

INNOPHOS 2Q14 RESULTS CONFERENCE CALL

EDITED TRANSCRIPT

CALL HELD JULY 29, 2014

Corporate Participants

Mark Feuerbach – VP-Treasury & Investor Relations, Innophos Holdings, Inc.
Randolph E. Gress – Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.
Robert Harrer – Chief Financial Officer & Vice President, Innophos Holdings, Inc.

Other Participants

Larry S. Solow – Analyst, CJS Securities, Inc.
Michael J. Sison – Analyst, KeyBanc Capital Markets, Inc.
Edward H. Yang – Analyst, Oppenheimer & Co., Inc.
Christopher W. Butler – Analyst, Sidoti & Co. LLC
Chris L. Shaw – Analyst, Monness, Crespi, Hardt & Co., Inc.
Richard O'Reilly – Analyst, Revere and Associates

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Innophos Second Quarter 2014 Results Conference Call. My name is Christine 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.

I will now turn the presentation over to your host for today, Mr. Mark Feuerbach, Vice President Investor Relations. Sir, you may begin.

Mark Feuerbach, VP-Treasury & Investor Relations

Good morning and thank you for joining us today for Innophos' second 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 second quarter and progress in executing our strategic initiatives. Robert will then provide detail on our financial results and a look ahead to the third quarter and full year 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 July 28 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 statement 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 numbers 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 July 29, 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?

Randolph E. Gress, Chairman, President & Chief Executive Officer

Thank you, Mark. We performed well in the second quarter of 2014. Our results in the quarter reflected higher levels of profitability in our business, as our operating performance improved significantly over the year ago period.

In addition, we realized growth in our total net sales on both the year-over-year and sequential basis, in spite of softening market dynamics limiting growth for our core product lines and revenue related headwinds in certain end markets, which I'll touch on in just a moment.

We delivered total company net sales of \$220 million in the second quarter, up 3% from the same period last year and up 2% sequentially. Diluted earnings per share of \$0.93 were up 45% sequentially and up 18% compared to the \$0.79 recorded in the prior year period, after giving effect to the disclosed adjustments for the prior year quarter.

Specialty Phosphates volumes declined 1% compared to the prior year period. The decline in volumes was primarily driven by reduced demand and timing of Mexico STPP sales and continued weaker INNOVALT® sales for asphalt markets due to uncertain federal transportation funding.

The overall market was relatively stable and did not see growth in certain markets such as beverage, bakery and meat and sea food and poultry. We do, however, remain optimistic about the long-term prospects for our growth initiatives in the core business.

Despite these challenges, we delivered our highest Specialty Phosphates operating income in nine quarters and operating margins that were above our targeted 2014 range. The strength of our margin profile was aided considerably by continued strong performance and 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. We also realized 2014 price increases in our Mexico business that were achieved ahead of raw material cost increases due to inventory lags and implemented modest price increases in our U.S. business that are expected to help offset our increased raw material cost for the third quarter.

U.S. and Canada sales were 4% higher on a sequential basis, but 1% lower compared to the prior year period. On the plus side, specialty ingredients volumes were up 3% year-over-year despite some of the headwinds that I will address momentarily. Also on the positive side, export sales from the U.S. were up by 7% this quarter versus the prior year period, representing solid growth in Asia Pacific and Europe, Middle East and Africa.

Our initiative to expand geographically remains an important part of our growth strategy. On the negative side, our revenue growth was hampered by a 9% decline versus an already weak second quarter 2013 in INNOVALT® volumes caused by the dwindling highway account of the Highway Trust Fund, which is projected to run out of money in August by the U.S. Department of Transportation.

Approximately two-thirds of the asphalt paving market is publicly funded and about half of the capital spending on highways, roads and bridges by all levels of government comes from Federal funding. As a result, the uncertainty of longer term funding is limiting spending on new contracts to upgrade our aging road infrastructure.

Our latest understanding is that a short-term extension of Federal funding to May 2015 is likely. We remain confident that a new long-term bill will eventually get passed after which we expect deferred projects to come back on line from local governments. While these issues remain in the U.S., INNOVALT® exports continued to perform well, up 9% for the second quarter and up 32% for the first half when compared to the year ago period.

We remain confident in the long-term market potential of our INNOVALT® product line as U.S. funding issues get resolved and we continue to expand activities to receive State DOT approval.

Our nutrition business sales grew 2% year-over-year and 10% sequentially, but the growth rate remains below targeted levels as our customers continued to face challenges with changes in Chinese import classification requirements, which caused product shipment delays. Most of our affected customers believe this issue will be resolved during the second half of the year.

Operating income in the U.S. and Canada was down \$2 million compared to second quarter 2013, but slightly above the last three quarters' run rate. We implemented a price increase during the quarter that will take effect at the beginning of the third quarter to help offset rising raw material cost. And we remain confident in our ability to deliver long-term growth within this segment through innovation and adding value to our customers' offering.

Mexico Specialty Phosphates sales were lower on both the sequential and year-over-year basis, primarily due to the reduced demand and timing of STPP orders. On a positive note, export sales for Mexico were up by 20% this quarter versus the prior year period, representing solid growth in Latin America and Europe, Middle East and Africa and combined with the U.S. export growth enabled total Specialty Phosphates export sales to grow by 13% year-over-year.

While Mexico Specialty Phosphates sales were lower overall, margins were up significantly in the quarter from improved operations and from the timing of price increases that were achieved in advance of rising raw material cost due to inventory lags.

As previously discussed, we invested a significant amount of time and resources in Coatzacoalcos last year to improve its efficiency, capability and future reliability and these investments have shown benefits as seen in our improved performance over the last three quarters.

Second quarter yields improved sequentially by 100 basis points and have now improved for five consecutive quarters since our first quarter 2013 trough.

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.

With raw material costs expected to rise during the second half of 2014 and catch up to our already achieved selling price increases, along with the \$2 million to \$3 million sequentially higher cost for plant maintenance outage, which we have already successfully completed, we anticipate operating margins for Specialty Phosphates to decline to the mid-teens.

Turning to GTSP & Other, we reported \$22 million in sales and operated at breakeven for the quarter despite a \$1 million accrual for Geismar contingent liabilities recorded in Other.

Although market fertilizer prices were stable after an increase of 25% to 30% in the first six weeks of the year, they remained considerably below the year ago levels. Sales of GTSP doubled on sharply higher volumes.

We expect to deliver operating income of \$1 million in the third quarter based on current market selling and raw material prices. As always, it's difficult to project beyond one quarter for this business, but do note that the fourth quarter is seasonally slower which can affect market pricing levels.

Overall, we are pleased with our strong improvement in our operating performance and bottom line results for the second quarter, which reflects strong execution across our business. While we are seeing the benefits from the turnaround of our Coatzacoalcos facility and 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.

In particular, demand and timing of Mexico STPP sales, the uncertainties surrounding the Highway Trust Fund affecting INNOVALT® and slower growth than expected for our nutrition business are all limiting our sales growth.

In fact, we estimate that the INNOVALT® and nutrition business headwinds negatively affected first half 2014 growth rates by 100 basis points. As a result, we now expect to be at the low end of the Specialty Phosphates growth rate of 3% to 5% for 2014.

In addition, we expect our nutrition business to now grow consistent with the longer term 6% to 8% market growth rate for 2014, with some expected recovery in our customers' Chinese business as they overcome regulatory barriers.

Beyond 2014, we believe there is 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.

We are also reiterating our Specialty Phosphates' operating income margin targets of 14% to 15% for 2014. The continued strength in export sales, improved performance of the Mexico operations and disciplined cost management gives us confidence in our ability to achieve our profitability goals for the year.

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

Robert Harrer, Chief Financial Officer & Vice President

Thanks, Randy. Net sales of \$220 million for the second quarter of 2014 consisted of \$198 million from Specialty Phosphates and \$22 million from GTSP & Other. This represents a \$6 million increase compared to last year, with higher sales of GTSP & Other more than offsetting lower sales of Specialty Phosphates.

Diluted earnings per share for the second quarter of 2014 were \$0.93, compared to \$0.52 in the year ago period. Included in the prior year quarter were total expenses of \$0.27 per share primarily due to Mexico production issues. Giving effect to the prior year adjustments, second quarter 2014 diluted earnings per share of \$0.93 compared to \$0.79 for the second quarter 2013.

Earnings growth was driven by stronger margins due to improved operations in Mexico and the timing of selling price increases achieved ahead of the effects of higher raw material costs due to inventory lags.

Specialty Phosphates revenue was 2% lower compared to the prior year period, but higher by 1% on a sequential basis. The year-over-year decline was primarily attributable to lower Mexico STPP sales. Export sales were strong in the quarter, up 13% from the year ago period with growth rates of anywhere from 8% to 14% recorded across each of the regions.

U.S. and Canada Specialty Phosphates recorded sales of \$157 million, up 4% on a sequential basis, but down 1% from the prior year period, due to a 2% decline in prices partially offset by a 1% increase in volumes. The year-over-year sales decline reflected continued headwinds in the U.S. businesses of nutrition and INNOVALT® for asphalt markets, along with some share shifts on purified phosphoric acid, some further reformulation in STPP and overall stable markets for the majority of our businesses.

Mexico Specialty Phosphates sales of \$41 million were down 6% year-over-year with volumes down 8% due primarily to the demand and timing of STPP orders, as first half 2014 Mexico STPP volumes are down just 3% compared to the prior year period.

Selling prices increased 2% in anticipation of raw material cost increases. Operations at our Coatzacoalcos plant continued to run well, as illustrated by improved yields and margin growth. Our actions to invest in the plant this year and last have us well positioned to sustain strong long-term operational execution for this strategic asset.

Total Specialty Phosphates generated \$32 million of operating income, up \$6 million on a sequential basis and up \$7 million over the prior year, primarily due to significantly improved margins in Mexico.

Taking into account the \$5 million of elevated cost of goods sold that was previously reported for the prior year period, operating income was up \$2 million.

Overall, operating income margin in Specialty Phosphates was 16%, 100 basis points above the high end of our target range. This represents 360 basis points improvement compared to the prior year period and 140 basis points improvement after giving effect to the prior period adjustment.

Operating income in the second quarter 2014 for U.S. and Canada Specialty Phosphates was \$21 million, up \$1 million sequentially, but down \$2 million versus the year ago period due to lower selling prices and unfavorable mix.

Operating income margin was 14% for the second quarter, up 20 basis points sequentially, but down 130 basis points against the adjusted prior year level.

Operating income for Mexico Specialty Phosphates was \$11 million, nearly double on a sequential basis, up \$9 million compared to the same period last year and up \$4 million after adjusting for elevated costs in the prior year quarter.

Year-over-year operating income growth for Mexico was driven primarily by the timing of higher selling prices which were achieved ahead of the effects of higher raw material costs due to inventory lags.

Operating income margin was 25% for the second quarter, up significantly when compared to 3% for the year ago quarter and 13% for the adjusted prior year quarter. Operating income margins are expected to decline to the mid-teens in the third quarter, as raw material cost increases catch up to our selling price increases and we incur approximately \$2 million to \$3 million of higher expense for our plant maintenance outage.

Turning to GTSP & Other, we reported breakeven operating income for the quarter, up \$3 million from the prior year quarter and up \$1 million against adjusted prior year level due to higher volumes.

Operating income margins were 1% for the second quarter 2014 compared to negative 28% for the second quarter 2013 as reported and negative 11% on an adjusted basis.

Included in these results was \$1 million accrual in Other for Geismar contingent liabilities including estimated civil penalties following the receipt of a draft consent decree and discussions with government parties.

Our effective tax rate for the second quarter was 35% which was at the upper end of our expectations for the quarter. We expect an effective tax rate between 33% and 35% for the remainder of 2014.

Depreciation and amortization was \$9 million for the quarter, flat compared to the year ago period. Capital expenditures were also \$9 million in the second quarter, up \$3 million from the first quarter. We continue to expect full year 2014 capital expenditures to be in the \$35 million to \$40 million range.

Our focus continues to be on capacity enhancement to our U.S., Canada and Mexico Specialty Ingredients facilities and further improvement of Mexico's reliability, efficiency and capability to manufacture a more diverse mix of higher quality products.

Net debt decreased sequentially by \$11 million in the second quarter of 2014 to \$101 million, as the company generated additional cash from operations. With our solid balance sheet and our ability to generate free cash flow on the recurring basis, we remain committed to maximizing shareholder value. Our board of directors has just approved an increase to the quarterly dividend rate by 20% to \$0.48 per share to be paid in the third quarter. This follows a 14% increase in the dividend rate in the fourth quarter of 2013. We also repurchased 112,000 shares during the quarter at average prices of \$55 per share for a total amount of \$6.2 million.

Now, let me explain our assumptions for the full year 2014. Due to relatively stable first half 2014 demand in our core business, continued headwinds in our nutrition businesses, and in the U.S. for our INNOVALT®'s product line, our expectation for Specialty Phosphates growth is now at the lower end of the full year 2014 target range of 3% to 5% volume growth.

That said, based on the improved execution at 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.

Fertilizer market prices remained stable during the second quarter, but have increased 5% to 10% during July. Market phosphate rock prices were flat sequentially in the second quarter 2014 and are expected to remain stable for the third quarter.

Sulfur market prices increased by 20% in the second quarter 2014, and are expected to increase slightly in the third quarter. Innophos has already implemented selling price increases to offset the effect of the rise in the raw material costs.

On GTSP & Other, we expect to generate operating income of \$1 million for the third quarter of 2014 based on current market selling and raw material price indications.

Now, back to you, Randy.

Randolph E. Gress, Chairman, President & Chief Executive Officer

Thanks, Robert. Overall, our second quarter performance showcased our flexibility to grow profitability in a market environment that remains challenging. Our results were driven by continued strong performance in Mexico, disciplined cost management and continued success in our geographic expansion efforts.

While we expect our Specialty Phosphates business to grow at the low end of our target range for 2014, it remains above the current market growth rate which is flat at best. And we remain confident in our ability to hit our margin outlook target for the year.

As we look to the third 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 ingredient 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?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Larry Solow from CJS Securities. Please go ahead.

<Q – Larry Solow – CJS Securities, Inc.>: Hi, good morning. Thanks. Randy, just wanted to clarify on your year-to-date Specialty Phosphates volumes in total, they're up about 1.5%, is that about right? You gave a year-to-date combined number, is that about right or I think that I just take the plus 4% and the minus 1% in Q1 and Q2?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, Larry, I think that's about right.

<Q – Larry Solow – CJS Securities, Inc.>: So just-

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, right.

<A – Robert Harrer – Innophos Holdings, Inc.>: Larry, the total numbers for the Specialty Phosphates are [ph] 213 (24:54) for the first half of 2014...

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Robert Harrer – Innophos Holdings, Inc.>: ...and [ph] 208 (24:59) for the first half of 2013. So actually, your number is roughly, roughly correct.

<Q – Larry Solow – CJS Securities, Inc.>: Got it. So it's maybe close to 2% up or something.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. It's a little higher actually.

<Q – Larry Solow – CJS Securities, Inc.>: Right. So just to get sort of to the 3% number, you're expecting about 4% growth in the back half of the year versus sort of a flat industry, is that fair to say?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, Larry. That's right. And it's I think supported by some continued success in the execution of the geographic expansion growth, plus some expected recovery within the asphalt business, as well as some success in some of our nutrition customers and overcoming some of the regulatory barriers in China there an expected sales there, on top of just some general improvement in the market that we also expect to get some success out of our innovation efforts here.

<Q – Larry Solow – CJS Securities, Inc.>: Got you. And were your sales about flat excluding INNOVALT®, some of your other key newer products in the food and beverage line? Were you also about flat or did you actually beat the sort of flat to slightly down industry in the first half?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, Larry. For the most part outside of that we're relatively flat.

<Q – Larry Solow – CJS Securities, Inc.>: Got you. And can you just tell me STTP (sic) [STPP] (26:36) how much – what percentage of sales is that now as in the first half of the year I guess versus overall for Specialty Phosphates? Have they come down?

<A – Randy Gress – Innophos Holdings, Inc.>: Well, for STPP, it's a total of 8% of our revenue portfolio there.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And is there still some further risk that could still continue to fall over the next couple of years, as it's removed from detergents and whatnot in Latin America and other places?

<A – Randy Gress – Innophos Holdings, Inc.>: Right. I think we did see some slight continued pressure on the demand within the U.S./Canada, but that's a much smaller portion of the overall portfolio. And what we've communicated I think certainly in the last quarter, but maybe even prior to that, we do expect some further reformulation in Latin America based on one of the major customers there formulating out of the STPP.

But again, I think we may create some opportunities for us, one, within those that kind of in the developing countries, some of the use of STPP, some producers are committed to its use because of the performance that it has in the business. So potentially, there could be some share gains and a possibility for us to capture some more business there.

<Q – Larry Solow – CJS Securities, Inc.>: Got you. Just last question just on the profitability, obviously, Mexico had some benefit from timing of price increases and maintenance expenses. [ph] With that said (28:30) a very good number and the overall 16% is also a very good number. As you look out over the next couple of years independent, assuming you could sort of offset price increases, do you still see significant upside in operating margin as Mexico continues to improve and you're going to get better returns on some of these newer investments that you're putting in place today?

<A – Randy Gress – Innophos Holdings, Inc.>: Well, let me break that into a couple of pieces. I think what we have seen and certainly delivered on was the improvements in the operating performance of the site and that was with some improved overall performance as exhibited, and the yield improvement and some of the reduced maintenance cost. We do have going into the third quarter roughly \$2 million to \$3 million maintenance cost from the plant turnaround that Robert talked about.

But I do think that as we continue to invest in that business and I do expect that we'll deliver incrementally on the overall performance operationally at the site, granted not at the degree we saw over the past year with some of the success of the investments there. But I think we do expect to deliver on some improved results incrementally. And then also, I think with the investments in some improved mix, we should see some improved trends there in the next improvement.

<Q – Larry Solow – CJS Securities, Inc.>: Got you. Great. Thanks very much.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, thanks Larry.

Operator: Thank you. Our next question comes from Mike Sison from KeyBanc. Please go ahead.

<Q – Mike Sison – KeyBanc Capital Markets, Inc.>: Hey, good morning, guys. Nice quarter.

<A – Randy Gress – Innophos Holdings, Inc.>: Hey. Thanks, Mike.

<Q – Mike Sison – KeyBanc Capital Markets, Inc.>: In terms of your outlook for Specialty Phosphates for growth in the second half of the year, how much of that is, let's say, within your control, maybe you've got some new product wins or just some momentum in what you're doing in itself to generate some of that growth?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. Mike, certainly, what we're driving with the two initiatives that we've been continuing to communicate, one is the geographic expansion and reach and the second one being the innovation. I think I'm optimistic that the investments we're making in the R&D side will contribute to some of that.

What we've said is for each of those geographic initiatives over the long-term, mid to long-term, we expect to get 1% to 2% potentially on each ground and there's a little bit of a blend in that innovation and geographic expansion where one of them supports the other. Certainly, innovation supports some of the geographic growth. But on top of that, we do expect some recovery in the base core demand to give us that 4% that I talked about earlier.

<Q – Mike Sison – KeyBanc Capital Markets, Inc.>: Okay. Great. And then you talked about the nutritional business having some issues. When do you see that – when will you feel good that some of your customer issues can be resolved?

<A – Randy Gress – Innophos Holdings, Inc.>: I think we've seen some indication that they're making some progress going into the third and fourth quarter here. But the full resolution, I think, is in the next year.

<Q – Mike Sison – KeyBanc Capital Markets, Inc.>: Okay. Great. And then, I know you talked about acquisitions a little bit. The balance sheet is in very good shape. Robert, any thoughts on how aggressive you

could be, want to be, and aside from – maybe some of the areas that you're looking at that could be attractive additions for you?

<A – Robert Harrer – Innophos Holdings, Inc.>: I think our priority, certainly, remains, as you said and as Randy indicated, investing in our growth strategy, look at returning shareholder value to our shareholders through dividend increases and share repurchases. And then if the right opportunity basically comes along, go for M&A, bolt-on M&A, and certainly, at the level which is higher and more – would be more significant as compared to what we've done in the past. And that means both in adjacent markets, as well as for the geographic expansion, if opportunities arise.

<Q – Mike Sison – KeyBanc Capital Markets, Inc.>: Okay. And then last one, on the raw material increases for Mexico, are those – the price increases fully offset, what you're going to expect in the second half of the year, do you need more potentially to stay ahead or are you pretty good on that front?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, Robert, do you want to cover that?

<A – Robert Harrer – Innophos Holdings, Inc.>: Well, I think we have implemented the price increases pretty much to its full extent in Mexico. And that's why we guided for the second half of the year that as of now, basically, the inventory comes into the third quarter, as we already elevated the raw material costs, we see that margin squeeze happening and unless there is additional dynamics in the marketplace, there is not any additional room for price increases on our end.

We have announced price increases as well in the United States and we see that's coming to effect in the month of July and going forward. So on that end actually, we do expect our margins to slightly improve.

<Q – Mike Sison – KeyBanc Capital Markets, Inc.>: Okay. Great. Thank you.

<A – Randy Gress – Innophos Holdings, Inc.>: Thanks, Mike.

Operator: Thank you. Our next question comes from Edward Yang from Oppenheimer. Please go ahead.

<Q – Ed Yang – Oppenheimer & Co., Inc. (Broker)>: Hi. Good morning, guys.

<A – Randy Gress – Innophos Holdings, Inc.>: Good morning, Ed.

<Q – Ed Yang – Oppenheimer & Co., Inc. (Broker)>: You mentioned, I think, Randy that nutrition and INNOVALT® together was about 100-basis point headwind. Was that split about half and half or did one – was one more important than the other?

<A – Robert Harrer – Innophos Holdings, Inc.>: Actually, it's probably more 60%-40% split towards nutrition.

<Q – Ed Yang – Oppenheimer & Co., Inc. (Broker)>: Okay. Thank you, Robert. And the INNOVALT® impact I mean basically are those sales deferred so there is pent-up demand or are they just lost?

<A – Randy Gress – Innophos Holdings, Inc.>: I think that there's probably a mix of both impacts there. I think that INNOVALT® certainly is a good asphalt modifier. So as more spending occurs on the roads, we would expect to get some additional growth there.

<Q – Ed Yang – Oppenheimer & Co., Inc. (Broker)>: Okay. And I mean a very strong performance in the balance sheet side, as Mike mentioned in his question, your net debt was down 26% year-over-year, in the quarter. It was down 10% just in the last three months alone. And relative to roughly \$150 million in EBITDA, \$100 million of net debt, that's a fairly modest number. Could you remind us where you feel comfortable in terms of a leverage position on your balance sheet given the strong performance there?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. Robert, do you want to address that please?

<A – Robert Harrer – Innophos Holdings, Inc.>: Yeah, on the long run, I think the leverage of 2 times to 3 times is not causing us any additional headache. As I said before, we are looking at the M&A pipeline. We are actively monitoring opportunities both on the geographic expansion front as well as on the adjacencies.

But as we have said all the way long, we are certainly looking at a reasonable return on invested capital. We are looking at a good strategic fit for us, and also, most of the companies we are looking at are privately held family-owned, and therefore, the timing of when those assets could potentially come to the market is sometimes – it takes sometimes longer to go through the process of identifying the right targets and get to a final [ph] deal (37:42).

<Q – Ed Yang – Oppenheimer & Co., Inc. (Broker)>: Got you. And just final question, Randy, very nice to see the 20% dividend increase and that was larger than the prior increase which was about 14% or so. Could you give kind of a flavor in terms of the thought process that the Board had in terms of coming out with that increase, and was it because your earnings performance has been stronger? Is there a target ratio or earnings payout that you look at, but maybe give some sense of the tender of the discussions around that dividend increase?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, I think consistent with what Robert said before; our priorities certainly remain to continue to invest in the growth and improvement of the business is a number one priority and then looking at the return of cash or increase in value to the shareholders. I think it's as far as what the Board looks at. I think also consistent with what we've communicated before was an increase in dividends with earnings, and that being decision based on a good way to increase value and return to the shareholders here.

<Q – Ed Yang – Oppenheimer & Co., Inc. (Broker)>: All right. Thank you, guys.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. Thanks, Ed.

<A – Robert Harrer – Innophos Holdings, Inc.>: Thanks, Ed.

Operator: Thank you. Our next question comes from Chris Butler from Sidoti & Company. Please go ahead.

<Q – Chris Butler – Sidoti & Co. LLC>: Hi. Good morning, everyone.

<A – Randy Gress – Innophos Holdings, Inc.>: Good morning, Chris.

<A – Robert Harrer – Innophos Holdings, Inc.>: Good morning, Chris.

<Q – Chris Butler – Sidoti & Co. LLC>: I was hoping you might be able to talk to the margin contraction on the U.S. and Canada specialty side on a year-over-year basis. I know you had talked about lower prices, but weren't those lower prices tied in with lower raw material costs?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, Robert, do you want to address that, please?

<A – Robert Harrer – Innophos Holdings, Inc.>: Well, Chris, as I said before, we saw a squeeze in the second quarter here in regards to also the timing of our price increases where we see the third quarter probably give us some relief. Our mix certainly was not favorable in the U.S. That was a second contributor to that squeeze. And I think it's also fair to say that the markets, particularly on the purified phosphoric acid as well as on the STPP front, are getting more competitive.

So we certainly saw some moves here on the market, which show that things are becoming more competitive. And I think those are the key drivers. I mean to be honest, it's also – we've also seen more pushback on our price increases in the course of the second quarter, particularly on the food side as that segment of the market faces its own challenges. So it has been a challenge to push prices through in the food segment as well.

<Q – Chris Butler – Sidoti & Co. LLC>: So in reference to the timing aspect of your answer, historically, I seem to recall that the U.S. and Canada can get pricing increases and ahead of anticipated contractual increases, just due to the lags in the contractual agreement, much like Mexico. Are you saying that the additional pricing pressure seems to have slowed that down a little bit in this quarter?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, let me add a little bit to that, Chris. I think as we look at some of the price increases that we have laid out there, I think as Robert said, mix certainly played a factor, but I

think also there has been going into the year, I think, some uncertainty and exactly where raw materials were going and kind of the vision or crystal ball or outlook within the market was a little more difficult.

I think what we successfully did in Mexico; it's certainly a good opportunity, with that product mix, to reflect some of the raw material increases. With the U.S. and Canada, I think with some of the mix and we do have some anticipation of some increases going further here.

<Q – Chris Butler – Sidoti & Co. LLC>: And looking at the INNOVALT® and Chinese businesses there were a little bit of a difficulty here in the quarter. Could you speak to your confidence that these are going to bounce back knowing INNOVALT®'s leader into a season, you tend to see larger projects just get pushed to next year because of, I hate to say it but winter eventually coming? And then China, it seems that I'm reading more and more about issues with imports and exports out of China from – on the food production side.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, for the INNOVALT®, I think a lot does depend on the passage of the highway spending and the funding there. I think also on a positive note for INNOVALT®, we did indicate the growth we had in the export market, but also we develop some new offerings within that segment and continue to work towards some additional state approvals and we communicated before some success there. So I think even though, from a spending standpoint, there's been some headwinds, the base execution improvement within the business, we're making some good progress.

As far as the Chinese regs, sure, I think from an ingredient supplier, there are some challenges. I think what our customers experienced there on the nutrition side was for the nutrition ingredients and there have been some early indications that that had some success going into the latter part of this year in that area. So I think we will see some improvement there, but we'll have to continue to support our customers as they continue to drive the sale in China going forward.

<Q – Chris Butler – Sidoti & Co. LLC>: I appreciate your time.

<A – Randy Gress – Innophos Holdings, Inc.>: Thanks Chris.

Operator: Thank you. Our next question comes from the Chris Shaw from Monness, Crespi. Please go ahead.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Hey, good morning, guys. How are you doing?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. Good.

<A – Robert Harrer – Innophos Holdings, Inc.>: Good morning, Chris.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: I think you addressed it a little bit, but I might have missed in earlier answer, just on the nutrition, I just [ph] don't (44:47) understand what the – why it's swelling – it sounds – I know – I always thought that the faster growing part of the business [indiscernible] (44:54) they are doing some acquisitions on. So what was the color around that?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. I am sorry, Chris, but I think you said for the nutrition side of the business...

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Right, right.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, I mean we did have the sequential and year-over-year growth within the business. It just wasn't as great as we expected, where we expected some double-digit growth to support our overall growth initiatives there, but we did see some growth within the business and that was due to the headwinds that some of our customers had with the – overcoming some of the regulations in China for their own supply.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: But then on the Specialty Phosphates price increases did you – just the difference between, I guess, Mexico and U.S./Canada. In Mexico, it sounds like you've already been implemented at some degree. Did you announce those prior to the ones in U.S. and Canada or is it just easier to get that price increases through Mexico?

<A – Randy Gress – Innophos Holdings, Inc.>: For Mexico, it was announced earlier and the focus was on getting the price increase. And I think with those markets and mix, it's more supported by some of the raw material cost increases where our effort within the U.S. continues to be selling on value and pushing value within the customer use for our products there.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Then for U.S. and Canada, in the third quarter, with some of the price increases coming through, hopefully, I mean net-net you think that's positive to margins or you think it's just going to be offsetting some rising raw materials?

<A – Randy Gress – Innophos Holdings, Inc.>: Robert, do you want...

<A – Robert Harrer – Innophos Holdings, Inc.>: Yeah. That should be – we should see a slightly positive effect here in the second half of the year.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Okay. Thanks.

<A – Randy Gress – Innophos Holdings, Inc.>: Thanks, Chris.

Operator: Thank you. Our next question comes from Richard O'Reilly from Revere and Associates. Please go ahead.

<Q – Richard O'Reilly – Revere and Associates>: Thank you. Good morning, gentlemen.

<A – Randy Gress – Innophos Holdings, Inc.>: Good morning, Richard.

<A – Robert Harrer – Innophos Holdings, Inc.>: Good morning.

<Q – Richard O'Reilly – Revere and Associates>: I got in a few minutes late, but on the exports, the overall were up I think it's at 13%, is that from both the U.S. and Mexico or where is that going?

<A – Randy Gress – Innophos Holdings, Inc.>: Yes, Richard. That's a combined U.S. and Mexico exports out of region at 13%.

<Q – Richard O'Reilly – Revere and Associates>: Okay. Can you point any specific countries or products that's driving that growth?

<A – Randy Gress – Innophos Holdings, Inc.>: Yes, the growth on a combined basis was mostly in the LatAm and Europe, Mid East and Africa area with some lesser growth in the Asia Pacific. We were double-digit in the first two grounds and high single digit in the second group.

<Q – Richard O'Reilly – Revere and Associates>: Second. This is a quick question. You did better than you thought in the fertilizer business there by a little bit. Did you know that you're going to have that accrue for Geismar or you came in breakeven, but you thought you were going to do breakeven [ph] the time (48:44) you have the accrual, did you think you were going to have that accrual?

<A – Randy Gress – Innophos Holdings, Inc.>: No. Actually no.

<A – Robert Harrer – Innophos Holdings, Inc.>: The consent decree came in the month of June, so when we guided the first quarter, there was no thinking about that accrual.

<Q – Richard O'Reilly – Revere and Associates>: Okay. So actually that it came in with a positive number so you did better than what you thought three months ago, is that right?

<A – Robert Harrer – Innophos Holdings, Inc.>: You are absolutely right. If you net it out, we basically made \$1 million in the second quarter and then that was primarily driven by more than double volumes as compared to last year.

<Q – Richard O'Reilly – Revere and Associates>: Okay. Good. Okay, great. Excellent.

<A – Robert Harrer – Innophos Holdings, Inc.>: But of course, pricing helped, pricing was reasonably firm in the second quarter of 2014, but volume played the role as well.

<Q – Richard O'Reilly – Revere and Associates>: Okay, fine. Okay. That's it. Thank you for that guys.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, thanks, Richard.

Operator: Thank you. [Operator Instructions] We have no further questions. I would like to turn the call back over to Randy Gress for closing comments.

Randolph E. Gress, Chairman, President & Chief Executive Officer

I'd like to thank everyone for joining us today. And we certainly appreciate your interest in Innophos. We also look forward to speaking to you next quarter when we report our third quarter 2014 results. Thanks again. Bye now.

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