

# **INNOPHOS 1Q16 RESULTS CONFERENCE CALL**

## **EDITED TRANSCRIPT**

**CALL HELD APRIL 28, 2016**

### **CORPORATE PARTICIPANTS**

**Mark Feuerbach** *Innophos Holdings, Inc. - IR*

**Han Kieftenbeld** *Innophos Holdings, Inc. - CFO*

**Kim Ann Mink** *Innophos Holdings, Inc. - CEO & President*

### **CONFERENCE CALL PARTICIPANTS**

**Chris Shaw** *Monness Crespi - Analyst*

**Larry Solow** *CJS Securities - Analyst*

**Curt Siegmeyer** *KeyBanc Capital - Analyst*

## PRESENTATION

### **Operator**

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Welcome to the First Quarter 2016 Innophos Earnings Conference Call. My name is Sherry, and I will be your operator for today's call. (Operator Instructions)

I would now like to turn the call over to Mark Feuerbach. Mark, you may begin.

### **Mark Feuerbach - Innophos Holdings, Inc. - IR**

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Good morning and thank you for joining us today for Innophos' first quarter 2016 results conference call. Joining me on the call today is Kim Ann Mink, Chief Executive Officer and President, and Han Kieftenbeld, Chief Financial Officer. Kim Ann will start with comments on our first quarter results and provide updates on our progress in executing our strategic initiatives. Han will then provide details on our financial results and further comments on our outlook for the remainder of 2016. Kim Ann will then conclude with some final remarks before we open up the call to your questions.

(Forward-Looking Cautionary Statements)

We will make a replay of this conference call available for a limited time over the telephone at the numbers set forth in the press release and via webcast available on the Company website. In addition, please note that the date of this conference call is April 28, and the presentation for this call can be found on our website at [www.innophos.com](http://www.innophos.com), in the investor relations events section. 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 Kim Ann Mink, CEO of Innophos. Kim Ann?

### **Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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Thanks, Mark, and good morning everyone and thank you for joining us today.

Beginning on slide 4, the first quarter 2016 has been an important one for Innophos as we began the construction of a blueprint for the long-term strategic direction of our Company while simultaneously identifying medium term levers that will drive sustainable improvement in the Company's financial performance - all driven by focusing on the three strategic pillars that are at the core of our transformation, operational excellence, commercial excellence and strategic growth. We have made very good progress during the quarter in executing against these initiatives, and it is reflected in our financial performance as we experienced significant sequential earnings and margin improvement.

Now as shown on slide 5, for the first quarter 2016, adjusted EBITDA was \$31 million, which was in line with the first quarter 2015 and up 39% sequentially. This results in a year-over-year EBITDA margin increase of 90 basis points to 17%, up 330 basis points sequentially. So our adjusted diluted earnings per share for the first quarter was \$0.66 compared to \$0.64 in the same quarter last year and \$0.32 in the fourth quarter of 2015. Furthermore, cost improvements from the restructuring program implemented in the third quarter 2015 were in line with expectations

with \$2.5 million of lower costs realized in the current quarter against the third quarter of 2015 baseline. Now given that the challenging market conditions are expected quite frankly to prevail throughout 2016, we will continue to execute cost reduction actions and productivity initiatives. These results clearly demonstrate the improvement that we have been making to increase profitability and manage costs much more effectively. And I'm confident that this momentum will continue as we move through 2016.

With that said, I would like to provide an update then on the progress that we've made on our strategic pillars. Turning to slide 6, in the operational excellence area, we are making investments to improve our supply chain and manufacturing processes in order to increase our operational efficiency. Our supply chain initiatives include improved sourcing strategy, a better forecasting and planning process, and transforming our approach to inventory management. On the manufacturing side, we continue to evaluate our manufacturing practices to meet customer needs with increased efficiency and adaptability to accommodate evolving market trends through targeted investments, application of principles and manufacturing resource optimization.

Moving to slide 7, adaptability is also increasingly important in our commercial excellence pillar as we strive to identify, understand and meet the complex and ever-changing needs of our customer base. Commercial excellence initiatives are underway to segment our existing and target customer base, establish pricing discipline and achieve greater focus on managing our margins. We're also investing in sales tools, support and best practices to ensure our commercial organization is appropriately equipped to proactively meet customer needs and effectively realize the value of Innophos' products and expertise to its customers.

Further a comprehensive strategy development is also underway to drive future growth performance. This involves, as shown on slide 8, a multifaceted approach. This approach includes detailed market analytics to identify external trends and opportunities, active management of the existing portfolio, market-specific competitive analysis, identification of market and product adjacencies and geographic expansion attractiveness, and M&A growth opportunity identification. This approach is actively informing development of our go-forward growth strategy by building upon our existing business capability and customer relationships while capturing both organic and inorganic growth components.

Now while we're focused on developing our long-term view for strategic growth, we remained poised to capitalize on near term actions and opportunities. So as we continue to execute our strategic priorities at this early juncture, we believe that we will see measurable benefits for the Company in both the near and long term, which will start to take effect later this year. Now finally underlying all three of our strategic pillars is of course a foundation based on building a strong management team, a team to help move Innophos significantly down a transformational path by bringing required new skill sets, new ideas and external best practices.

So to that end as shown on slide 9, Han Kieftenbeld, who you will have a chance to hear from shortly, recently joined Innophos as our Chief Financial Officer. He has a proven track record as a financial leader with substantial depth and breadth of experience within the food ingredients and specialty chemicals industry. Han has driven operational change in both growth and turnaround businesses, and has successfully developed and implemented business and functional strategies. His experience is well suited for our Company and I am thrilled to work alongside him as we execute our strategic initiatives. Last week, we also announced that Amy Hartzell joined our team as Vice President, Supply Chain and Purchasing. Amy is a seasoned professional in supply chain management and has an extensive background in the chemicals industry. She successfully led an organizational design transformation of the Center of Excellence at Dow Chemical and has an abundance of experience in developing and implementing Global supply chain and Operational improvement programs. I am very confident that Amy will be a catalyst for change as it relates to our operational excellence pillar. I look forward to both Han and Amy's contribution and believe that they will both prove to be driving forces in our transformation as we execute our strategic priorities and strive to improve financial performance and create value for all of our shareholders.

Now before I turn it over to Han to review our financial performance, I would like to briefly discuss the market environment on slide 10. Now as we discussed last quarter, the demand environment quite frankly throughout most of the markets we serve has been remains to be soft. Based on our current views, we are expecting this softness to continue through the remainder of 2016. As a result, we expect volumes in 2016 to be down 3% to 5% compared to 2015 levels. Further, the pricing environment in the industry continues to be highly competitive causing increased

pricing pressures that are impacting our margins. Having said that though, raw material cost continued to turn favorable and we're doing everything in our power to capitalize on this to partially offset these headwinds. Now despite a persistently challenging market environment, we're making progress in our strategic initiatives and have achieved sequential improvement on both the top and bottom line. We feel very good about where we are today versus where we were in our last call. So there is still much work to be done. We are taking responsibility for controlling what is within our control and are making meaningful improvements to overcome the challenges we face and remain very committed to creating value for all of our shareholders.

With that said then, I'd like to now turn it over to Han for additional detail on financial results of the quarter and on our 2016 outlook. Han?

## **Han Kieftenbeld - Innophos Holdings, Inc. - CFO**

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Thanks, Kim Ann, and hello to everyone joining us today. I joined the Company at the start of the month and so far I've been very impressed with the talent and capability on both the senior leadership team and the financial function. I look forward to meeting everyone in the near future.

Now on slide 11, turning to our first quarter 2016 financial results. And by way of preamble, let me note that we will emphasize adjusted earnings per share in our presentation as well as adjusted EBITDA rather than operating income. EBITDA is the profit measure on which management is being measured. So we believe alignment in that regard to be very important. For the first quarter 2016 we generated adjusted earnings per share of \$0.66, which is slightly up from \$0.64 in the first quarter of 2015 despite lower net sales, and up significantly from \$0.32 in the fourth quarter of 2015. Net sales of \$190 million were down 6% compared to the first quarter of 2015, but up 11% sequentially. Year-over-year demand continued to be negatively impacted by currency headwinds due to the stronger US dollar and generally intensified competition in lower margin, less differentiated product applications. The improvement in sequential sales was helped by the impact from seasonality with the first quarter typically being stronger than the fourth quarter of any given year. Gross profit margin at 22% of sales improved year-over-year by 137 basis points, due to lower variable and fixed manufacturing expense, as a result of cost controls and no plant maintenance stoppage cost in the current quarter. Adjusted EBITDA for the quarter was \$31 million, in line with first quarter 2015, and up 39% sequentially, yielding a margin of 17%, up 90 basis points compared to the prior-year quarter. Sequential improvement in adjusted EBITDA underlines improvement in our cost controls. On that note, we are pleased to report that the restructuring actions taken are in line with expectations generating a savings of \$2.5 million compared to the third quarter 2015 baseline, despite being mostly offset in the first quarter by increased professional fees for the cash repatriation program, strategy consulting, reestablishment of short incentives at target and overlapping CEO costs.

Now turning to page 12, which is first quarter estimated EPS bridge. This slide demonstrates the elements that drive the year-over-year improvement of adjusted EPS by \$0.02 or 3%. Consistent with earlier comments, principle drivers for the year-over-year improvement were short fall in volume mix for a total of \$0.16 per share unfavorable offset by the favorable impact of cost for a total of \$0.15 per share. The transactional effects from FX amounted to a favorable \$0.07, which is a result of the weakened Mexican peso against the US dollar. Operating results as represented at the EBITDA line, were down \$0.01 per share year-over-year. In the table underneath, we can see that non-operating results contributed total of \$0.03 per share in part driven by the lower number of shares outstanding following the completion of the share buyback program in 2015 which resulted in approximately 2 million fewer participating shares.

Turning to slide 13 to discuss sales revenue. Net sales for the first quarter were \$190 million, 93% of which was from specialty phosphates and 7% from GTSP & Other, a very similar composition compared to the same quarter last year. Total net sales decreased 6% compared to first quarter 2015, due to 5% unfavorable volume and mix and 1% lower price. Specialty phosphate sales declined 7% in the quarter versus prior year. Year-over-year shortfall was seen in both the US/Canada at minus 7% and Mexico at minus 4% with the shortfall in volume and mix predominately seen in the US/Canada segment. This was partly offset by improved average selling prices. The latter was a result of reduced sales in lower margin product applications. GTSP & Other sales, which represented just 7% of total sales improved slightly

by 2% in the quarter compared to the year prior. Volume and mix improved by 19%, but this was mostly offset by a reduction in average selling prices due to weak fertilizing market conditions.

Moving on to slide 14, taking a look at sequential sales improvement. Net sales increased 11% compared to the fourth quarter of 2015, driven by an improvement in sales volumes due to seasonality. The first quarter is typically stronger than the fourth quarter as we earlier commented. Specialty sales or specialty phosphate sales increased 7% sequentially on 5% higher volumes and 2% improvement in average selling prices. Quarter-over-quarter improvements were seen in both US/Canada and Mexico. GTSP & Other sales more than doubled versus the prior quarter, which was sales volume driven. As a reminder, Q4 2015 was the lowest sales quarter in the year for this segment.

Moving on to adjusted EBITDA on slide 15. We are reporting first quarter 2016 adjusted EBITDA of \$31 million which is in line with the first quarter 2015 despite lower year-over-year sales, which we discussed just a moment ago. Adjusted EBITDA yielded a margin of 17% of sales, up 90 basis points compared to the prior year quarter. Volume and mix along with average selling prices were below last year. The unfavorable impact from sales was offset by lower input costs from rock and sulfur, also lower manufacturing cost due to a combination of cost control measures, restructuring actions and a phasing of annual maintenance stoppage along with a small favorable FX impact. SG&A cost were favorably impacted by the result of restructuring actions taken in 2015, which were offset in the first quarter by the items I noted earlier. Sequentially, adjusted EBITDA was up 39% on the back of improved sales and lower cost.

On the next slide, slide 16, we have provided a bridge from the first quarter 2015 to the first quarter 2016 to illustrate the impact to our adjusted EBITDA for specialty phosphates which represent 93% of sales and also GTSP & Other which represent 7% of sales. As previously commented, year-over-year adjusted EBITDA for the total Company was flat. Now in the first quarter 2015, specialty phosphates generated an adjusted EBITDA of \$32 million while GTSP & Other generated a \$1 million loss for a total of \$31 million. In the first quarter 2016, specialty phosphates generated an adjusted EBITDA of \$31 million, \$1 million decrease over last year while GTSP & Other broke even, \$1 million increase over last year. Reported quarter one adjusted EBITDA was in line with prior year despite lower sales. As a result, adjusted EBITDA as a percent of sales improved for both specialty phosphates and GTSP & Other.

Turning to slide 17, net interest expense in the first quarter 2016 was \$1.8 million, in line with expectations. This compares to \$1.2 million in the same quarter last year. The slight year-over-year increase was driven by higher debt levels following 2015 share repurchases. Our effective tax rate for the first quarter was 35%, which is just somewhat higher than the 32% to 34% range that we had forecasted. This compares to 33% for the first quarter of 2015. The somewhat-higher-than-forecasted tax rate is due to a discrete inventory reserve adjustment, non-deductible for Mexican income tax purposes. Capital expenditures in the quarter were \$8 million, which is below what we had planned, partly due to a change in phasing of plant maintenance stoppage to Q2 instead of Q1. For the full year 2016, we expect capital expenditures to be approximately \$40 million due to additional requirements to support strategic manufacturing initiatives and restructuring along with continuous improvement in our plants. We continue to evaluate our options for uses of cash including share repurchases, though we have no specific plans at this time to launch a share buyback plan.

In the first quarter, net debt was \$214 million, \$19 million sequential increase due to tax payments made in the United States, after recognizing revenue received from foreign subsidiaries in the fourth quarter of 2015. As a reminder, during last quarter, we implemented a cash repatriation program to allow the optimal use of cash globally in a tax efficient manner. The program enables \$266 million of future cash returns to the United States enabling repayment of third-party debt and funding of future investments.

Moving to slide 18, with our solid balance sheet and our ability to generate free cash flow on a recurring basis, we remain committed to continue to maximize shareholder value. In the first quarter, we reported free cash flow of negative \$11 million. When excluding the \$20 million outflow for taxes, free cash flow improved \$13 million year-over-year. This was largely due to an inflow from working capital and more specifically an improvement in payables. The \$20 million in taxes is part of the program that we just discussed on the previous slide.

Now turning to slide 19, I will discuss our outlook for the second quarter. Overall, we are expecting Q2 to be broadly in line with Q1, as we anticipate headwinds that we experienced in the first quarter to persist in the second impacting

our sales. For the full year, we are expecting Specialty Phosphates volumes to decline by 3% to 5% compared to 2015, primarily due to decline in lower margin and less differentiated products in the US and detergent application reformulation that is expected to affect our Mexico operations. Market demand in 2016 is expected to remain challenging in the US and Canada home markets, due to continued pressured on packaged foods and soft drinks. We expect to see the impact of some softening of input cost which may somewhat offset headwinds in sales and benefit our gross profit margins and adjusted earnings. Market phosphate rock prices declined an estimated 12% in the first quarter compared to the fourth quarter of 2015. And we expect to see the effect to come through in the second quarter. Sulfur market prices decreased by 14% in that same period. We expect to incur an estimated \$4 million in stoppage cost in the second quarter as some of our plants will shut down for scheduled maintenance. In 2015, these costs were largely taken in the first quarter. Given the continued challenging market environment, we remain focused on controlling our costs wherever possible in order to offset these headwinds. We expect to continue to see the effects of the restructuring actions taken last year in our upcoming quarter two results. And we'll continue to review opportunities to establish a more fit for purpose organizations and ways of working.

With that, I'll turn the call back over to Kim Ann for final remarks.

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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Thanks, Han. In conclusion, I'd like to say we're very pleased with the progress we made in the first quarter and remain extremely optimistic on the outlook for Innophos. Despite the challenges we're facing in the industry, our financial performance has improved sequentially. And we are confident that we are taking all of the necessary steps to continue to improve our performance. We made two excellent senior level hires recently, whose knowledge base and skill set advance our collective management team to the next level, creating a solid foundation upon which we can effectively execute our strategic pillars again in the areas of operational excellence, commercial excellence and strategic growth. We remain focused on making meaningful changes in the business by taking responsibility for controlling what we can control. We are very committed to getting it right in the three critical areas that we have defined which will enable us to unlock Innophos' full potential creating value for all of our shareholders.

Thank you for listening this morning and we will now take your questions. Sherry?

### QUESTION AND ANSWER

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**Operator**

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(Operator Instructions) Larry Solow, CJS Securities.

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**Larry Solow - CJS Securities - Analyst**

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Just a couple of quickies, just on the outlook for the 3% to 5% drop in volume. It's a little worse I guess in the 2% to 3%. Is that mostly -- you guys are walking away from some lower margin business, is that a good way to characterize that different, or have things gotten a little bit worse?

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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Yes, we did reduce our sales in lower margin and less differentiated products, and that's aligned with our effort to manage our margin quite frankly and as part of our endeavor to shift the mix of this Company to higher value, more

differentiate products and applications in market segments. So that is a big piece of it. So consistent with the strategy of making this Company more specialty ingredients company.

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**Han Kieftenbeld - Innophos Holdings, Inc. - CFO**

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So Larry, if you look at that maybe just to provide a little bit of color commentary, we talk about the segmentation. You actually do see that indeed, volume mix is -- particularly, the volume piece is down, but the selling price on average is up in the more specialty segments of our portfolio. Just to support it with the numbers, what Kim Ann is indicating is really what we're targeting.

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**Larry Solow - CJS Securities - Analyst**

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And that was really my follow-up, because I know pricing was down especially in Q4 a lot, and in this quarter, it was just slightly down, essentially flat. So I assume the pricing pressure in some of the lower markets is partially offset by you walking away from, and getting some better price in some of the higher markets.

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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Correct. Exactly, Larry.

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**Larry Solow - CJS Securities - Analyst**

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And just on the cost cuts, you realized about \$2.5 million this quarter. If we annualize that, that's about \$10 million. Can you just remind me, I think you had the goal -- the initial goal was \$12 million, right? So I guess you're actually pretty close to that run rate already.

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**Han Kieftenbeld - Innophos Holdings, Inc. - CFO**

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Yes. So we're running currently at what we would say 75% of the quarterly rates. So that's right. As we progress through the year and we execute the program in full, we'll see the full benefit coming through, but at this point, it's \$2.5 million in the quarter.

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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Right. And 100% savings are expected sometime in the second half.

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**Larry Solow - CJS Securities - Analyst**

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And I realize it's a work in progress, but I assume without quantifying it, probably other areas, maybe in procurement and supply with the new head running that area too.

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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So I can comment on that Larry. First of all I said, while we did announce the restructuring 2015, going forward we continue to look at our effort in cost reduction. Now I did talk about some things we're doing in the operational area. And I'll be quite frank with you, we started our deep dive about six weeks ago, we just recently hired two new leaders

who bring in a wealth of knowledge in that area, and you're right, Amy Hartzell in the area of supply chain and manufacturing. So realizing that we're early in the process, we have identified potential EBITDA gains of at least \$7 million. Now however I think it's important to stress again we just launched the initiative in March, hired our key executives to lead those areas. But as the months progress, the potential gains will become more refined from aside, likely to go up and a timing point of view.

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**Larry Solow - CJS Securities - Analyst**

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So that will be an annual, and not -- that's an annualized \$7 million potential number? Got you. And then just a last question. On the maintenance expense out there, there were no outages or planned outages this quarter. Next quarter, I guess essentially will have a sequentially \$4 million increase in expense because of maintenance.

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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That's exactly right.

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**Larry Solow - CJS Securities - Analyst**

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And just remind me, is maintenance -- is that normally like once a year where you've this planned outage? How frequently is that?

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**Han Kieftenbeld - Innophos Holdings, Inc. - CFO**

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I think Mark can support some comments here, but I think historically we've -- if you look at last year we had it concentrated in the first quarter. This year again, we're looking at all our option and what makes more sense in the course of operation. So most of that will be concentrated in the second quarter of this year, hence the signaling that \$4 million worth of maintenance cost this year. And that's what we'll do. But we'll look at our program all the time and see what makes more sense from a supply chain, from a demand, supply chain and operational perspective.

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**Larry Solow - CJS Securities - Analyst**

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So it sounds like you will have sequential underlying improvement quarter-to-quarter, but this \$4 million on the maintenance will bring you basically back to Q1.

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**Han Kieftenbeld - Innophos Holdings, Inc. - CFO**

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That is correct.

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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That's how you should look at it.

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**Operator**

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Chris Shaw, Monness Crespi.

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**Chris Shaw - Monness Crespi - Analyst**

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I'm still unclear, I mean the earnings, the EBITDA in the Mexican segment being quite strong, I think it might have been a record, (inaudible) go back all that far, but exactly what happened there? I mean I'm sure there was some currency benefits. It sounds like there was some cost cutting, but it was volumes down and pricing down there, I was surprised how strong that was.

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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Chris, I'm going to ask Han to talk about that.

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**Han Kieftenbeld - Innophos Holdings, Inc. - CFO**

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We can actually -- if you think about the big buck, you touched upon on it a little bit. FX is a factor that helped, but I think the two others that are of significance are year-over-year last year, we had the stoppage cost in the first quarter. This year we did not. That's around I would say 500 basis points. And then another 500 basis points probably on the EBITDA that is around raw material cost and input cost, and maintenance. So between those two, you got your kind of delta explained with a little bit of FX in the mix too.

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**Chris Shaw - Monness Crespi - Analyst**

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A huge chunk is the raw material cost, how do you anticipate having to give some of that up throughout the course of the year on pricing them?

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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We're really trying to hold on to the improvement in raw material cost quite frankly. This -- I think we've discussed this in the past, rock is declining roughly 12% in the first quarter compared to fourth quarter, sulfur decreased and that is one of the things that, in the area of commercial excellence, is to really hold on to the benefits of seeing that. So we're working very hard to do that.

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**Chris Shaw - Monness Crespi - Analyst**

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Then just on the -- Larry asked the question sort of on the lowered volume guidance for Specialty Phosphates. Did something actually get -- I know it's partially exiting lower margin business, but did something change from last quarter to this quarter where you made the decision that certain products added to the bucket that you don't want to actually continue to sell into because of margins, or is the market also getting weaker, just last three months?

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**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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I would say from when we last spoke, the market is pretty similar to what we last spoke about. It's really a decision. Again in my first one 100 days now, I've really wanted to focus on and I've made this very clear externally to change this Company's mix and to really focus our efforts where we think we can have higher value, higher margin, more differentiated products. So it is a conscious effort, Chris.

**Chris Shaw - Monness Crespi - Analyst**

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(inaudible) fine if I can one more, is there any update on the plans for GTSP?

**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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No. That's a great question because one that we often get and likely so. And I said it was one of my top priorities. While I can't discuss the details, we have a number of different discussions going on right now to again want to dampen that volatility on our business. So we do have a number of different discussions and irons in the fire to look at how we can move into a different business model particularly around becoming a toll manufacturer of GTSP for a fertilizer company. So we've made some good progress, just not able to divulge the details on that at this point.

**Operator**

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Curt Siegmeyer, KeyBanc Capital.

**Curt Siegmeyer - KeyBanc Capital - Analyst**

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A couple of mine have been answered, but on the pricing side, you did mention the competitor pressures that have been kind of persisting for a while but you were able to post positive pricing in US and Canada. So I was just curious, kind of how to think about that going forward? Is that maybe a one-time thing, or are there any puts and takes there, and how should we think about that going forward?

**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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The pricing trends as we go forward -- markets are still competitive, right, particularly with the strength of the US dollar against the euro. And the Chinese are expected to remain competitive as we've discussed and I think we've discussed this in the past due to the China economy and government encouraged of exports by eliminating export tariff on acid. And the food and consumer good customers, they are financially challenged and shutting down plants. So I think we still have to think we'll see those trends. I think we're putting more of an effort from a commercial excellence standpoint though to be much more diligent in our margin management, and where we feel we can basically reduce sales in certain areas that we're not going to competing in because of lower value. So again that's really the message going forward.

**Curt Siegmeyer - KeyBanc Capital - Analyst**

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And then maybe just one on sort of the product categories. You mentioned pressure in packaged foods, but can you talk about how some -- maybe Cal-Rise and INNOVALT, what those volumes were in the quarter, and if there is anything can you give in terms of an outlook?

**Kim Ann Mink - Innophos Holdings, Inc. - CEO & President**

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Sure. Again INNOVALT is down 15% year-on-year but if you recall from the last call, it was down significantly in the fourth quarter. So we're up 60% sequentially and what really has impacted us here is the five year funding of the highway trust fund which was approved in December. So we're very, very excited about that. Now quite frankly we are seeing a weaker demand in export and even in some of the food, and some industrial fertilizer market. PPA volumes are down 3% overall. We've got some industrial applications for pigments going soft, but in our more specialty areas,

we are bouncing back from fourth quarter. So again that area of innovation in the Cal-Rise or the NutraTab and INNOVALT is a very important thing and we can't lose focus there.

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**Han Kieftenbeld - *Innophos Holdings, Inc.* - CFO**

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Maybe just to add a small comment to that, I made some comments as related to page 14 when we talked about sales sequentially 11% up this quarter versus the last. If we were to think at a high level about the dynamics, half of that is approximately seasonality because I mentioned seasonality, and approximately half of that is what Kim Ann just described in terms of bouncing back soon in some of the core categories of business.

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**Operator**

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Thank you. We have now reached the allotted time for questions. At this time I would like to turn the call back to Kim for closing remarks.

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**Kim Ann Mink - *Innophos Holdings, Inc.* - CEO & President**

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Thanks, Sherry. And thank you all for joining us today. I do look forward to updating you on our progress in our second quarter earnings call in the summer. Thanks again and have a great day.

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**Operator**

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