjusted EBIT of \$675 mm - \$685 mm, an increase of 8% - 9% constant currency
- Adjusted EPS of \$5.25 - \$5.35 per share, an increase of 19% - 21% constant currency
- Continue to expect Adjusted Free Cash Flow to be at least \$430 mm

Separation transaction is on track

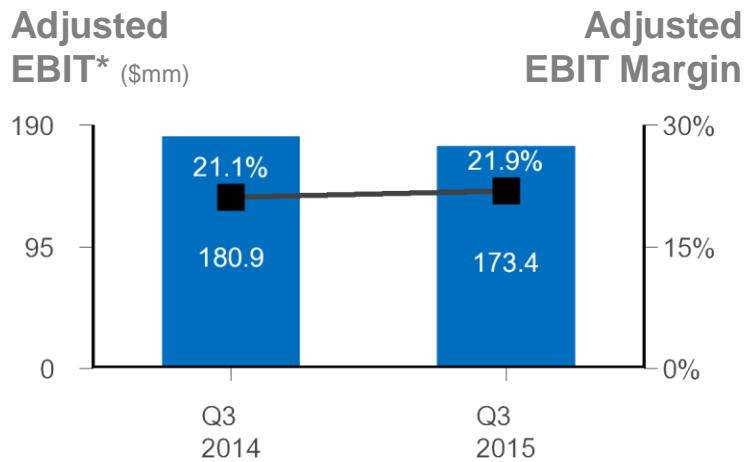
Q3 2015 Financial Performance



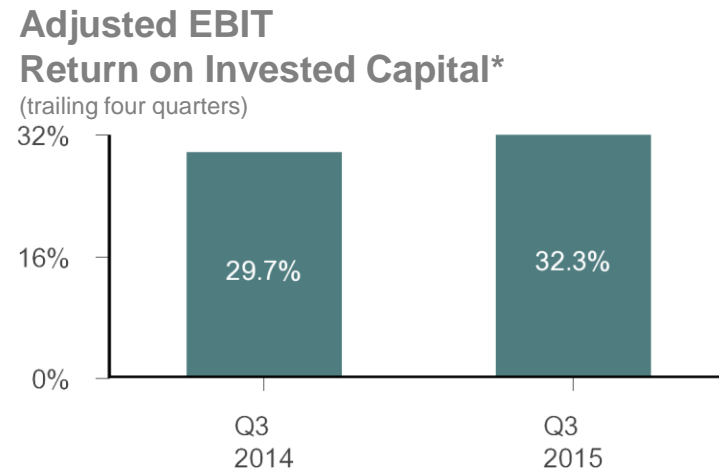
Good gross margin improvement



Cash Flow up 2% YoY



Margin up 80 bps



ROIC up 260 bps

Grace Business Results* – Q3 2015

(in millions of dollars except EPS)	Q3 2014	Q3 2015	Y/Y Change	Q2 2015	Q/Q Change
Net Sales	856.4	790.1	(7.7)%	782.1	1.0%
Adjusted Gross Margin	38.6%	41.2%	260 bps	40%	120 bps
Adjusted EBIT	180.9	173.4	(4.1)%	156.8	10.6%
Adjusted EBIT Margin	21.1%	21.9%	80 bps	20.0%	190 bps
Adjusted EBITDA Margin	25.1%	26.1%	100 bps	24.3%	180 bps
Adjusted EBIT ROIC	29.7%	32.3%	260 bps	31.6%	70 bps
Diluted EPS	0.99	0.19	(80.8)%	0.78	(75.6)%
Adjusted EPS	1.07	1.37	28.0%	1.19	15.1%

Strong Margins; Good Sequential Improvement

Venezuela Background

Operational:

- Between Q1 2014 and Q2 2015, Venezuela sales averaged 3% of Construction revenue and less than 2% of Materials revenue
- In Q3 2015 we were able to import a significant amount of raw materials and catch up on past customer demand and supply some future demand

Venezuela Sales and Gross Profit

(\$ millions)	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	YTD 2015
Sales (SCC & Darex)	9.5	12.6	12.3	13.7	48.1	11.4	15.6	41.5	68.6
Gross Profit	5.0	4.9	5.4	6.2	21.5	4.1	5.3	25.2	34.6

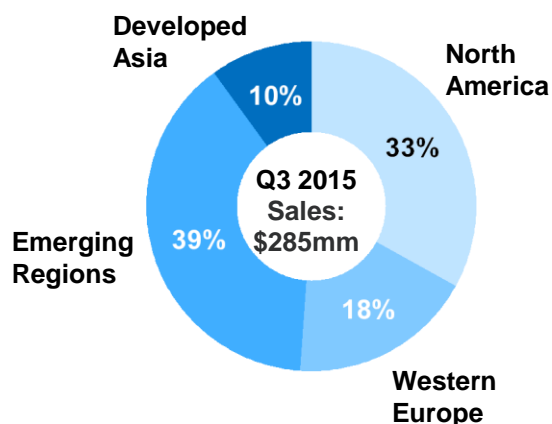
Q3 Charge:

- Effective September 30 we will account for the results of our Venezuelan subsidiary at the SIMADI rate
- We recorded a charge of \$72.5 million to reflect this change
- From October 1, the assets, liabilities, sales, earnings and cash flows of our Venezuelan subsidiary will be immaterial

Catalysts Technologies – Q3 2015 Results

- FCC down as expected - Strategic commercial shift in progress
- Specialty catalysts down as expected due to customer order timing
- Adjusted Gross Margin up 90 bps YoY and 10 bps QoQ
- Operating margin up 40 bps QoQ

(in millions of dollars)	Q3 2014	Q3 2015	Q2 2015	Y/Y Change	Q/Q Change
Sales	329.3	285.3	289.3	(13.4)%	(1.4)%
<i>Adjusted Gross Margin</i>	42.5%	43.4%	43.3%	90 bps	10 bps
Operating Income	100.9	86.4	86.6	(14.4)%	(0.2)%
<i>Operating Margin</i>	30.6%	30.3%	29.9%	(30) bps	40 bps



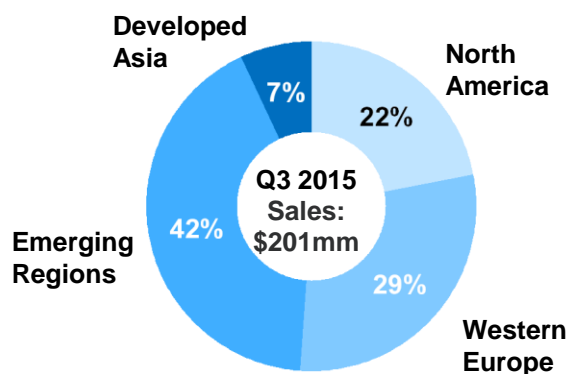
Factors Impacting Sales

Y/Y Change	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q/Q Change
Volume	22.0%	11.4%	3.7%	(1.5)%	(8.2)%	(1.8)%
Price	(2.0)%	0.4%	0.2%	(0.1)%	(0.4)%	(0.1)%
Currency	0.3%	(2.6)%	(5.1)%	(6.0)%	(4.8)%	0.7%
Total	20.3%	9.2%	(1.2)%	(7.6)%	(13.4)%	(1.2)%

Materials Technologies – Q3 2015 Results

- Adjusted Gross Margin up 160 bps YoY and flat QoQ, ex. all Venezuela
- Regions
 - * Europe improving
 - * Middle East strong
 - * China down
 - * North America down

(in millions of dollars)	Q3 2014	Q3 2015	Q2 2015	Y/Y Change	Q/Q Change
Sales	229.1	200.9	204.2	(12.3)%	(1.6)%
<i>Adjusted Gross Margin</i>	35.3%	38.1%	37.2%	280 bps	90 bps
Operating Income	48.7	46.4	45.7	(4.7)%	1.5%
<i>Operating Margin</i>	21.3%	23.1%	22.4%	180 bps	70 bps



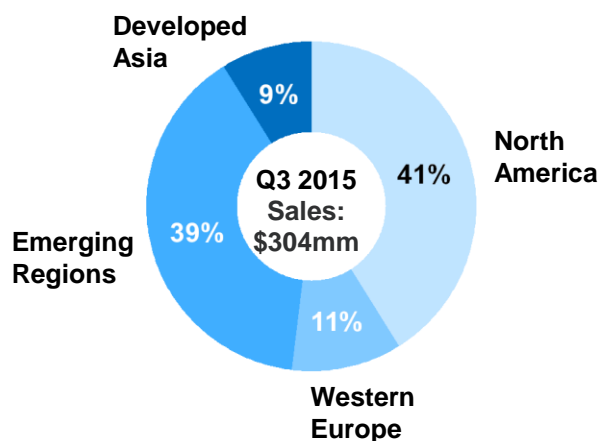
Factors Impacting Sales

Y/Y Change	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q/Q Change
Volume	3.1%	(1.4)%	(1.6)%	(3.6)%	(5.1)%	(4.0)%
Price	0.8%	1.3%	0.9%	0.8%	1.6%	1.9%
Currency	0.2%	(4.2)%	(8.2)%	(10.7)%	(8.8)%	0.5%
Total	4.1%	(4.3)%	(8.9)%	(13.5)%	(12.3)%	(1.6)%

Construction Products – Q3 2015 Results

- SCC sales volume up 5.3% and SBM sales volume up 4.2%
- Adjusted Gross Margin up 240 bps YoY and flat QoQ, ex. all Venezuela
- Regions
 - * North America growing
 - * Middle East and ASEAN strong
 - * Europe, China, Brazil down

(in millions of dollars)	Q3 2014	Q3 2015	Q2 2015	Y/Y Change	Q/Q Change
Sales	298.0	303.9	288.6	2.0%	5.3%
<i>Adjusted Gross Margin</i>	36.8%	41.2%	38.6%	440 bps	260 bps
Operating Income	48.9	67.3	53.9	37.6%	24.9%
<i>Operating Margin</i>	16.4%	22.1%	18.7%	570 bps	340 bps



Factors Impacting Sales

Y/Y Change	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q/Q Change
Volume	4.5%	4.2%	3.7%	5.6%	4.9%	2.4%
Price	2.9%	2.7%	0.8%	1.8%	3.5%	4.0%
Currency	NA	(3.3)%	(4.9)%	(7.4)%	(6.4)%	(1.1)%
Total	7.4%	3.6%	(0.4)%	—%	2.0%	5.3%

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Appendix: Definitions and Reconciliations of Non-GAAP Measures

Non-GAAP Financial Terms

Adjusted EBIT means net income adjusted for: interest income and expense; income taxes; costs related to Chapter 11 and asbestos; restructuring and repositioning expenses and related asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product lines, and certain other investments; gains and losses on sales of businesses, product lines, and certain other investments; and certain other unusual or infrequent items that are not representative of underlying trends.

Adjusted EBITDA means Adjusted EBIT adjusted for depreciation and amortization.

Adjusted Free Cash Flow means net cash provided by or used for operating activities minus capital expenditures plus cash flows related to Chapter 11 and asbestos, cash paid for restructuring and repositioning, accelerated payments under defined benefit pension arrangements, and expenditures for legacy items. Grace uses Adjusted Free Cash Flow as a liquidity measure to evaluate its ability to generate cash to support its ongoing business operations, to invest in its businesses, and to provide a return of capital to shareholders.

Adjusted Earnings Per Share (EPS) means Diluted EPS adjusted for costs related to Chapter 11 and asbestos; restructuring and repositioning expenses and related asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product lines, and certain other investments; gains and losses on sales of businesses, product lines, and certain other investments; certain other unusual or infrequent items that are not representative of underlying trends; and certain discrete tax items.

Adjusted EBIT Return On Invested Capital means Adjusted EBIT (on a trailing four quarters basis) divided by the sum of net working capital, properties and equipment and certain other assets and liabilities.

Adjusted Gross Margin means gross margin adjusted for pension-related costs and loss in Venezuela included in cost of goods sold.

We use Adjusted EBIT as a performance measure in significant business decisions and in determining certain incentive compensation. We use Adjusted EBIT as a performance measure because it provides improved period-to-period comparability for decision making and compensation purposes, and because it better measures the ongoing earnings results of our strategic and operating decisions by excluding the earnings effects of our Chapter 11 proceedings, asbestos liabilities, restructuring activities, and divested businesses.

Adjusted EBIT, Adjusted EBITDA, Adjusted Free Cash Flow, Adjusted EPS, Adjusted EBIT Return On Invested Capital, and Segment Gross Margin do not purport to represent income measures as defined under U.S. GAAP, and should not be used as alternatives to such measures as an indicator of our performance. These measures are provided to investors and others to improve the period-to-period comparability and peer-to-peer comparability of our financial results, and to ensure that investors understand the information we use to evaluate the performance of our businesses. We have provided in the following tables a reconciliation of these non-GAAP measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP.

Adjusted EBIT has material limitations as an operating performance measure because it excludes Chapter 11- and asbestos-related costs and may exclude income and expenses from restructuring activities and divested businesses, which historically have been material components of our net income. Adjusted EBITDA also has material limitations as an operating performance measure because it excludes the impact of depreciation and amortization expense. Our business is substantially dependent on the successful deployment of capital, and depreciation and amortization expense is a necessary element of our costs. We compensate for the limitations of these measurements by using these indicators together with net income as measured under U.S. GAAP to present a complete analysis of our results of operations. Adjusted EBIT and Adjusted EBITDA should be evaluated together with net income measured under U.S. GAAP for a complete understanding of our results of operations.

Appendix: Reconciliation of Non-GAAP Financial Measures (continued)

<u>Adjusted EBIT by Operating Segment:</u>	<u>2014</u>	<u>Q1 2014</u>	<u>Q2 2014</u>	<u>Q3 2014</u>	<u>Q4 2014</u>	<u>Q1 2015</u>	<u>Q2 2015</u>	<u>Q3 2015</u>
Catalysts Technologies segment operating income	378.3	71.2	97.5	100.9	108.7	73.7	86.6	86.4
Materials Technologies segment operating income	185.2	45.5	49.7	48.7	41.3	41.0	45.7	46.4
Construction Products segment operating income	161.7	25.4	45.0	48.9	42.4	29.4	53.9	67.3
Corporate costs	(90.6)	(22.5)	(22.8)	(23.8)	(21.5)	(20.6)	(23.1)	(22.2)
Gain on termination and curtailment of postretirement plans related to current businesses	23.6	—	4.7	14.2	4.7	1.9	—	1.9
Certain pension costs	(32.0)	(8.3)	(8.0)	(8.0)	(7.7)	(6.5)	(6.3)	(6.4)
Adjusted EBIT	626.2	111.3	166.1	180.9	167.9	118.9	156.8	173.4
Currency and other losses in Venezuela	(1.0)	—	—	(1.0)	—	—	—	(72.5)
Repositioning expenses	—	—	—	—	—	(6.9)	(13.4)	(14.0)
(Costs) benefit related to Chapter 11 and asbestos, net	(26.3)	(15.5)	(1.5)	(4.7)	(4.6)	9.7	(2.7)	(6.1)
Restructuring expenses and asset impairments	(22.4)	(0.7)	(11.7)	(5.4)	(4.6)	(9.5)	(4.4)	(4.8)
Gain on termination and curtailment of postretirement plans related to divested businesses	15.9	—	3.2	9.5	3.2	2.6	—	2.6
Income and expense items related to divested businesses	(5.2)	(1.1)	(3.6)	(2.1)	1.6	0.7	(0.4)	0.7
Pension MTM adjustment and other related costs, net	(128.3)	4.8	—	—	(133.1)	(4.7)	—	—
Gain on sale of product line	0.2	—	0.2	—	—	—	—	—
Interest expense, net	(125.8)	(18.9)	(24.2)	(58.1)	(24.6)	(24.9)	(24.9)	(25.4)
Provision for income taxes	(57.0)	(29.8)	7.7	(44.6)	9.7	(28.7)	(53.6)	(40.1)
Net income attributable to W. R. Grace & Co. shareholders	276.3	50.1	136.2	74.5	15.5	57.2	57.4	13.8

Appendix: Reconciliation of Non-GAAP Financial Measures (continued)

	2013	2014	Q3 2014	Q3 2015
Adjusted Free Cash Flow:				
Net cash used for operating activities	515.9	(1,472.1)	(1,636.4)	(80.8)
Capital expenditures	(156.2)	(169.8)	(121.7)	(112.4)
Free Cash Flow	359.7	(1,641.9)	(1,758.1)	(193.2)
Cash paid for Chapter 11 and asbestos, including accounts payable	15.0	1,380.3	1,376.8	493.8
Cash paid for repositioning	—	—	—	18.6
Cash paid for restructuring	6.4	7.9	4.8	12.1
Cash paid for legacy items	5.0	6.8	4.6	8.6
Capital expenditures related to repositioning	—	—	—	3.0
Cash paid to settle deferred payment obligation	—	632.0	632.0	—
Accelerated defined benefit pension plan contributions	50.0	75.0	75.0	—
Adjusted Free Cash Flow	436.1	460.1	335.1	342.9
Calculation of Adjusted EBIT Return On Invested Capital (trailing four quarters):				
	2013	2014	Q3 2014	Q3 2015
Adjusted EBIT	550.8	626.2	596.9	615.1
Invested Capital:				
Trade accounts receivable	481.8	481.1	527.3	455.2
Inventories	295.3	332.8	337.3	323.1
Accounts payable	(262.5)	(255.3)	(298.5)	(262.3)
	514.6	558.6	566.1	516.0
Other current assets (excluding income taxes)	81.2	76.9	87.4	65.2
Properties and equipment, net	829.9	833.5	826.4	813.9
Goodwill	457.5	452.9	460.2	439.9
Technology and other intangible assets, net	315.5	288.0	296.2	265.7
Investment in unconsolidated affiliate	96.2	113.1	108.8	112.1
Other assets (excluding capitalized financing fees)	40.0	23.0	24.3	25.9
Other current liabilities (excluding income taxes, environmental remediation related to asbestos and divested businesses, Chapter 11, restructuring, and accrued interest)	(248.0)	(256.7)	(265.6)	(257.8)
Other liabilities (excluding environmental remediation related to asbestos and divested businesses)	(72.7)	(81.8)	(93.3)	(75.6)
Total invested capital	2,014.2	2,007.5	2,010.5	1,905.3
Adjusted EBIT Return On Invested Capital	27.3%	31.2%	29.7%	32.3%

Appendix: Reconciliation of Non-GAAP Financial Measures (continued)

Three Months Ended September 30,

	2015				2014			
	Pre-Tax	Tax Effect	After-Tax	Per Share	Pre-Tax	Tax Effect	After-Tax	Per Share
(In millions, except per share amounts)								
Diluted Earnings Per Share (GAAP)				\$ 0.19				\$ 0.99
Currency and other losses in Venezuela	72.5	9.3	63.2	0.87	1.0	—	1.0	0.01
Repositioning expenses	14.0	(5.9)	19.9	0.27	—	—	—	—
(Costs) benefit related to Chapter 11 and asbestos, net	\$ 6.1	\$ 2.3	\$ 3.8	0.05	\$ 4.7	\$ (0.3)	\$ 5.0	0.07
Restructuring expenses and asset impairments	4.8	1.9	2.9	0.04	5.4	3.5	1.9	0.03
Gain on termination and curtailment of postretirement plans related to divested businesses	(2.6)	(1.0)	(1.6)	(0.02)	(9.5)	(3.7)	(5.8)	(0.08)
Income and expense items related to divested businesses	(0.7)	(0.3)	(0.4)	(0.01)	2.1	2.4	(0.3)	—
Discrete tax items:								
Discrete tax items, including adjustments to uncertain tax positions		1.8	(1.8)	(0.02)		(4.1)	4.1	0.05
Adjusted EPS (non-GAAP)				<u>\$ 1.37</u>				<u>\$ 1.07</u>
<u>Certain items included in Adjusted EPS:</u>								
Differential between effective tax rate and cash tax rate				\$ 0.35				\$ 0.56
Gain on termination and curtailment of postretirement plans related to current businesses				(0.02)				(0.12)
Interest accretion on deferred payment obligations				—				0.36
Total				<u>\$ 0.33</u>				<u>\$ 0.80</u>

Nine Months Ended September 30,

	2015				2014			
	Pre-Tax	Tax Effect	After-Tax	Per Share	Pre-Tax	Tax Effect	After-Tax	Per Share
(In millions, except per share amounts)								
Diluted Earnings Per Share (GAAP)				\$ 1.69				\$ 3.40
Currency and other losses in Venezuela	72.5	9.3	63.2	0.86	1.0	—	1.0	0.01
Repositioning expenses	34.3	(3.4)	37.7	0.52	—	—	—	—
Restructuring expenses and asset impairments	18.7	6.3	12.4	0.17	17.8	7.5	10.3	0.13
Pension MTM adjustment and other related costs, net	4.7	1.7	3.0	0.04	(4.8)	(1.8)	(3.0)	(0.04)
Gain on termination and curtailment of postretirement plans related to divested businesses	(2.6)	(1.0)	(1.6)	(0.02)	(12.7)	(4.8)	(7.9)	(0.10)
Income and expense items related to divested businesses	(1.0)	(0.4)	(0.6)	(0.01)	6.8	2.5	4.3	0.06
(Costs) benefit related to Chapter 11 and asbestos, net	\$ (0.9)	\$ (0.3)	\$ (0.6)	(0.01)	\$ 21.7	\$ 5.9	\$ 15.8	0.21
Gain on sale of product line	—	—	—	—	(0.2)	(0.1)	(0.1)	—
Discrete tax items:								
Discrete tax items, including adjustments to uncertain tax positions		(10.4)	10.4	0.14		47.1	(47.1)	(0.61)
Adjusted EPS (non-GAAP)				<u>\$ 3.38</u>				<u>\$ 3.06</u>
<u>Certain items included in Adjusted EPS:</u>								
Differential between effective tax rate and cash tax rate				\$ 0.93				\$ 1.42
Gain on termination and curtailment of postretirement plans related to current businesses				(0.02)				(0.15)
Interest accretion on deferred payment obligations				0.01				0.53
Total				<u>\$ 0.92</u>				<u>\$ 1.80</u>