

INNOPHOS 3Q15 RESULTS CONFERENCE CALL

EDITED TRANSCRIPT

CALL HELD NOVEMBER 4, 2015

CORPORATE PARTICIPANTS

Mark Feuerbach *Innophos Holdings, Inc. - VP of IR, Treasury, Financial Planning and Analysis*

Randy Gress *Innophos Holdings, Inc. - Chairman, CEO, President and Director*

Robert Harrer *Innophos Holdings, Inc. - VP and CFO*

CONFERENCE CALL PARTICIPANTS

Larry Solow *CJS Securities - Analyst*

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

Kirk Sigmeyer *KeyBanc Capital Markets - Analyst*

Rick D'Auteuil *Columbia Management - Investor*

PRESENTATION

Operator

Good morning, ladies and gentlemen. And welcome to the Innophos third quarter 2015 results conference call. My name is Ellen, and I'm your operator for today. (Operator Instructions) Please note that this conference is being recorded.

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

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

Good morning. And thank you for joining us today for Innophos's third quarter 2015 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 results and provide updates on our progress in executing our strategic initiatives. Robert will then provide details on our financial results and further comments on our outlook for the remainder of 2015. Randy will then conclude with some final remarks before we open up the call to your questions.

During the course of this call, management may make or reiterate forward-looking statements made in our November 3rd 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 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 November 4th. 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.* - CEO

Thanks, Mark. And good morning, everyone.

In the third quarter, we continued to experience similar market conditions to those that began in the fourth quarter of 2014 and have since persisted. Weak demand across all end markets, competitive pricing pressures and a strong US dollar have continued to challenge our business.

Pricing pressures were particularly challenging in the third quarter as the Chinese economic environment caused increased competition in selling prices during the quarter. Despite these ongoing challenges, we generated solid cash flow and delivered strong shareholder returns during the third quarter. We returned a total of \$49 million, as we paid \$9.3 million in dividends and repurchased over 763,000 shares for \$39.2 million, concluding our entire 2015 share buyback program.

We have focused on reducing our costs and have made good progress on the initiative. Last quarter, we communicated that we were in the process of evaluating several initiatives aimed at improving the overall operating performance of the organization, given the challenging external environment we are experiencing. We posted a \$9 million restructuring charge in the third quarter, and we expect to deliver \$13 million of annual cost savings going forward. We expect to see some positive effects in the fourth quarter of 2015, gaining momentum by the start of the first half of 2016 and achieving the full run rate by the start of the second half of 2016.

Regarding business performance -- we delivered total company net sales of \$200 million in the third quarter, down 4% or \$9 million from the same period last year. Diluted earnings per share of \$0.66, when adjusted for a restructuring charge of \$0.29 and translation expense of \$0.09, was down 20% compared to the \$0.83 recorded in the prior-year period.

On the Specialty Phosphates side -- year-over-year revenues were down 2% or \$4 million due to lower selling prices, with increased pricing pressures from Chinese competitors in Mexican markets experienced during the quarter.

Volumes were flat for the quarter compared to last year, as improvement in PPA was offset by declines in the technical grade STPP. Our total Specialty Phosphates operating income was \$10 million below the prior-year period on lower selling prices and higher raw material costs.

Specialty Phosphates operating income margin of 10% was down by 520 basis points compared to the third quarter of 2014. This is below our expected 12% to 13% margin, primarily as a result of an unexpected decline in Mexico driven by lower selling prices.

Margin in Mexico was 10% in the quarter, down 720 basis points sequentially and 410 basis points year over year. US and Canada Specialty Phosphates operating income margin was 11%, up 150 basis points sequentially but down 540 basis points compared to an exceptionally high third quarter 2014 margin.

Export sales were 1% higher than the third quarter 2014, marking the first quarter this year to show a positive year-over-year variance and bringing the year-to-date variance to a 4% decline. This is consistent with government-announced statistics on US exports of goods and services, which showed year to date through July exports down 3.5% and August US exports of goods down 3.2%, the lowest level since June 2011.

As we have reiterated the last couple of quarters, underlying demand throughout most of the markets we serve continues to be soft, and will likely remain that way through the end of the year. In addition, increased pricing pressure has impacted our margins throughout the year. As a result, fourth quarter 2015 and full year 2015 total Specialty Phosphates operating income margin is now expected to be at 11%.

Our INNOVALT® product line continues to perform well. And we remain confident in the long-term market potential of this product line. The government seems to be making some progress on extending the highway trust fund, with a six-year plan under discussion.

Cal-Rise®, our low-sodium baking product, showed another quarter of excellent volume growth, up 27% year over year. NutraTab™, our new excipient blend, which was launched last fall, is showing early promise with many contacts made and commercial orders already shipped.

We continue to look for ways to expand our product portfolio with innovative technologies and offerings. I would also like to add that our Taicang, China business continues on track to more than double sales for the full year 2015 compared to last year.

I will now turn it over to Robert for additional detail and financial results in the quarter, and on our 2015 outlook. Robert?

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

Thanks, Randy.

Net sales of \$200 million for the third quarter of 2015 consisted of \$186 million from Specialty Phosphates and \$14 million from GTSP and Other. This represents a 4% or \$9 million decrease year over year.

Diluted earnings per share for the third quarter of 2015 were \$0.28, down significantly on a sequential basis, due to a restructuring charge of \$0.29 and a translation expense of \$0.09. Adjusted for those items, diluted EPS was up one penny sequentially.

As Randy mentioned, we recorded the restructuring charge of almost \$9 million and expect annual cost savings of \$13 million. Approximately 85% of the restructuring was booked in the US business and 15% in the Mexico business, with approximately one-third of the restructuring in cost of goods sold and two-thirds in operating expense. Approximately 50% of the anticipated \$13 million annualized run rate savings is expected to materialize in the fourth quarter 2015, 75% by the start of 2016, and 100% by the start of the second half of 2015.

US and Canada Specialty Phosphates reported third quarter sales of \$146 million, down 1% from the prior-year period, due to lower prices. The year-over-year price decline for third quarter 2015 was 100 basis points better than the first half 2015 year-over-year comparative, due to price increases implemented in June.

Mexico's Specialty Phosphates third quarter sales of \$40 million were down 6% year over year on 5% lower selling prices and 1% lower volumes. The decrease in selling prices is a result of increased Chinese competitive pricing pressures due to their economic environment and the 5% weakening of their currency against the US dollar.

Total Specialty Phosphates generated \$19 million of operating income for the third quarter, down \$10 million versus the prior year. Overall, operating income margin in Specialty Phosphates was 10% for the third quarter, down 520 basis points from the prior-year period.

US and Canada operating income of \$15 million was down \$8 million from prior-year period as a result of a year-over-year comparison with an exceptionally high 2014 quarter in which operating income margin was 300 basis points higher than the average of the other three quarters in 2014. Operating income margin was 11%, up 150 basis points sequentially, supported by higher selling prices; but down 540 basis points compared to the same period in 2014.

Operating income for Mexico Specialty Phosphates was \$4 million, down \$2 million from the same period last year. Operating income margin of 10% for the third quarter was down 720 basis points sequentially and 410 basis points year over year, primarily as a result of 5% lower selling prices.

Our effective tax rate for the third quarter was 33%, within our expected range. We now expect an effective tax rate in the range of 32% to 33% for full-year 2015.

Depreciation and amortization was \$9 million for the quarter, flat compared to the year-ago period. Capital expenditures were \$8 million in the third quarter, with approximately 70% spent on maintenance and the remaining 30% for strategic growth initiatives. The majority of the strategic growth investments were focused on improving capability and capacity at our Coatzacoalcos, Mexico facility and automating packaging at Port Maitland, Canada.

2015 capital expenditures are expected to approximate \$30 million. Net debt increased \$36 million in the third quarter, to \$200 million, while we concluded our 2015 share buyback program, repurchasing roughly 763,000 shares for \$39.2 million. With our solid balance sheet and our ability to generate free cash flow on a recurring basis, we remain committed to returning capital to shareholders and maximizing shareholder value.

We continue to expect Specialty Phosphates volumes to be flat for full-year 2015, with the fourth quarter 2015 year-over-year comparable expected to recover the year-to-date September shortfall due to low fourth quarter 2014 PPA volumes caused by supply issues during that period.

Fertilizer market prices were relatively flat during the third quarter 2015 but showed downward pressure in October. As the fourth quarter is seasonally slower for fertilizers, this downward pressure is expected to continue through the remainder of 2015.

Market Phosphates rock prices were flat sequentially and are expected to remain stable for the fourth quarter. Sulfur market prices slightly increased by 4% sequentially in the third quarter 2015, but settled 20% lower for the fourth quarter 2015 due to weak demand in fertilizer markets.

Excluding restructuring charges recorded in Other, GTSP and Other recorded \$2 million operating income for the third quarter 2015, above expectations for the quarter and an increase of \$1 million over the prior-year period. Given the current weak demand and declining market price conditions, we expect operating results to be near breakeven again in the fourth quarter 2015.

Now, back to you, Randy.

Randy Gress - Innophos Holdings, Inc. - CEO

Thanks, Robert.

As we have discussed throughout the year, the softness we've experienced in our end markets and the strengthening of the US dollar caused headwinds that are likely to persist throughout the remainder of the year as well.

We made good progress on our cost-reduction initiative. We will continue to evaluate other initiatives to improve the overall operating efficiency of the organization. As we stated last quarter, some of these initiatives may require various one-time costs, such as the restructuring charge we took in the third quarter. However, these actions have been designed to overcome the challenges we are facing.

We will continue to look at other potential initiatives such as focusing on quality and maintaining superior service levels, building on successes of recent product launches, and lastly looking at a number of ways to reduce GTSP earnings volatility, including structuring the GTSP production as a toll manufacturing operation for a Phosphates rock supplier or a fertilizer customer; diversifying the co-product options to include other solid fertilizers, as well as specific phosphoric acid grades; and distributing the product through additional channels besides our own marketing.

Despite these challenges we are facing in the business, our financial performance remains very stable, and our cash flow is strong. In fact, during the last four quarters, excluding restructuring charges and translation, our EPS has hovered around \$0.65, plus or minus a penny, and we have generated \$93 million of operating cash flow over that period.

Our focus remains on maximizing value for our shareholders by actions that lead to direct returns to them, such as through our quarterly dividends and our expanded share repurchase program, which together have amounted to \$180 million of cash returns during the last four quarters.

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

QUESTION AND ANSWER

Operator

(Operator Instructions) Larry Solow, CJS Securities.

Larry Solow - CJS Securities - Analyst

Actually, I was unable to get onto the call; I missed most of your opening remarks. Just in terms of the cost-cutting -- so the \$13 million, I guess -- I assume that that's a little bit more than you were, I guess, originally targeting -- it was more than 100 bps offset. So that was like an \$8 million to \$10 million number? Is it a little higher? Is that sort of fair to say?

Randy Gress - Innophos Holdings, Inc. - CEO

Yes, Larry, what we were targeting for the cost reductions that we announced last quarter was targeting at least 100 bps, which would've been in that \$7 million to \$8 million on the Specialty Phosphates range. So yes, we did plan on delivering better than that.

Larry Solow - CJS Securities - Analyst

Okay. And I don't know if you gave any color on where the reductions are coming from. And obviously, you're always analyzing for further cuts. But do you think this will be the most heavy-loaded initially? Or is there more sort of near-term low-hanging fruit?

Randy Gress - Innophos Holdings, Inc. - CEO

We are continuing, I think, to look at our cost. I think overall we did a good job here in identifying these. And we'll be implementing -- we already started that, and got a good start in the third quarter. We'll be continuing through the fourth quarter, and then have some potential savings also that we expect to implement through the first half of next year that'll have some impact on the costs as well.

I think as far as where we go from here -- we continue to look at opportunities to improve the operating efficiency on both the variable cost and fixed cost levels. So we'll continue to look at that and hope to deliver more in that area.

Larry Solow - CJS Securities - Analyst

Okay. And I know you had mentioned in your comments and your press release about the US pricing performance. So I guess some of the price increases were implemented in the quarter, or is that sort of -- I think you were up 1% year over year, if not mistaken? Does that take into effect sort of the expected 2% average price increases you were trying to get through? How does that sort of compare? And what's your outlook going forward?

Randy Gress - Innophos Holdings, Inc. - CEO

Yes, with the US pricing, we were up 100 basis points from the first half there. And also, I guess that resulted in 150 basis points on the operating income line. And continue to push for the value for our products. And again, I think where we saw some decline in the pricing was more in the impacts on the Mexico pricing.

Robert, maybe you want to add some to that?

Robert Harrer - *Innophos Holdings, Inc. - VP and CFO*

Well, I think you summarized it well. I think the main pressure certainly on the pricing side across the board was on the acids and on the ammoniums. Those probably got hit the hardest during the third quarter, which means the 100-basis points improvement sequentially versus first half 2015 was more in the specialty ingredients space, where we represent those increases. But again, the Chinese dynamic certainly has hit pretty hard in the third quarter.

Larry Solow - *CJS Securities - Analyst*

Right. And do you see that continuing? Obviously, I think you're able to hold price in some of your more proprietary areas. Hard as that -- get your crystal ball out, but assuming currency sort of stabilizes or even goes the other way -- or let's just say stabilizes for the sake of argument -- is there further ability for these -- is it sustainable for these exporters to continue to cut price and put pressure on you guys? And what's the offset?

And then, I guess the other question is just in volumes -- again, longer term, do you think you can get growth in the overall business, especially on the proprietary side? Thanks.

Randy Gress - *Innophos Holdings, Inc. - CEO*

For the pricing -- I think, sure, we've had some pressure, I think, from the exchange rate. And that came from the European producers. I think with the Chinese Yuan in the quarter, that had some devaluation. I think some of those pressures also come from the economic situation in China, with some slowing in the growth there.

I think as we continue forward, we're going to continue to push for the value of our products and what we provide. And again, as Robert said, most of that pressure was in the acid PPA area as well as the specialty horticulture business. And that's where it was also seen in Mexico.

As far as volumes going forward -- I think we're going to continue to push on the innovative products. I think some of the base demand has faced some headwinds, as you see in a number of the major food processors and what they're facing. A lot of those volumes, as you can see from the consumer goods, in a number of different areas are under pressure.

And to offset that, we have some products like the Cal-Rise, which supports the low-sodium option for the food processors on the baking side. And that's shown some good growth. We expect to continue to push on the export side, which also saw a 1% improvement year over year on the exports, as well as from the US/Canada, I think we saw a higher level of roughly 7% year over year.

Larry Solow - *CJS Securities - Analyst*

Okay, good. Thank you.

Randy Gress - *Innophos Holdings, Inc. - CEO*

Thanks, Larry.

Operator

(Operator Instructions) Chris Shaw, Monness, Crespi.

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

How big is the -- in Mexico, how big (technical difficulty) large amount (technical difficulty) I know there's a lot of customers who still use it in their formulations. But does it make sense to actually get out of that at some point?

Randy Gress - Innophos Holdings, Inc. - CEO

The STPP business overall, from a revenue standpoint, is roughly 8% of our revenue. And the year-over-year comp -- that's where we saw the drop there in the STPP volume of roughly 12%. I think what we've seen with the STPP is -- on a sequential basis, it's been fairly stable here from second quarter to third quarter.

I think as it relates to whether we get out of it or not -- I think it's still a business that provides profitability and contribution to the business. And based on the reformulations we've seen, there's still a good business for us down there in Mexico. And most of that business is in Mexico.

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

Does it make any sense maybe to move it to the GTSP and Other? Just -- I mean, just a little more volatile sometimes on the other, the specialty side of the Phosphates business, so moving to the other segment -- highlight the strength of specialty side?

Randy Gress - Innophos Holdings, Inc. - CEO

Yes. Chris, I think it's something we ought to take a look at.

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

Okay.

This is a question from awhile back, but what happened to your rock concessions in Mexico? Is there any update on that? I hadn't thought about that in a while.

Randy Gress - Innophos Holdings, Inc. - CEO

For the rock concessions -- we basically have put that on a back burner or a simmer, and haven't spent a whole lot in that area. I think over the past four or five years, we've spent roughly \$1 million a year, and we're spending less than that now. But they're still there to evaluate and running some evaluation, but certainly on a simmer right now.

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

That should expire ever, or is there like a dead date, (inaudible) date?

Randy Gress - *Innophos Holdings, Inc. - CEO*

No, it continues to run.

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

Okay. Great, thanks.

Randy Gress - *Innophos Holdings, Inc. - CEO*

Thank you, Chris.

Operator

[Kirk Sigmeyer], KeyBanc.

Kirk Sigmeyer - *KeyBanc Capital Markets - Analyst*

Just, I guess, a little more detail on the pricing pressure in Mexico -- I thought I recall you guys mentioning Chinese competition last quarter. Did it intensify that much in the most recent quarter? And I guess, where do you see -- margins had been trending pretty well on that side of the business. So where do you see kind of normalized margins once the pricing pressure sort of abates, I guess, a little bit longer term?

Randy Gress - *Innophos Holdings, Inc. - CEO*

For Mexico, where we have seen the pricing pressure on the specialty horticulture was more in the export markets outside of Mexico. And in this quarter, we saw more pressure there within Mexico. But right now, it feels relatively stable there.

Kirk Sigmeyer - *KeyBanc Capital Markets - Analyst*

Okay. And then, on sort of the longer-term, I guess, normalized margin kind of thought -- is there sort of a target or an expectation of where that can get back to?

Randy Gress - *Innophos Holdings, Inc. - CEO*

Robert, you want to comment on that?

Robert Harrer - *Innophos Holdings, Inc. - VP and CFO*

Well, short term, as we've said, we see the margin in the fourth quarter pretty much at the same level where it is right now. So certainly no short-term relief.

We will continue to look at the more specialized products in Mexico in the market, which was less hit by the Chinese competition. But the pressure is there for now, no short-term relief, and working on getting [price selections] in place as we did in the US. But it's a little more challenging out there in Mexico because there is more volume in the less specialized area and not so much on the specialty ingredients side.

So yes, I would say the challenges for now certainly remain for the fourth quarter.

Kirk Sigmeyer - KeyBanc Capital Markets - Analyst

Got it.

And then, maybe just as a follow-up -- now that you guys have completed your share repurchase program, sort of an update on capital deployment priorities?

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

Well, we are -- as you said, we are out of the share repurchase program for now. I mean, we discuss continuously with the Board how to deploy our cash. And we have said in earlier calls, certainly comfortable to increase our leverage ratio in a reasonable way with the share repurchase program, which we did. Would we think to go higher with thinking about the next share repurchase program in 2016? Something to be discussed. Certainly was not on our priority list to go way above two.

And we are still looking at potential M&A targets. The M&A activities is active. There is a list of potential targets we are evaluating. And as we said before, M&A is still high on the priority list and certainly above share repurchase activities.

Kirk Sigmeyer - KeyBanc Capital Markets - Analyst

Great. Thanks.

Randy Gress - Innophos Holdings, Inc. - CEO

Thanks, Kirk.

Operator

Rick D'Auteuil, Columbia.

Rick D'Auteuil - Columbia Management - Analyst

Just in answer to your earlier question on potential further cuts in cost -- I think, Randy, you've referenced variable and fixed. So is some of the manufacturing footprint on the table? Or is there an opportunity to take down some of the capacity?

Randy Gress - Innophos Holdings, Inc. - CEO

For the manufacturing footprint, what's included in the plan -- we have one small plant shutdown that we have completed from the nutrition business. And there's still some further opportunities that we're going to implement on the operating side with some consolidation.

Rick D'Auteuil - Columbia Management - Analyst

Okay. And that's already in the -- is that incremental to the \$13 million savings number, or is that in there?

Randy Gress - Innophos Holdings, Inc. - CEO

That's in there.

Rick D'Auteuil - Columbia Management - Analyst

Okay. That's all I have, thanks.

Randy Gress - Innophos Holdings, Inc. - CEO

Thank you.

Operator

We have no further questions at this time. I'd like to turn the call back to Randy for closing remarks.

Randy Gress - Innophos Holdings, Inc. - CEO

I'd like to thank everyone for joining us for the third quarter call here, and look forward to updating everyone for the full year and fourth quarter results in February. Thank you very much.

Operator

Thank you.

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