INNOPHOS 3Q14 RESULTS CONFERENCE CALL

EDITED TRANSCRIPT

CALL HELD OCTOBER 28, 2014

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PRESENTATION

Operator

Welcome to the third-quarter 2014 Innophos earnings conference call. My name is the Yolanda and I will be the operator for today's call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded. I would now like to turn the call over to Mark Feuerbach, Vice President, Investor Relations. Mr. Feuerbach, you may begin.

Mark Feuerbach - Innophos Holdings, Inc. - VP IR, Treasury, Financial Planning & Analysis

Good morning and thank you for joining us today for Innophos's third-quarter 2014 results conference call. Joining me on the call today are Randy Gress, Chief Executive Officer, and Robert Harrer, Chief Financial Officer.

Randy will start with comments on our third quarter and progress in executing our strategic initiatives. Robert will then provide detail on our financial results and a look ahead to the fourth quarter of 2014. Randy will then conclude with some final remarks before we open the call up to your questions.

During the course of this call, Management may make or reiterate forward-looking statements made in our October 27 press release regarding financial performance and future events. We will attempt to identify these statements by use of words such as expects, believes, anticipates, intends, and other words that denote future events.

These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We caution you to consider the important risks and other factors as set forth in the forward-looking statements section and in Item 1A, Risk Factors, in our Annual Report on Form 10-K as filed with the SEC that could cause actual results to differ from those in the forward-looking statements made in this conference call.

We will make a replay of this conference call available for a limited time over the telephone at the number set forth in our press release and via a webcast available on the Company website. In addition, please note that the date of this conference call is October 28, 2014. Any forward-looking statements we may make today are based on assumptions that we believe to be reasonable as of this date, and we undertake no obligation to update these statements.

Now, I would like to turn the call over to Randy Gress, CEO of Innophos. Randy?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Thank you, Mark.

Continued strong execution by the Innophos team was offset by external challenges, including supply disruptions of phosphoric acid by our US supplier, as well as continued softness across many of the end markets in which we sell our core product lines. Our reported net sales reflect both of these external dynamics.

Despite the temporary lack of phosphoric acid, our focus on operational excellence was reflected in higher levels of profitability in our business, as our operating performance improved significantly over the year-ago period and our margins came in above the high end of our full-year projections. This also translated into another quarter of strong cash generation, which we used to repurchase shares and pay a higher dividend. For the first three quarters of 2014, we have spent $42 million, or 80% of our net income on dividends and share buybacks, showing our continued commitment to return cash to shareholders.

We delivered total Company net sales of $209 million in the third quarter, down 5% from the same period last year and sequentially as well. Diluted earnings per share of $0.83 were up 69% compared to the $0.49 recorded in the prior-year period and up 48% after giving effect to disclosed adjustments for the prior-year quarter.

Specialty phosphate volumes declined 3% and prices were down 1% compared to the prior-year period. The decline in volumes was primarily related to the previously mentioned disruption of phosphoric acid supply. Unfortunately, we have only just recently recovered from this supply constraint that began in September. Volumes were also affected, albeit to a lesser extent, by slower order patterns in certain US markets, continued softness in the nutrition business, and lower sales of less differentiated products for the baking market. As a result, specialty phosphate revenues were down 4%, or $8 million. These shortfalls overshadowed a record quarter for INNOVALT® sales for asphalt markets, which were up 40% year over year for the third quarter, as well as strong demand for Cal-Rise®, which doubled its year-over-year volume during the third quarter.

Despite these challenges, we delivered specialty phosphates operating income of $29 million, up $5 million from the prior-year period, and operating income margin of 16%, up 320 basis points from the prior-year period. The strength of our margin profile was aided considerably by improving price and mix in the US and Canada, and in Mexico with improving yields at Coatzacoalcos, where we have enhanced our reliability, efficiencies and capabilities to manufacture a more diverse mix of higher quality products. This followed corrective and improvement actions we took in Mexico during 2013.

US and Canada sales of $147 million were 4% lower compared to the prior-year period, primarily due to a 14% decline in PPA volumes. US and Canada specialty ingredients volumes were down 2% year over year due to order patterns on ammonium phosphates for the firefighting market, continued slowness in the nutrition business, and lower sales of less differentiated products for the baking market. Exports were essentially flat year over year for the Company, as a 22% improvement in Europe, Middle East and Africa and modest growth in Asia-Pacific was nearly offset by declines in Latin America. But our initiative to expand geographically remains an important part of our growth strategy longer term, which is evidenced by the year-to-date growth rates of 7% for export sales.

On another positive note, the third quarter was a record for INNOVALT sales for asphalt markets, which were up 40% year over year, and up 17% year to date following the extension of the Federal Transportation Fund to the spring of 2015. We remain confident in the long-term market potential of our INNOVALT product line as US funding issues get resolved and we continue to gain traction in receiving state DOT approvals for the use of INNOVALT, as well as expanding our product portfolio with innovative technologies and offerings. I'll expand more on this a little later.

Our nutrition business sales were down $2 million year over year as our customers continued to face challenges exporting to China, due to more stringent nutrition import regulations in that country. These issues have recently been resolved at our two largest customers that were facing that very issue, and they have already placed orders for fourth-quarter 2014 deliveries.

Operating income in US and Canada was $23 million, up $2 million compared to third quarter 2013, due to an improved product mix. Our announced price increases which took effect at the beginning of the third quarter were targeted to offset rising raw material cost. However, many of our customers are facing near-term challenges, which make it more difficult to achieve improved pricing. Given our long-term customer relationships and the overall value we provide through our superior product offering, we remain confident in our ability to deliver long-term growth within this segment.

Mexico specialty phosphates sales increased 5% sequentially, but were lower by 4% on a year-over-year basis, primarily due to lower selling prices, due to increased competition in the Latin American export markets.

While Mexico specialty phosphate sales were lower overall, year-over-year margins were up significantly in the quarter from improved operations. As previously discussed, we made a lot of changes and improvements and invested a significant amount of time and resources in Coatzacoalcos last year to improve its efficiency, capability, and future reliability. These investments have enabled us to deliver improved performance over the last four quarters. Third-quarter operating yields have improved sequentially by 11 basis points and have now improved for six consecutive quarters since our first quarter 2013 trough. Yields are running at the best rates in the last four years, demonstrating again our ability to take on a challenge and implement improvements that put us in a better position than where we began. That's in addition to the more than doubling our food-grade asset capacity and setting a number of production records on our specialty ingredients unit during the same time period.

Additionally, our recently commissioned higher-grade PPA operation in Mexico continues to perform well, providing greater efficiency and flexibility in Mexico supporting our North American network and strengthening our product mix in Latin America. Mexico PPA sales volumes are up 11% for year-to-date September 2014 compared to the same period of 2013.

Turning to GTSP and other, we reported a $3 million decrease in sales and an operating income of $1 million, which was in line with our expectations for the quarter.

Market fertilizer prices remained fairly stable during the third quarter, but decreased approximately 5% in early October and decreased another 5% to 10% in late October following some softening in US DAP prices. Third-quarter sales of GTSP were down 15% due to 11% lower volumes and 4% lower selling prices. Given recent selling price movements and the fact that the fourth quarter is seasonally weak for fertilizers, we expect to record somewhere between breakeven and a $1 million operating loss in GTSP for the fourth quarter 2014.

Despite a challenging market environment this quarter, we continue to make meaningful progress on developing new products. We have recently launched several new products and are progressing towards launching several other products in the coming quarters. For example, we launched a new family of products called Regal Leavening Products in early October. These products are a complement to our very successful calcium-based leavening product, Cal-Rise, and specifically designed to meet the market requirements in Europe. We feel very excited about this product launch as this solution is new to the market and provides Innophos with a unique leavening alternative.

In the dairy market, we introduced a new product called Textur-Melt, which is a blend that dictates and controls the texture and melt profile of various cheeses. This new product line is targeting emerging markets where there are mid-single-digit growth rates.

For the nutrition and pharmaceutical markets we have expanded our market-leading range of calcium-phosphate-based excipients. Our recently launched product called Nutra Tab™ is a new blend of calcium phosphates offering greater compressibility and a higher calcium content per tablet, both important criteria when choosing an excipient. The growing demand among formulators is trending towards integrated blends such as Nutra Tab, combining the attributes of several ingredients, and we believe that this product will lend itself well to this customer need.

As we mentioned before, INNOVALT had its most successful quarter ever. We are looking into opportunities to expand this product line, starting with the L-Vis product, which stands for low viscosity. This product is a new and improved version that is stable at room temperature, allowing for easier handling at lower cost. We are also launching another new asphalt additive that, together with INNOVALT, increases the safety in the preparation of the asphalt.

As you can see, we have a lot of new, exciting products currently being rolled out, as well as others in the pipeline.

Overall, considering the challenges we faced in the third quarter, we are pleased with our strong improvement in our operating performance and bottom-line results, which reflect strong execution across our business. While we are seeing the benefits from the turnaround of our Coatzacoalcos facility in price increases that are offsetting the effects of rising raw material costs, we continue to encounter end-market-specific headwinds that are dampening top-line growth. Based on our year-to-date performance as well as the previously noted challenges in the US markets and the tight PPA availability, we expect specialty phosphates full-year 2014 volumes to decline 1% to 2% compared to full-year 2013. In addition, we expect our full-year 2014 results to be at the low end of the targeted 14% to 15% operating income margin range for specialty phosphates.

Beyond 2014 we believe there is an opportunity for growth in our portfolio. We are expanding our technical and commercial resources to support the innovation and geographic initiatives for growth that we are targeting.

I will now turn it over to Robert for additional detail on financial results in the quarter. Robert?

Robert Harrer - Innophos Holdings, Inc. - VP& CFO

Thanks, Randy.

Net sales of $209 million for the third quarter of 2014 consisted of $190 million from specialty phosphates and $19 million from GTSP and other. This represents an $11 million decrease compared to last year.

Diluted earnings per share for the third quarter of 2014 were $0.83 compared to $0.49 for the third quarter 2013, or $0.56 after giving effect to the prior-year adjustments previously disclosed. Earnings growth was driven by stronger margins due to improved operations in Mexico and improved product mix in the US and Canada.

Unfortunately, not all of our year-over-year operating income improvement was reflected in bottom-line EPS improvement as we incurred $0.05 per share of translation expense in the quarter due to the weakened Mexican peso and Canadian dollar against the US dollar. Note that the US dollar is our functional currency in our Canadian and Mexican businesses, and these translation losses are book losses only and not cash losses.

Specialty phosphates revenue was 4% lower compared to the prior-year period, with volumes down 3% and prices down 1%. The year-over-year volume decline was primarily attributed to the US and Canada business, whereas the price decline was mostly in the Mexico business.

Export sales were essentially flat year over year as a 22% improvement in Europe, Middle East and Africa and modest gains in Asia-Pacific were nearly offset by declines in Latin America.

US and Canada specialty phosphates recorded sales of $147 million, down 4% from the prior-year period, due primarily to lower volumes, most notably reflected by a 14% decline in PPA due to product availability issues.

Mexico's specialty phosphate sales of $43 million were down 4% year over year on lower prices due to increased competition in the Latin American export markets. Operations at our Coatzacoalcos plant continued to run well as illustrated by improved yields and margin growth. Our actions to invest in the plant over the past 18 months have us well positioned to sustain strong long-term operational execution for this strategic asset.

Total specialty phosphates generated $29 million of operating income, up $5 million over the prior year, due to improved US/Canada product mix and significantly improved margins in Mexico, aided by lower spending for our annual plant maintenance outage.

Overall, operating income margin in specialty phosphates was 16%, exceeding the top end of our target range.

Operating income in the third quarter 2014 for US and Canada specialty phosphates was $23 million, up $2 million versus the year-ago period due to improved product mix. Operating income margin was 16% for the third quarter, up 200 basis points compared to the prior-year level.

Operating income for Mexico specialty phosphates was $6 million, double the $3 million generated in the same period last year, mostly due to lower spending for this year's annual plant maintenance outage as compared to last year's. Operating income margin was 14% for the third quarter, up significantly when compared to 7% for the year-ago quarter.

Turning to GTSP and other, we reported operating income for the quarter of $1 million compared to a loss of $4 million in the prior-year quarter. Operating income margins were 5% for the third quarter 2014 compared to a negative 17% for the third quarter 2013.

Our effective tax rate for the third quarter was 33%, which was at the lower end of our expectations for the quarter. We expect an effective tax rate between 33% and 34% for the fourth quarter and full year 2014.

Depreciation and amortization was $9 million for the quarter, flat compared to the year-ago period.

Capital expenditures were $7 million in the third quarter, down $2 million from the second quarter. Approximately three-quarters of the year-to-date spending has been for maintenance and the remaining 25% for strategic growth initiatives. In particular, the majority of the strategic growth investments has been focused on capacity expansion at Nashville, mainly to support our INNOVALT and Cal-Rise product lines, as well as on improving capabilities, yields, and capacity at Coatzacoalcos. We now expect full-year 2014 capital expenditures to be in the $30 million to $35 million range.

Net debt decreased sequentially by $17 million in the third quarter of 2014 to $83 million, due to lower working capital.

With our solid balance sheet and our ability to generate free cash flow on a recurring basis, we remain committed to maximizing shareholder value. This commitment was evident in our repurchase of 138,000 shares for $8 million during the quarter, and another 135,000 shares in October for $7.4 million. Year to date through October we have repurchased 385,000 shares for a total of $21.6 million. As Randy noted earlier, we have returned 80% of our year-to-date September net income to our shareholders via dividend and share buybacks. More impressively, if you consider the last 12 months through October, we returned $66 million to our shareholders via dividends and share buybacks, which is 97% of our net income for the last four quarters.

Now let me explain our assumptions for the full year 2014. Based on our year-to-date performance, as well as the previously noted challenges in the US markets and tight PPA availability, we expect specialty phosphates full-year 2014 volumes to decline 1% to 2% compared to full year 2013. That said, based on improved execution in Mexico and our implementation of price increases to offset rising raw material costs, we remain confident in our full-year 2014 target of 14% to 15% operating income margin for specialty phosphates, although we expect to come in at the low end of that range. Fourth-quarter margins are expected to be in the 11% to 12% range due to lower sales volumes and $5 million of higher third-quarter inventory costs from increased raw material prices and lower third-quarter 2014 production rates due to the PPA shortages that will hit earnings in the fourth quarter 2014.

Fertilizer market prices remained stable during the third quarter 2014, but decreased approximately 5% in early October and decreased another 5% to 10% in late October. Market phosphate rock prices were fairly stable sequentially in the third quarter 2014 and are expected to remain stable in the fourth quarter. Sulfur market prices increased approximately 25% in the third quarter 2014, but decreased 5% in the fourth quarter.

On GTSP and Other, given the recent selling price movements and the fact that the fourth quarter is seasonally weak for fertilizers, we expect to record somewhere between breakeven and $1 million operating loss in this segment for the fourth quarter 2014.

Now back to you, Randy.

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Thanks, Robert.

Overall, our third-quarter performance showcased our flexibility to grow profitably in a market environment that remains challenging. Our results were driven by improved product mix in US and Canada, particularly INNOVALT and Cal-Rise, continued strong performance in Mexico, and disciplined cost management.

While we expect our specialty phosphate business to decline slightly from last year as a result of the previously mentioned external market dynamics, we remain confident in our ability to hit our margin outlook target of 14% to 15% that we have maintained for the entire year.

As we look to the fourth quarter and beyond, our focus remains on the following: Growing export sales by expanding geographically across numerous regions in Latin America, Asia-Pacific, and Europe, Middle East and Africa; investing in research and development to enhance our product offerings; building on our position in the high-growth micronutrient ingredients space; and maximizing value for our shareholders through our quarterly dividend, share repurchase program, and exploring acquisition opportunities on favorable terms. Through these actions we remain committed to delivering on our long-term growth objectives.

Thank you for listening. And we will now take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Larry Solow.

Larry Solow - CJS Securities - Analyst
Randy, could you help us just parcel out a little bit on the revised guidance or the Q3 sales weakness obviously implied in Q4? Obviously the supply issue -- is that the majority of it? Is it all of it? Obviously your end markets have been weak. Did they get weaker or are they not improving as expected? Or are they sort of in line with where your dampened expectations already were and most of this latest reduction is because of the supply issue?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Yes, Larry. On two of the areas that you talked about there our core business demand was down for the third quarter year on year. And as you've probably seen, some of the large food and beverage and fast food chains have reported some comps as low as a 5% decline, which I think was certainly overshadowing some of the successes we had in, like, the Cal-Rise product line and the INNOVALT. So there's certainly some positive areas there, too. But then also, as you point out, we are showing a decline, or expecting a decline, for the full year 2014 versus the 2013 due to that PPA availability issue that we had experienced both in September and October, caused by our phosphoric acid supplier's inability to keep to a normal PPA shipment pace at one facility and then the longer-than-planned maintenance outage experienced with the merchant grade acid supply to our Geismar PPA plant.

Larry Solow - CJS Securities – Analyst

Okay. So, your end markets have been flat to down the last couple years. Is there any worry that perhaps prepackaged, pre-prepared foods are -- there's a decline in interest and perhaps long-term growth expectations of 3 -- whatever -- 2% to 4% may be aggressive?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Yes, I think when we do talk about the longer-term growth percentages, we're talking about a base demand -- there's really three pillars there that we're talking about for that growth, overall growth. But the base organic market growth we put at 1% to 2%. Now that's with a roughly flat-to-population growth within the US market, but then with expectation of higher markets in the other developing areas to give us an overall blended growth rate of a 1% to 2%. And then the other two pillars that we talk about is an additional 2% to 3% made up of two components. One is the geographic expansion of roughly 1% to 2%, which I think we're showing some good results there, with one of the year-to-date showing 7% improvement growth year on year for that geographic expansion. And then the 1% to 2% for the innovation -- I think exhibited, one, with the growth we've shown with INNOVALT as well as the Cal-Rise, we're showing some good growth there. But then also the number of launches that we're taking, and I think it's a healthy pipeline of innovation and products there that, one, we've launched but then other ones that we're continuing to develop, which I think in my overall history here at the Company it's been showing a lot of promise and some real good momentum there. And we're investing more there, both in those resources and expect some good success there.

Larry Solow - CJS Securities – Analyst

Okay. And just a last question: When you have these supply interruptions, whether they be internal or external, I assume a competitor picks up the business. Was there just sort of some -- it doesn't seem that there's any pent-up demand. It's almost like you lose these -- at least these sales for the period and they never sort of come back because you don't get a real extra rebound in the successive quarters. If that's the case, do you find that with these troubles that you lose the business longer term or is there a challenge to get it back? And then, on the follow up on the competition question, you mentioned increased competition in Latin America, if you could also just comment on that? And then I'm done; thanks.

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Yes, Larry. The decline that we saw with the phosphoric acid, as you point out, that doesn't bounce back, where other people do pick that up. I think certainly in the phosphoric acid there's less differentiation. Certainly we've invested in higher quality and better improvements there. And I think what I would like to point out, too, is what we've done in phosphoric acid is the strength and improvement that we've done in Coatzacoalcos to help support the overall network. But I think as far as our strength going forward as a supplier, certainly we do value the reliability and service levels we provide and really jump through hoops to satisfy the needs of the customers and try to work with them as best we can to ensure that the long-term position, especially where it relates to the full line supply that we make in phosphoric acid and the specialty ingredients and the value proposition that we provide them.

Larry Solow - CJS Securities – Analyst

Okay, great. Thanks.

Operator

Christopher Butler.

Christopher Butler - Sidoti & Company - Analyst

Sticking with the exports and South America, last quarter you were soft on STPP at sales. That was supposed to rebound this quarter. Did we see that happen as expected, or does that continue to be a difficulty?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

For STPP it was off 4% year on year and that's been pretty consistent with what we saw year to date. I think, as it relates to the STPP, we still continue to see the overall pressures in the reformulation, and that's continuing in Latin America. But, again, I think that may result in some improved opportunities for us as we continue to look at some of the customers that are committed to STPP as a builder because it works so well. And there's some opportunities there with potentially growing with some of those folks, as well as -- not sure, it's hard to predict, but there may be some further rationalization as there has been in this industry as it relates to the STPP supply.

Christopher Butler - Sidoti & Company - Analyst

And as we look at raw material costs and pricing, it used to be that when you saw phosphate rock prices increase you were able to get prices in ahead of that. Has something changed in the competitive environment that that's no longer the case? Or could you give us a little bit more color on why we are seeing a bigger than expected hit from phosphate rock here in the fourth quarter?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Yes, Chris. Let me comment on that in two areas, the US/Canada and then the Mexico piece. One, for phosphate rock, over this quarter and next quarter, we expect rock costs to be roughly flat here. Where we were very successful I think in the Mexico piece was getting price increases ahead of those rock increases in the second quarter. And with Mexico I think it's a bit more, especially in the export markets there in South America, where it's more competitive from an overall import basis, that it responds a little bit more quickly if there's any softness in the overall demand or in the fertilizer cost area.
With the US and Canada, we did announce a price increase to take effect more towards midyear, July timeframe. And in some cases with the US business it's more value driven on prices. So we're working hard to go on a case-by-case value-priced basis. And I think with what we've seen in the overall challenges that some of the food ingredient customers have

seen, some increased pushback, as well as some of the softness in demand, and really trying to focus also with a lot of our growth products so that there's a balance there in what we can achieve and some additional pressures there. But still driving hard to recover any increases in cost.

Christopher Butler - Sidoti & Company - Analyst

And just finally, as we look at your repurchases it sounds as if the thought behind that is to do more than just offset dilution as we go forward, that there's a more aggressive stance with buying back stock?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Yes. Robert, do you want to address that?

Robert Harrer - Innophos Holdings, Inc. - VP& CFO

Yes, Chris. We have gotten more aggressive as evidenced by the numbers. I mean, it's totally in line with what we have said all the way along, also with the dividend. If we see sustained earnings growth, and then our operating margins are coming in -- they're reasonably healthy right now -- we would be committed to return cash to our shareholders. And that share buyback program which was authorized by the Board, I think roughly four years ago, has allowed us to make these purchases on an expedited basis.

Christopher Butler - Sidoti & Company - Analyst

I appreciate your time.

Operator

Bruce Zessar

Bruce Zessar

Just a couple questions. I wanted to come back to the issue about how volume was impacted by the PPA supply shortage. If you had had normal delivery from your supplier of PPA instead of the disruption, what would you be guiding to for volume growth for the year? Would it be positive?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Robert, can you address that, please?

Robert Harrer - Innophos Holdings, Inc. - VP& CFO

We are actually in the process of evaluating exactly that very question. The problem actually occurred over two months. It first appeared early September and we resolved it more or less entirely by the end of October, just very recently. And it impacted not only of course our ability to ship products to our customers and get sales, but actually even more importantly we had quite significant impact on our manufacturing footprint and how our production is scheduled, because we didn't have the raw material available at the right place. And that actually evidences a third issue here, because even when we got some of the supply we had to make sure that we get the supply into the right place and into our manufacturing footprint and sometimes the supply wasn't always at the right place. So there was cost linked to getting the product to the right place and using it at the right place and in the right way. So you can see that it's a rather complicated and complex issue here which we have to deal with. And we are right now not in a position to put a dollar value on it. But by the end of the fourth quarter we will be able to shed more light on the entire impact.

Bruce Zessar

All right. So you expect on your next earnings call to be able to split out how much of the -- you originally, at the end of the second quarter, guiding to the low end of 3% to 5% volume growth. So now you've cut it to a decline of 1% to 2%. So are you saying on the next conference call you'll be able to split out how much of that delta is due to the supply issue and how much is due to end market weakness?

Robert Harrer - Innophos Holdings, Inc. - VP& CFO

That's basically what we are saying. I mean, there's two headwinds. So certainly the end markets have not rebounded the way some of our customers have announced. After the second quarter some of our customers were quite bullish on the recovery in the third, and particularly in the fourth quarter of 2014. So we certainly aligned our guidance to what we have seen at our customers' level, and that didn't materialize. I mean, as Randy noted earlier, some of our customers reported declines of up to 5% whereas, again, just a quarter ago they basically said there would be a recovery. So that is a significant headwind which ties into the minus 1% to 2% overall year guidance we have out there. And then the other issue is the PPA issue. But, again, as I said before, we are in the process of analyzing particularly the impact of the PPA and that is a bit of a longer work stream.

Bruce Zessar

But even though you don't have exact numbers to be able to break out how much of the delta is due to weakness with customers versus the supply issue, do you have any sense of whether the supply issue is the bigger portion of the reason for the reduction in volume?

Robert Harrer - Innophos Holdings, Inc. - VP& CFO

I would say, at a high level, year to date we are running flat versus last year on a volume basis. And I think it's fair to assume that no supply issues and no shortages throughout the entire year 2014, that we would have maintained that flat picture at a high level. And then the other headwind again, basically, saying why aren't we at 2% or 3% growth rate, which we guided after the second quarter, that is the market dynamics significantly deteriorating.

Bruce Zessar

Okay. You also in the press release had mentioned $5 million of higher third-quarter 2014 inventory costs that will hit earnings in the fourth quarter of 2014. Is that just a one-quarter issue and then cost will revert back to a lower level in the first quarter of 2015? Or is this some sort of lag in pricing to your customers from this higher cost base that can be [picked] up in repricing in 2015?

Robert Harrer - Innophos Holdings, Inc. - VP& CFO

It's actually more the latter, although the pricing, as Randy said, is a challenge in today's environment and we are receiving increased pushback on pricing initiatives. So what I would say is the $5 million which we have on our balance sheet right now is to -- most of that amount is because of our disruption in the manufacturing schedule and our production schedule. As I said, the material was just not available. So we had to slow down our production across the entire manufacturing footprint. But, having said that, that's the September-only impact. As we said, in October we had shortages as well and some of the production interruptions we have faced in October will, from a dollar perspective, only wash in to the P&L in the first quarter of 2014. So your answer is actually -- both of the assumptions you were quoting here are correct. And of course it is one-time because the issue is now behind us. But the $5 million which we're going to see in the fourth quarter is not the entire exposure. There is a little bit of an impact in the first quarter 2015 as well.

Bruce Zessar

Are you able to quantify that yet?

Robert Harrer - Innophos Holdings, Inc. - VP& CFO

Not yet. We are looking at the October numbers as we speak because, as I said, the issue was only resolved very recently.

Bruce Zessar

Okay. So then coming back to the $5 million number, and this is my last question, are you able at a high level to break out how much of that is due to raw material costs and how much is due to lower production due to the supply issue?

Robert Harrer - Innophos Holdings, Inc. - VP& CFO

Yes, roughly 50/50.

Bruce Zessar

Okay. That's all the questions I had. Thank you.

Operator

Curt Siegmeyer.

Curt Siegmeyer

Could you maybe talk just a little bit about the current M&A environment, if anything has changed over the last quarter or so, what kind of opportunities might be out there currently? Just given the healthier balance sheet, are you guys looking to maybe get a little bit more active on that front, heading into 2015?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Yes, Curt. The focus on the M&A, I mean clearly we did roughly four smaller bolt-on acquisitions beginning in the end of 2011, going through the end of 2013. We've been still active, looking at the M&A area. We continue to believe that that's a good way for creating long-term shareholder value, both through the M&A as well as in investing in our organic growth business. As far as what we've seen there, I think we continue to apply good discipline and rigor, one, to make sure that what we're looking at is a good strategic fit with the business and also a good value. And I think it's been challenging to find those type of opportunities, but believe with a fairly full pipeline here that we can continue to look and evaluate things and meet those same objectives going forward.

Curt Siegmeyer

Great. And then I had a follow-up, just on INNOVALT. The strong volumes within the asphalt markets, what kind of run rate would you anticipate now that we do have an extension of the Transportation Fund? Is that 40%, is that expected to kind of stay in a strong double-digit sort of run rate? Or would you anticipate that somewhat being kind of lumpy as we move forward?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Curt, let me split that as far as a couple things. One is the extension of that Highway Trust Fund, the financing or funding for it goes until I believe it's May of next year, 2015. So that will impact things. Now, hopefully the government, although tough to predict, can re-up and get something which was typically multiyear, which would get a more level and increasing impact there. As far as our INNOVALT product, there is some seasonality for that, so it typically tails off at the end of the year and into the first quarter. But we've seen some good strength in recovery. And the expectation also is we're having some success in a number of areas there, one with the new products that we're developing that goes with the INNOVALT, an extension of that line, which I think has a positive trend on the volume and demand. The other is we're having more success in the export market and we've talked about that in prior calls, about us growing the INNOVALT business outside the US. And then also within the US there's still some 5 to 10 states that don't allow the use of INNOVALT. And we're continuing to work with them and have had some good traction and some positive response in working with the state DOTs and getting that approved. So I think all of those factors drive for -- no pun intended -- drive for improved volume and demand in that area. But some of that also is dependent on what happens with the funding of the highways.

Curt Siegmeyer

Sure. And I don't know if you can quantify what proportion roughly of that 40% growth do you think is attributed to growth in export versus US, and within the US is the strength concentrated in any particular geographic areas or is it fairly broad-based?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

The growth in the US is more broad-based. But I think -- trying to check on what we had with the export. Yes, Mark, do you have that on the export piece there?

Mark Feuerbach - Innophos Holdings, Inc. - VP IR, Treasury, Financial Planning & Analysis

Yes. So for third quarter, 40% overall for the whole business. The US was up 42%, so exports would be a similar number, since those are both near the 40%. On a year-to-date basis, though, the exports have been doing better. The US is just up 2% now, whereas the overall business was up 17%. So quite good growth on the exports.

Curt Siegmeyer

Got it. Thanks, guys.

Operator

Chris Shaw.

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

I jumped on late, so apologize if this has been tackled already. But looking at the sort of weakness in some of your -- for demand in some of the specialty phosphates, I just want to -- and I don't cover your customers at all, so maybe that would be a better question for them. But is the – I guess lower volumes, is that an indication of maybe -- I know sometimes when restaurants are doing better and people are going out to restaurants more maybe the packaged food, or some of the stuff that you might sell into does a little more poorly. And I think maybe the last time we had a really good strength in the restaurant business was pre-recession. And I know that's when you were seeing lots of price increases, so it might have been harder to tell on volumes. But is that potentially what's happening on the volume side, that people might be going out to dinner more? And do you guys sell product into people who supply the restaurants at all? I'm just thinking more broadly. Do you guys have a feeling for that?

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Yes. Chris, it's hard to pinpoint with any one area. Certainly, our products go to a lot of the products that are in the grocery chains. And what I've seen is those products have been challenged more recently. Our products also go into some of the areas that are provided in the service, as well as the fast food. So it's a lot of different areas. Certainly the bake-at-home and the frozen doughs are a part of that. So when you may have more people staying home rather than going on, you've got a plus there and a minus in some other areas. But I think that with some of our customers, they seemed to be a bit more bullish through the second quarter and for the latter part of the year. And then, as we see the results announced for the third quarter, quite a few have announced some volumes being off. So I think on a positive basis, certainly our new products and the geographic growth have helped offset some of that. But, again, hoping for some recovery across our customer base, especially in the US, is expected and hoped for here.

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

Okay. Thanks; that's helpful.

Operator

That's all the time we had for questions today. I will now turn the call back over to Randy for final remarks.

Randy Gress - Innophos Holdings, Inc. - Chairman, President & CEO

Well, I'd like to thank everyone for joining us today and we certainly appreciate your interest in Innophos. And we also look forward to speaking to you in February when we report our fourth-quarter and full-year 2014 results. Thanks and have a good day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.