INNOPHOS 4Q12 & 2012 RESULTS CONFERENCE CALL

EDITED TRANSCRIPT

CALL HELD FEBRUARY 15, 2013

PARTICIPANTS

Corporate Participants

Mark Feuerbach – Vice President, Investor Relations, Treasury, Financial Planning & Analysis
Randolph Gress – Chairman, President & Chief Executive Officer
Neil Salmon – Chief Financial Officer & Vice President

Other Participants

Larry Solow – Analyst, CJS Securities, Inc.
Peter Cozzone – Analyst, KeyBanc Capital Markets
Edward Hoon Shik Yang – Analyst, Oppenheimer Securities
Christopher W. Butler – Analyst, Sidoti & Co. LLC
Chris Shaw – Analyst, Monness, Crespi, Hardt & Co., Inc.
Paul Moomaw – Goshawk Global Investments
Rick D'Auteuil – Columbia Management

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Innophos Fourth Quarter and Full Year 2012 Results Conference Call. My name is Christine [ph] and I'm your operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note 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, Treasury, Financial Planning and Analysis. Sir, you may begin.

Mark Feuerbach, Vice President – Investor Relations, Treasury, Financial Planning and Analysis

Good morning and thank you for joining us today for Innophos' fourth quarter and full year 2012 results. Joining me on the call today are Randy Gress, Chief Executive Officer, and Neil Salmon, Chief Financial Officer.

During the course of this call, management may make or reiterate forward-looking statements made in our February 14th 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 risk and other factors as set forth in the forward-looking statement section and in Item 1A Risk Factors in our annual reports 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 webcast available on the company website.

In addition, please note that the date of this conference call is February 15, 2013. 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 Gress, Chairman, President and Chief Executive Officer

Thanks, Mark, and good morning everyone. My opening comments will concentrate on fourth quarter performance and how we have continued to deliver on our strategic initiatives. Neil will then summarize our financial results and provide a look ahead to the 2013 first quarter and after which I will conclude with some final remarks and then we will take your questions.

Overall for the company, we achieved net sales of $209 million in the fourth quarter, flat from last year. Diluted earnings per share were $0.62 compared to the $0.88 recorded in the fourth quarter of 2011 after giving effects to the disclosed adjustments for each quarter. There were three main reasons for the lower earnings per share.

Firstly, and as expected, we continued to experience lower profitability in our co-product GTSP on a combination of lower phosphate fertilizer market prices and relatively high market raw material cost compared to the advantaged market conditions of last year. This accounts for roughly half of the earnings per share variance.

Secondly, although we achieved and improve sequential performance in our Mexico Specialty Phosphates business, as that business recovered from the weather and production related issues in the third quarter, we were not able to match a very strong fourth quarter last year. Our Mexican manufacturing operations have successfully completed an extensive program of scheduled maintenance outages. However, the resulting production restrictions from the outages and subsequent higher maintenance expenses limited the business' ability to match the quarterly result of a year ago. Overall for the year, Mexico Specialty Phosphates matched a strong 2011 performance and we have continued to invest in improved manufacturing capabilities and a more differentiated product line positioning this business for further improvement in 2013.

The combined effects of these Mexico shortfalls were primarily responsible for year-over-year decline in earnings. The sequential declines primarily arose in our US/Canada business where the economic uncertainty that existed at the end of 2012 led to a larger than normal seasonal decline in our US/Canada business, and therefore, the results in this segment excluding acquisitions were flat versus last year. We believe the primary cause of weaker year-end demand was customer destocking. The strong recovery in shipments in January 2013 supports our view. Excluding destocking effects, market demand continued to be flat or moderately lower than the year ago period. However, I'm confident that we are seeing improving momentum in our geographic and product led growth initiatives.

Overall, sales for US/Canada Specialty Phosphates were up 4% on the benefit of our recent acquisitions. However, we did not see any significant earnings accretion in the quarter from these acquisitions after including acquisition accounting effects.

Our first acquisition, Kelatron, completed in the fourth quarter of 2011 performed very well in 2012 and with the acquisition of ATM Labs in the third quarter and our latest acquisition, Triarco Industries, completed on December 31st, I believe we have a strong platform for future growth in an attractive market segment. Triarco's botanical and enzyme based ingredients business is highly complementary to Kelatron and AMT who both focus on bioactive mineral ingredients. The three businesses combined have revenue in excess of $50 million with EBITDA margins in line with our more differentiated Specialty Phosphates. Also, they are well positioned in a market segment which has continued to grow at high single digit rates even in this current more challenging economic environment. While the main value we see from these acquisitions is in realizing their growth potential and synergistically supporting the growth of our Specialty Phosphates products, we are also focused on operational improvement. I am pleased to say that cost synergy achievement is also ahead of our expectation.

I am also confident 2013 will see further success from our geographical growth initiatives. We have completed the construction of our food grade blending facility and food ingredient lab in China, and recently submitted our application for our food manufacturing license. While there are still some steps to go before the licensing process is complete, most likely taking us into the second quarter 2013, we have already increased our commercial resources in the region, both in sales and in technical service. We now have a much stronger presence in Asia Pacific that we have ever had historically.

Now turning to capital allocation, capital expenditures increased in the quarter as some of the major projects that were delayed, due to revised engineering requirements earlier in the year, began to move forward. Our focus continues to be on supporting our future growth and enhancing Mexico's overall process capability.

Additionally, our strong balance sheet allows us to continue to maximize value for our shareholders. We paid an attractive $0.35 per share dividend in the quarter, which is more than double the rate we paid just two years ago.

Overall market conditions remain challenging, but we are focused on the areas which we can control, such as product line execution that will drive the above market growth, the new product innovation, including ingredients providing calcium and other mineral fortification options for foods and beverages and those that reduce sodium content in baked goods and proteins, which we believe can leverage into long term growth, along with operational improvement to drive cost and revenue synergies from our three recent acquisitions. Our continued execution on our growth strategies will enable us to achieve our ambitious long term objectives.

I will now turn it over to Neil to for some more detail on financial results in the quarter. Neil?

Neil Salmon, Chief Financial Officer and Vice President

Thanks, Randy. Net sales for the fourth quarter of 2012 were $185 million from Specialty Phosphates and $24 million from GTSP & Other resulting in a total of $209 million, flat with the fourth quarter of 2011. Compared to last year, fourth quarter Specialty Phosphates revenue was 1% lower, with volumes up 1% including a 3% benefit from the Kelatron and AMT acquisitions.

Our price variance indicates a decline versus last year, but this is primarily due to mix effects and some declines on technical grade products sold out of Mexico. Excluding these effects, selling prices were unchanged from the year ago levels.

The US/Canada Specialty Phosphates business recorded a 4% year-over-year increase in sales for the fourth quarter with the increase entirely attributable to the benefit from Kelatron and AMT. Prices were flat with the year ago period while continuing success with growth initiatives was fully offset by a greater than anticipated year-end destocking effect. Operating income for US/Canada at $16 million was similar to the year ago period but down $7 million sequentially.

Fourth quarter 2012 US/Canada operating income margin was 12%, about 420 basis points lower on a sequential basis and lower by about 90 basis points from year ago level. The large sequential decline does not indicate any underlying decline in business profitability, but was caused by lower volumes resulting in lower cost leverage with unfavorable product mix also contributing. As these effects reverse in 2013, we expect margins to improve again.

The Mexico Specialty Phosphates business recorded an 11% decline in sales from year ago levels with prices down 5% in the less differentiated technical grade products and on some unfavorable mix effects. Volumes were lower by 6% versus a strong fourth quarter of 2011. Operating income from Mexico Specialty Phosphates was $5 million, which was $5 million lower than the same period last year, but up $2 million sequentially after recovering from third quarter weather and production issues. Operating income margin in the fourth quarter was 10%, which was below the full year average as a result of higher planned maintenance outage expenses.

Overall, Specialty Phosphates operating income for the fourth quarter of 2012 was $20 million, $6 million below the prior year quarter, primarily due to lower volumes in Mexico.

GTSP & Other revenue was $24 million compared to revenue of $23 million in the prior year period. Revenue reflected higher volumes, partially offset by lower market prices. The segment recorded operating income just about breakeven at $0.5 million, about $4 million below the fourth quarter 2011. The combination of lower phosphate fertilizer market prices and relatively high market raw material costs meant this segment continue to operate at approximately the breakeven level. Operating income margins were 2% for the fourth quarter 2012, compared to 20% for the fourth quarter 2011.

Our effective tax rate was 30.6% for the fourth quarter of 2012, slightly lower than expected, primarily due to a small one-time net benefit realized in the quarter. Going forward, we anticipate an effective rate in the 32% to 34% range.

Overall, demand conditions for Specialty Phosphates were flat-to-moderately lower in 2012, with this trend accentuated by the year-end destocking. Although we are encouraged by what looks to be a strong start to 2013, this probably represents a carrier of December orders to January and we remain cautious on overall demand levels for 2013 with only modest market growth anticipated. We are confident of continued success with our product innovation and geographic expansion initiatives and overall, we expect 2013 growth in Specialty Phosphates around the low end of our 4% to 6% long term target with further growth of approximately 5% anticipated from the full year benefit of acquisitions completed in 2012. First quarter 2013 revenue growth is expected to be moderately below the full year expectation in comparison to a strong first quarter 2012 for Mexico Specialty Phosphates.

We do not expect any major change in raw material purchase prices or underlying selling prices through the first quarter of 2013. However, the U.S. and Canada segment will have higher sequential cost of goods sold in the first quarter reflecting purchase accounting effects for the Triarco acquisition, and overall, we anticipate around $1 million of expense in the first quarter 2013 for temporary acquisition accounting effects.

Depreciation and amortization was $10 million for the 2012 fourth quarter, $1 million lower than the year ago levels. For the 2013 full year, we expect depreciation and amortization to be $7 million less than in 2012 with approximately $4.5 million benefiting Specialty Phosphates. This will result from asset values created at the formation of the company in 2004 reaching the end of their depreciation lives partly offset by the amortization of the intangibles associated with recent acquisitions.

Lower depreciation and amortization costs combined with improved mix and better operating leverage are expected to increase Specialty Phosphates operating income margins by approximately 200 basis points sequentially. As we go through 2013, we expect further sequential improvement in margins, as the acquisition accounting effects wind down and we benefit from the typical seasonal pattern of improved volumes and product mix in the middle quarters. We expect full year Specialty Phosphates operating income margins to be around 100 basis points better than the average achieved in 2012.

GTSP is expected to continue near break-even through the first quarter. Similar to last year, fertilizer prices have been declining through the winter period and no improvement in pricing is anticipated before the second quarter. Fertilizer majors remain confident of a strong application season in 2013 and this would suggest improving pricing from the second quarter. However, it is too early in the year for any such trend to be established in market pricing, and although we continue to expect an improvement in GTSP margins going forward, we do not have sufficient visibility on timing to make predictions beyond the first quarter.

Mining expenses for the development of Mexico phosphate concessions were lower than initially anticipated in the second half of 2012. We have re-prioritized our activities to focus on key areas that will support a successful development of these deposits. We expect to continue at approximately our current expense run rate in the first half of 2013 with potentially $1 to $2 million of additional expense over that run rate in the second half of 2013, depending on our progress against these initial objectives.

Turning to cash flow, our net debt in the fourth quarter of 2012 increased by $69 million to $149 resulting primarily from the $45 million of cash paid for the acquisition of Triarco and a temporary increase in working capital implemented in Mexico to reduce the risk of additional taxation under the Mexican cash based alternative minimum tax.

Capital expenditures were $33 million in the 2012 with a higher spend rate in the fourth quarter as activity increased on some of the larger initiatives that had been delayed from earlier in the year by changes in engineering specifications. Investment continues to be focused on capacity enhancements for US/Canada and Mexico, expanding geographically, including the investments in China, and enhancing Mexico’s capability to process multiple grades of rock, consistent with the company’s supply chain diversification strategy. Our expectation for 2013 is for capital expenditure in the $40 million to $45 million range.

Before turning the call back to Randy, let me just highlight our refinancing that we completed in December. We amended and restated our existing credit facility which reduced interest rates by 75 basis points, expanded the capacity by $100 million, extended the term by two years to December 2017 and subsequently we swapped out our LIBOR exposure on a $100 million of floating rate debt for five years at just under 95 basis points. Taking account of the new facility and the debt put in place to fund the Triarco acquisition, I anticipate interest expense to be flat compared to the expense seen in 2012.

Now back to you Randy.

Randolph Gress, Chairman, President and Chief Executive Officer

Thanks, Neil. As I mentioned in my opening remarks, I believe we made good progress against our strategic priorities in 2012 and we will continue to focus on similar priorities in 2013. The strong start we have seen to 2013 suggest the destocking effect experienced at the end of 2012 was temporary. However, we are not currently anticipating any significant sustained improvement in the rate of market demand growth.

Our strategic priorities in 2013 include continued improvement in our product innovation driving domestic growth realizing the benefits of our increased presence in higher growth geographies, including the investment in our facility and lab in China, and continuing to invest in our supply chain and manufacturing capabilities to support growth, improve product differentiation and increase productivity. These should enable us to achieve 2013 volume growth around the low end of our long term 4% to 6% per annum target even with continued softness and underlying market demand trends.

We expect to continue with the successful integration of our three acquisitions positioning these businesses well for the future growth, while also delivering revenue and cost synergies. Going forward, we will continue to explore additional bolt-on acquisition opportunities, and while we cannot predict the timing of such acquisitions, this remains an important part of our overall growth strategy.

Finally, we will continue to take the necessary steps to ensure that we are maximizing shareholder value by leveraging our strong cash flow and balance sheet, both to support growth and improve cash returns to shareholders. Our track record is established against these objectives as evidenced by our acquisition successes and two dividend increases completed in 2012, and with a strong balance sheet and ample liquidity, we are well positioned to continue delivering against our goals in 2013.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question is from Larry Solow of CJS Securities. Please go ahead.

<Q – Larry Solow>: Hi, good morning.

<A>: Good morning, Larry.

<Q – Larry Solow>: Just going to ask one question on the quarter and then one sort of forward-looking. Just on the quarter itself, just noticed in the U.S. your realized prices were up about 5% for the year. But in the quarter themselves, they were actually flat. Was that – is there anything other than the fact that the inventory drawdown skewed it? Or was there something else in there?

<A>: Yeah, Larry, there were some product mix effects that impacted the fourth quarter in the US/Canada and actually we did see in some cases, some slight improvement in pricing.

<Q – Larry Solow>: Okay. So that's – we view that as a temporary aberration or I mean, in your outlook for next year you're assuming sort of prices or – and I guess sequentially it looks prices must have went down if they had increased so much now for three quarters, right. So are they bouncing back up, or are they sort of sticking closer to Q4 levels.

<A>: No, they were, sequentially for US/Canada, they were just off slightly, but that was purely product mix effect and expecting stable going forward here.

<Q – Larry Solow>: Okay. And then as I just, as we look out you have a nice improvement, I guess, you're implying sort of a 13% gross operating margin in Q1 in Specialty Phosphates and then getting up to a 15 for the year and you called out I guess, seasonally get higher sales in the middle part of the year and I guess some of the acquisition expense went down. I mean those are two main things and does that imply that sales are also sequentially growing through the year?

<A>: Yes, Neil.

<A – Neil Salmon>: Yeah, I mean typically we see around 26% of our annual revenue in the middle two quarters and then that also tends to be a more favorable mix in the middle two quarters, so that's the operating leverage that we're referring to in the middle two quarters. Otherwise, yeah, I think you picked up on the other sensitive goal.

<Q – Larry Solow>: So essentially – with the 13% or so margin in Q1 you basically up now like a 16% average for the back three quarters or somewhere in that percent, right. I mean that's..

<A>: Yes, yes.

<Q – Larry Solow>: Okay. Okay. Great. Thanks.

Operator: Thank you. Our next question is from Peter Cozzone of KeyBanc Capital Markets. Please go ahead.

<Q – Peter Cozzone>: Good morning, guys.

<A – Randy Gress>: Good morning, Pete.

<Q – Peter Cozzone>: Randy in regards to your organic growth outlook for Specialty Phosphates, what gives you confidence that you can achieve this number with the 1Q that appears to be trending below that, are there any specific strategic wins or a new products that you can point us to and then maybe could you remind us what your underlying base market growth assumption is for this outlook?

<A – Randy Gress>: For the successes that we have above the base organic growth, again, they fall in two areas; one is in the new product development and application side of things and I think, a good example of some of the success we've seen is in one of our products categorized, which is a calcium based product in the baking area and supports some of the low sodium trends that are developing, and which had some real good success in that product with some good growth. Roughly 50% improvement from '11 to '12 and then expecting some continued growth and acceptance by customers going forward. And there are a number of other focused application areas that we are increasing our effort in, also for the geographic growth, we expect as near [ph] point adopts some of the success from our investment in China but also with support of some of the growth geographically in Latin America as well as some limited growth in Europe as well.

So those two areas are really the drivers for getting the above base market growth which we are predicting just to be modest or slight through the year.

<Q – Peter Cozzone>: Okay. And then in order to get back to kind of the top end of your year long-term growth targets, is that simply a matter of the underlying market recovering a little bit better?

<A>: Yes, exactly.

<Q – Peter Cozzone>: Okay. And Neil stripping out some of the one-time volume issues and costs, where do you think overall operating margins are running in the Mexico business on a normalized basis as we enter 2013? Are they kind of in that low-teens range that we saw in the first nine months of 2012?

<A – Neil Salmon>: Yeah. I think for a while now I have been saying this that 12% is the base margin level in that business and that was the case in the fourth quarter as well if you back out the higher than usual maintenance expense. So and certainly we aim to improve on that going forward. We continue to invest in improving the differentiation of the product line there, that's – but yes I think that's a good read on where the business is today.

<Q – Peter Cozzone>: Okay. And then lastly, now that you've built some scale on the nutritional ingredient space, are there some opportunities to consolidate production and generate some cost synergies from these acquisitions?

<A>: The three acquisitions we've made we have already begun to optimize and achieve some of the operation of synergies between AMT, Labs and Kelatron and a little bit early to so many things for the Triarco addition. But going forward, I think there will be some operational synergies that we'll be able to achieve and in addition to that I think there's also some synergistic effects that would expect to get on the market side as well. When we look at the combination of the Triarco products together with the AMT and Kelatron products and the bioactive minerals combined with what we already have within Specialty Phosphates and the minerals supplementation we have there. So I think those are two areas where we would hope to get some synergies.

<Q – Peter Cozzone>: Great. Thank you very much.

<A>: Thanks Pete [ph].

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

<Q – Edward Yang>: Hi, good morning.

<A>: Good morning, Ed.

Randy, it sounds like the whoosh down you saw in the fourth quarter was pretty short lived, but were there any end markets that stood out in terms of the extent of the destocking and conversely which areas have led on the rebound?

<A – Randy Gress>: Ed, we really haven't seen any differentiation there. I think normally when we are talking about that fourth quarter impact, it's typically in that 2% to 3% of decline and that's from areas that we typically see decline in the baking from a seasonal impact as well as areas like asphalt.

But I think this time with the inventory destocking that we heard at many customers for December, it was more across the board, across the product. And then I think likewise with the recovery we are seeing in January is similar in what we saw as the decline in December.

<Q – Edward Yang>: And what's your sense – your current sense of customer inventory levels and prior to this destocking what would – I didn't get the sense that inventory levels were all that high to begin with. So what are you thinking there?

<A – Randy Gress>: Yeah. I think that's right, Ed, I think it was pretty short lived effects, and it was really in the first few days of January that we were shipping at an elevated rate. And so we didn't see this is a – we don't see this is a step down, but that its a timing issue over the year end.

<Q – Edward Yang>: Okay. And for GTSP, the fertilizer side, you are looking for breakeven again in the first quarter and you know, that's clearly an aberration again, but remind us what you think is a normal earnings run rate for that business.

And, if fundamentals change how quickly can it revert back to trending or get back on that earnings run rate? Is it something that would occur gradually or would it be – would that be a snapback. And is the discrepancy coming on the pricing side or on the raw material side?

<A>: Neil?

<A – Neil Salmon>: Yeah, we said in the past that we view $2 to $3 million of operating incomes a quarter as the average earnings level for that business when you look at it over an extended period of time. And that's where – when raw material cost which were primarily phosphate rock and sulfur are in-line with trends in fertilizer finished market prices. And while we've seen short term time periods in which those margins have been compressed, we've not seen as long a period as we've seen over the last four, five quarters now.

And what's happening in the market is that generally demand conditions for phosphate rock are tighter than they have been for fertilizer end market prices. But we think this is only a short term phenomenon, not indicating a fundamental shift in the value chain in fertilizer markets.

So, we do anticipate when more normal demands of product patterns reemerge in both levels of the supply chain that will get back towards that $2 million plus operating income level. But as I said in my comments earlier that, although there is certainly some talk of selling price improvement in the second quarter, there is nothing yet established in markets and we've seen that in the past. But it's quite difficult to predict things in the short term on fertilizer market trends.

<Q – Edward Yang>: Okay. Thanks, Neil. And Randy, you talked about returning cash to shareholder and at the same time, balancing that out with your growth objectives, reinvestment in organic growth and also on the M&A pipeline. You clearly generate a lot of annual free cash flow, but your balance sheet is also fairly strong. Do you have a view point in terms of what's an optimal amount of leverage? Do you think that the lower you need to be or above where need to be in terms of leverage in the balance sheet?

<A – Randolph Gress>: I am going to let Neil comment on the leverage piece. But again want to reiterate our priorities with the cash. The first being certainly investing in the business – the core business and improving the profitability and then second, still looking at some of the adjacency strategies where some adjacent bolt-on type acquisitions are still a focus for us.

And then lastly, I think we have shown a good track record there with returns to the shareholder and thinking about consistent with what we've communicated before with improving returns to the business that being supported with improving the cash returns to the shareholders.

<A – Neil Salmon>: On leverage, we don't operate to a target leverage ratio, but we certainly feel that we could comfortably go up to say two plus debt to EBITDA without any concern opposite our current rating or aspects such as that. But I think as Randy was saying we look – we're looking for the value added opportunity to get there, but also looking to increase cash returns to shareholders on the way.

<Q – Edward Yang>: Thank you.

<A>: Thanks, Ed.

Operator: Thank you. Our next question is from Christopher Butler of Sidoti & Company. Please go ahead.

<Q – Christopher Butler>: Hi, good morning, guys.

<A>: Good morning, Chris.

<Q – Christopher Butler>: Staying on that same subject, you had originally targeted a dividend payout that was in-line with operating income growth with fertilizer declining this year, how should we be thinking of the dividend payout going forward, seeing as that the original target doesn't really apply at this point?

<A>: Yeah, I think it's so. I mean, so we increased the dividend well in the year and with earnings declines, so the payout ratio improved. But I don't think that means that we are not able to further increase the dividend if planning is improved from this point going forward. So -- but we've not -- these are indications rather than some figures, which is generally saying that we continue to be positive on opportunities for increasing cash returns to shareholders. But it will -- those decisions will also probably depend on the opportunities we see for growth investments.

<Q – Christopher Butler>: And looking at 2013, understanding that there are lot of moving parts here, but from 2011 to 2012 you lost about $0.75 in adjusted earnings. With acquisitions, better demand environment and hopefully fertilizer coming back to normal at some point during the course of the year, how much of that $0.75 do you think you can regain in 2013?

<A>: Well, we're not giving a precise EPS guidance, because as you know it's not something that we do. But, and so I think I'd have to refer you back to up to a more general comments on volume growth and on margin and as the best answer I can give to that. But definitely we see good potential to grow earnings in 2013.

<Q – Christopher Butler>: Can you speak to the market demands following 2012 where we did see some sluggishness due to inventory destocking even before December. Why is it that we're looking at close to 4% organic growth for you in 2013, again due to modest market?

<A>: Yeah, the combination of just the modest market that as we indicated earlier in some of the response, expecting to see continued success there in the new product, new application side of the business supplementing that growth. I think historically we've communicated. We expect roughly 1% to 2% in that category and then also the geographic growth that we expect to achieve going forward, which was more I think based on some of our investment in Asia-Pacific, expecting to be successful there, and all of those in combination being at that low end of that 4% to 6%.

<Q – Christopher Butler>: And I am sorry, if I wasn't clear, why is the market growing at a slower rate this year with industrial production looking a little bit more optimistic than last year here in the United States and food being relatively stable?

<A>: Chris, generally we base our views on customer feedback, and I would admit that we probably have a – only one or two quarter forward view through that channel, but if I collaborate what we say opposite other food ingredient companies and our customers and generally consumer spending rates, and what I can see in economic predictions, I think what we're saying is very much consistent or even slightly above what some others are saying in terms of others growth expectation through 2013, so, but, yeah I wouldn't claim to have any greater insight than you would have on how underlying economic trends develop beyond the first or second quarter.

<Q – Christopher Butler>: I appreciate your time.

Operator: Thank you. Our next question is from Chris Shaw of Monness Crespi Hardt & Company. Please go ahead.

<Q – Chris Shaw>: Hey, good morning guys. How are you doing?

<A>: Good morning.

<Q – Chris Shaw>: I guess, piggy back on Chris's questions a bit, but I think you said, yes, organic demand or market demand for '12 was sort of flat. I'm just trying to figure out what – why that was, I mean the North American markets I felt like generally more on the GDP basis were growing. And what is it about your space or your end markets that were sort of trailing that kind of growth? Was it a customer specific or was it timing? Was it all the year-end, the stocking that hurt the number?

<A>: Yeah, I think in fact market demand was moderately lower for us in many markets through 2012. We had some decline in industrial markets, so for example the road paving was lower year-over-year, although we offset that with growth in our product line and that in many years consumer-oriented categories demand was flat or moderately lower and this has increased the year-end destocking effect.

So it was – yes, really across the wide range of markets and we've had discussions with customers confirming this is what they're seeing too; there is no share change that we're not aware of. We're pretty confident of that view. And then also we've seen, as we said, we saw some adjustment in our sales to export market as particularly customers who are re-exporting back to U.S. and Canada realized through the year that growth wasn't what they anticipated and those long supply chain adjustments can then carry forward for a couple of quarters. So it's a combination of those affects that we've seen throughout 2012.

I wouldn't say the fourth quarter was anything other than the year-end destocking. There wasn't any change in that, so I think we've been operating in a pretty steady, low growth market environment for some quarters now.

<Q – Chris Shaw>: I guess part on the understanding, are the consumer products or food companies, are their end markets not growing as well, I don't obviously cover the consumer names, but is that what's happening as this flowing to you guys, because I always thought those guys would be growing normally at least – sorry, I worry, is there – are they using less product or I'm trying to figure out, what the difference is?

<A>: No. I think you see, I mean, for example, protein has been more expensive this year because of grains cost and that impacted sales, but in many of the base categories there's not been a lot of growth this year. Some of the markets that are growing that are more fortified beverage items, nutritionally fortified items and those are the markets that we're more focused on with the Kelatron, AMT and Triarco acquisitions. And Kelatron recorded very strong growth in 2012. So companies which are continuing to report growth year-over-year are – from what I've seen anyway, those are with a stronger position in those nutritionally-oriented food items.

<Q – Chris Shaw>: Okay. Quick – do you guys supply Hostess at all? I mean, I know obviously they shut down for a while, and is that – and they have a lot of baked goods there?

<A>: There's – we're not commenting on specific customers, but that hasn't been a major effect during the fourth quarter.

<Q – Chris Shaw>: I was curious about that. And then I saw your SG&A was pretty low for the quarter, is that just a function of may be less share-based compensation, or were you guys consciously trying to cut some cost come the year-end?

<A>: A combination of both of those. Yeah.

<Q – Chris Shaw>: Okay, great. Thanks a lot.

Operator: Thank you. Next we have a follow-up from Larry Solow of CJS Securities. Please go ahead.

<Q – Larry Solow>: Hi. Just quickly just to confirm. So the 4% organic growth for '13 that's mostly or all volumes assumption, is that correct?

<A>: Yes. And it translates to revenues as well in this case because....

<Q – Larry Solow>: Right.

<A>: Yeah.

<A>: Because I know you said no price – you're assuming basically flat pricing.

<A>: Yeah.

<Q – Larry Solow>: Throughout the year.

<A>: That's a more...

<Q – Larry Solow>: To the extent.

<A>: The number we continue use is the volume number. Yeah.

<Q – Larry Solow>: And then basically on your cost of good too you're assuming flat without – with the exception of the purchase accounting, but other than that its – you're assuming flat at least from where you stand today?

<A>: Yes. I mean on our annual contract that reset up significantly in the second quarter of last year, we should see some moderate improvement when it resets again in the second quarter of this year.

<Q – Larry Solow>: Okay. So that may help your margin a little bit, I guess too. Just an update on STPP, how did that do for the year, is that still declining or any further risks there?

<A>: For the most part we've had STPP, I think earlier in the year we showed some slight decline in the I&I area, but seemed to stabilize at year-end. And for our operations out of Mexico, again, it's fairly stable, although continues with some pressures there. But what we're doing to offset any of that would be differentiating some of our product mix out of Mexico. But the STPP portion of the business and on the tech side is greatly reduced from where it was a couple of years ago.

<Q – Larry Solow>: Right. It's below 10%, I guess. And wouldn't you say you're differentiating your product at Mexico, I mean, I completely understand that. But as you do that, do you know there is demand for it? Or do you, in other words do you have to go out and necessarily shop for demand?

<A>: We're supporting both, growth in Latin America with the products primarily and also support even sales in the U.S. and Canada, so continuing to do sourcing across our whole network.

<Q – Larry Solow>: Okay. And just on Mexico you had – I know you had pretty good growth last year, so that was a tough comp and sequentially you did improve. But the 11% drop year-over-year, is some of that due to a function and maybe you mentioned this number, some of that due to a function of just, I mean, you knew going in, you couldn't meet that much demand because there was a supply issue and had you had no maintenance shutdown, you would have had X% of less drop?

<A>: We would have done better I think in the latter part of the year, we had the maintenance outages and the weather impacts in the third quarter in Mexico, and then some continued maintenance outages into the fourth quarter in Mexico. So, we expected some impact, but I think that we've made some investments and continuing to make some improvements there to improve our capability.

<Q – Larry Solow>: Okay. And just last question, on the other such GTSP & Other, certainly on the other piece, it sounds like the mining expenses are lower than they were forecasted a couple quarters back, are you scaling back just to – is it to be more efficient or is it just making the process spreading out over a longer period of time, any more color onto that?

<A>: Our drive for the mining spending is to make sure that we're focusing on some of the key areas where we're establishing a number of gates that we want to go through and prioritizing the spending as we move forward. We still think it's an attractive concession to evaluate and we'll continue to move forward, but as we said, increase some of the spending expected in the latter half of the year.

<Q – Larry Solow>: Okay. Great. Thanks.

<A>: Thanks.

Operator: Thank you. Our next question is from Paul Moomaw of Goshawk Global Investments. Please go ahead.

<Q – Paul Moomaw>: Yes on Triarco, is there any way you could describe a typical customer of theirs and would you be able to give you an example of being able to sell both Specialty Phosphate and Triarco product to that type of customer?

<A>: Well if we think of the customer that is in the fortified beverage area, a combination of the chemicals that are in the -- included in the beverage combined with even the bioavailable minerals of our other products together with either the calcium or potassium based phosphate product would be a good example I think of combining all three areas of our nutritional capability across the businesses.

<Q – Paul Moomaw>: So that just then becomes a sales effort maybe over to next 18 months or something, to make something like that happen?

<A>: I think it's going to take some time certainly focusing on the integration of the businesses but working together on the commercial front. As well on the technical side, I think there is technical efforts in looking at the products in combination that we'll have to undertake.

<Q – Paul Moomaw>: Okay. And switching to the maintenance in Mexico Q3 and Q4 is that the type of expense that I think you may have described in the past as occurring every -- maybe 18 months or so?

<A>: For the maintenance outages, these are planned outages and we had talked about some of these outages occurring in the 12 months to 18 or even up to two years in some cases. But our plan going forward is to take some of these outages a little more frequently and ensure the reliability of our operation.

<Q – Paul Moomaw>: So, for 2013 a reduced level of expenditure on maintenance like that but then coming back maybe in 2014?

<A>: Well, in fact moving to this more frequent shorter duration turnaround would mean similar spends in 2013 and going forward, and also trying to improve on reliability.

<Q – Paul Moomaw>: Okay, great. Thanks very much.

<A>: Thank you.

Operator: Thank you. Our next question is from Rick D'Auteuil of Columbia Management. Please go ahead.

<Q – Rick D'Auteuil>: Good morning. Just actually follow-up on that last question. So year-over-year '13 should be less interruption in the Mexico maintenance outages than '12 was, is that fair?

<A>: Certainly it's our objective, Rick, yes, yeah.

<Q – Rick D'Auteuil>: Okay. What are the prospects for 2013 road paving as it relate to your products?

<A>: I think spends, government spend in that area is certainly remaining soft and not likely to improve much, but we're very positive about the success we've made with our technology both increasing the available market in the U.S., but also seeing some good success outside the U.S.

As you all remember, this is a technology that improves road reliability under extreme weather conditions and is also cost effective in use in comparison to other asphalt modification technology. So – and it's very well dependent on technology that we have in the business. So, even with soft market demand, it's one of the product lines that we feel very positive about going forward.

<Q – Rick D'Auteuil>: So, I guess, it's clear laid down, it sounded like flat markets, but maybe you gave -guys are gaining some share, so you expect growth?

<A>: Yeah, in this case it's really growing in the available market rather than share, but yes, but flat paving miles, yes.

<Q – Rick D'Auteuil>: Okay. One of the issues around the fertilizer business was you got the double whammy of weak pricing with your customers and also constraint rock supply from your suppliers which compressed margins. We don't know where the pricing is going to end up. But what's the update on constrained supply environment, has some of the interrupted supply comes back online or what's the status of that?

<A>: There's not been any major change there. And Syria was one of the minor producers more to the European market and exported further and that clearly still off the market. So – and then some of the other North African producers are less reliable than they were. But we do see increased activity that reports over time of new concessions being developed or existing deposits being expanded. And so while I don't see anything changing in the next quarter or two fundamentally, longer term I think our view remains the case that we are going to see significant improvement in the supply demand dynamic here.

<Q – Rick D'Auteuil>: So your year-over-year no relief on the supply issues...

<A – Neil Salmon>: I gave a year view but as far ahead as we can see there is no immediate reason for change on the supply view, yeah.

<Q – Rick D'Auteuil>: Okay. In your release and in your prepared statements you talked about weak December as it relates to de-stocking in the specialty market, but recovery in January very strong, we are halfway through February, can you now look back on January and say that was really a blip in recovery or is that recovery continued in February?

<A – Neil Salmon>: I think it's too early to comment on February, but I think clearly with what we saw in January, we did have the bounce back from where we were down in December.

<Q – Rick D'Auteuil>: And is your expectations for the rest of the February and March periods that we go back to just normal not – not December level and not January levels is your expectation it's just floating along again?

<A – Neil Salmon>: Yes. That's right, yeah.

<Q – Rick D'Auteuil>: Okay. So remind me again why if with a strong January in specialty, why we are looking at Q1 volumes being less than the average for the year?

<A – Neil Salmon>: Well, last year we saw set of strong particularly in Mexico, but was flat through the U.S. I think everyone at the beginning of last year was optimistic on growth rates and we were positive through April, May as the demand pattern in the business. And then it was really end of the second quarter that we moved back to this flat to moderately down market condition that we've seen – we've seen ever since. So it's more a comp issue than anything else.

<Q – Rick D'Auteuil>: Okay. All right. Thank you.

Operator: Thank you. Next we have a follow-up from Chris Shaw of Monness. Crespi, Hardt & Co. Please go ahead.

<Q – Christopher Shaw>: Hi. It's another GTSP question. Is there something special about GTSP right now or would sort of like a DAP or a MAP producer who is not integrated also have really sort of slim margins at this point?

<A>: Yes. It's across the non-integrated fertilizer space, you're right, which is one of the reasons why we feel it's not sustainable because non-integrated producers are an important piece of the market and I believe anyway unless they have some advantage cost position, will be suffering from this – the margin pressure that our co-product is under.

<Q – Christopher Shaw>: And you always characterize it as a co-product, do you guys push down any cost from the other like specialty phosphate businesses into the GTSP segment that maybe normally might not be, is there if you got – stop selling GTSP and shut down that business would they flow back up or...

<A>: Well, there is some allocation of cost there, but only appropriate through its activity. And if we – it's an important part of our business model because it is a co-product and we need to find an economic outlet for both the current product, so even at a breakeven operating income that relates actually value adding to the overall economics of the consequent [ph] first production companies.

<Q – Christopher Shaw>: Right. I wasn't – just asking you shut it down, but I was just curious on the cost work.

<A>: Okay.

<A>: Right.

<Q – Christopher Shaw>: Thanks a lot.

Operator: And next we have a follow-up from Christopher Butler of Sidoti & Company. Please go ahead.

<Q – Christopher Butler>: Hi. Thanks for taking the follow-up. At the risk of beating a dead horse looking at your end markets for Specialty which end markets do you expect to be down in 2013 that gets you to that flat to modestly down overall?

<A>: I think it's a pretty consistent view across the piece actually down to any markets that were particularly concerned on for decline, so yeah, I think its across the space that we're viewing flat to modest demand growth is the best you are going for.

<Q – Christopher Butler>: And in regards to the Mexican mine, just to be clear, is this a change of direction for you, or is this, you've just reached this point in the process and now you are adjusting the strategy going forward?

<A>: It's not a track change in direction. It's consistent with what we were looking at before, and just refocusing and prioritizing the efforts and I think strategically going forward again evaluate what the potential is, but something that we would look at to possibly finding a partner to help us in the development of the mines.

<Q – Christopher Butler>: That's all I have. I appreciate it.

<A>: Thanks.

Operator: Thank you. We have no further questions at this time. I will now turn the call back over to Randy Gress for closing remarks.

Randolph Gress, Chairman, President and 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 first quarter 2013 results. Thank you.

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