



Earnings Conference Call

Third Quarter 2016

October 28, 2016 – 9:00 am ET

Today's Presenters



Kim Ann Mink, Ph.D.
Chief Executive Officer and President



Han Kieftenbeld
SVP and Chief Financial Officer



Safe Harbor

- During the course of this presentation, management may make forward-looking statements regarding financial performance and future events.
- We will attempt to identify these statements by use of words such as expect, believe, anticipate, intend, and other words that denote future events. You should understand that, even though our forward looking statements are based on assumptions we believe are reasonable when made, they are still subject to 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 statements section and in Item 1A risk factors in our Annual Reports on Form 10-K as filed with the U.S. Securities and Exchange Commission that could cause actual results to differ from those in the forward-looking statements as contained in this presentation.
- Forward looking statements made herein are summaries of previous public disclosures, do not represent revised guidance, and we do not undertake to revise or update them from the date or dates of previous disclosure.

Delivering on Our Transformation



Value Creation



Operational
Excellence



Commercial
Excellence



Strategic
Growth



Strong Organization and Cultural
Transformation



- **Strengthening our foundation**
- **Realizing our vision**
 - Market-oriented growth company
 - Value-added, technology-based ingredient solutions
 - Aligned with mega-trends across food, health and nutrition markets
- **Advancing three strategic pillars**

Q3 2016 Highlights

- Sales of \$186 million in line with expectations, down 7% YOY
- Net income of \$14 million, up 151% YOY
- Strong adjusted EBITDA performance of \$34 million, or 18% of sales, up 291 basis points year-over-year
- Diluted EPS of \$0.69, up 150% YOY; Adjusted diluted EPS of \$0.75, up 14% YOY
- Continued focus on cost actions instrumental to mostly offset softness in sales in core markets served
- Cash from operations strong at \$40 million, nearly double Q3 2015
- Free cash flow at \$33 million due to reductions in working capital

GTSP Tolling Agreement


Decreases volatility, refocuses resources

- Two-year tolling agreement (effective December 1, 2016)
- Reduces GTSP earnings volatility
- Provides outlet in market for GTSP co-product
- Reduces need to direct IPHS resources on non-core product line and market
- Reflects management's commitment to deliver on promises

Strengthening The Foundation for Our Transformation

Meaningful organizational changes built on the right talent, structure and processes

Integration of the Nutrition Business

- 
- Supply Chain, Purchasing, and Customer Service reporting to Amy Hartzell, VP Supply Chain and Purchasing
 - Sales, Marketing and Technology reporting to Sherry Duff, CMO and VP Technology

- ✓ Better aligns Nutrition business with strategic processes and goals
- ✓ Drives growth via market leadership, innovation and customer responsiveness

Streamlining the Specialty Phosphates Sales Organization



- Delaying the reporting structure for global sales organization
- Head of Global Sales now reports directly to CEO Kim Ann Mink

- ✓ Provides better visibility into markets and customer needs
- ✓ Positions Innophos to better serve customer needs through challenging market conditions



Operational Excellence

Continuous improvement and best-in-class excellence

- **Hired Amy Hartzell, VP of Supply Chain and Purchasing**
- **Supply chain and manufacturing processes to improve operational efficiency and customer service**
 - ✓ Implemented raw material optimization and inventory reduction initiatives
 - ✓ Analyzed product demand and variability to facilitate improved forecasting and planning
- **Procurement and sourcing to improve cost profile**
 - ✓ Developed company-wide spend map linked to financials

\$17m reduction in inventory for Q3 2016
\$13m to \$15m Procurement Savings Pipeline, 75% to hit 2016 P&L



Commercial Excellence

Aligning sales, marketing and technology to drive customer engagement and value creation

- **Customer segmentation to identify, understand, and meet the needs of our customer base**
 - ✓ Differentiate service levels and customer offerings while managing margins
 - ✓ Tailor go-to-market strategy across our products and sales organization
 - ✓ Product application work responding to consumer trends and customer needs
- **Sales force re-orientation strategy with emphasis on value capture**
 - ✓ Align with strategic target markets to drive top and bottom line growth
 - ✓ Differentiate between sales channels
 - ✓ Focus on response times to effectively compete in the market place





Strategic Growth

Strengthen core and accelerate growth through M&A

Multi-Faceted Strategic Review Underway

- ✓ Data driven analytics
- ✓ Solid progress made to date

Preliminary Observations

Strengthening the Core

- Core Specialty Phosphate business is proven cash generator with further earnings potential
- However, mature product lines are expected to grow at best with GDP

Growth via non-Phosphate M&A

- Bolt-on acquisitions, profitable growth, disciplined investment criteria
- Diversify portfolio outside of Phosphates
- Aligned with current markets, including adjacencies in food, health & nutrition

Strategic Growth Roadmap Roll Out

- Targeting early 2017
- Inorganic and organic growth

Q3 2016 Performance

Cost actions largely offset soft sales. YOY improved margin profile. Strong cash generation

	Q3			YTD		
	\$m	Variance		\$m	Variance	
Sales	186	(14)	-7%	558	(61)	-10%
Gross Profit	41	3	9%	117	(1)	-1%
Gross Margin	22%	+319 bps		21%	+189 bps	
Net Income	14	8	151%	39	8	25%
Adj. Net Income	15	2	13%	40	---	-1%
Adj. EBITDA	34	3	11%	95	---	---
Adj. EBITDA%	18%	+291 bps		17%	+164 bps	
Diluted EPS	0.69	0.41	150%	1.96	0.46	31%
Adj. Diluted EPS	0.75	0.09	14%	2.03	0.09	5%
OCF	40	19	92%	82	6	8%
FCF	33	20	150%	56	2	4%

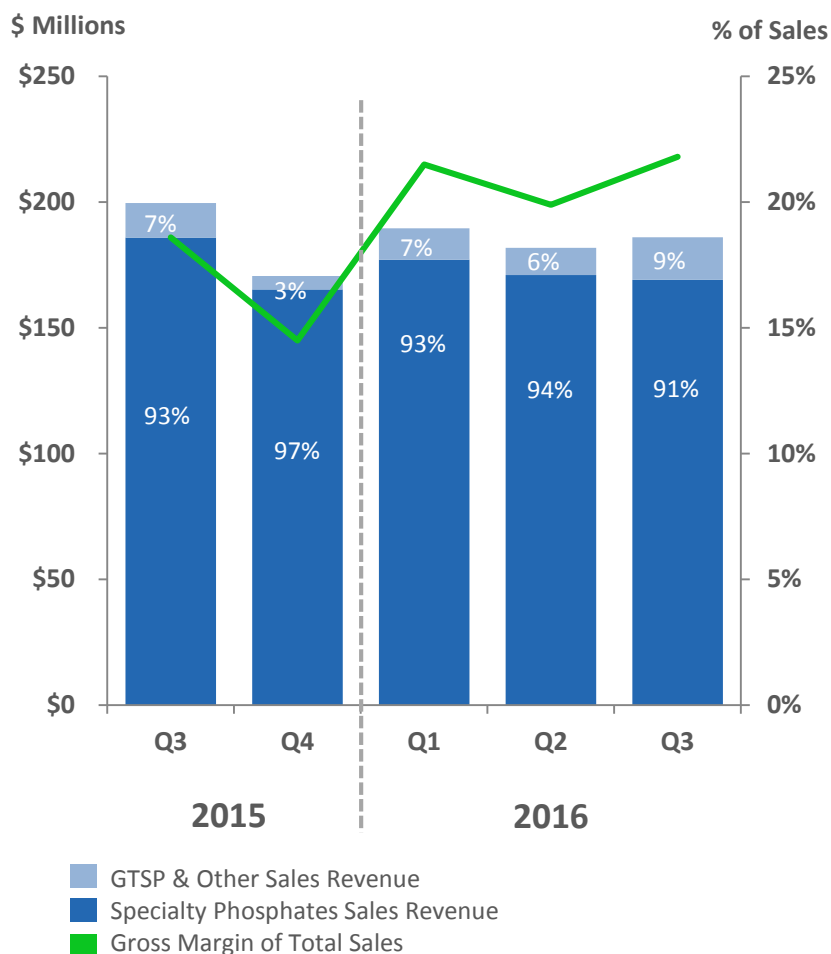
Specialty Phosphates

Adj. EBITDA%	19%	+392 bps	19%	+219 bps
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Quarterly Comments

- Lower YOY selling prices were offset by lower variable costs resulting in YOY gross margin improvement of 319 bps
- 151% increase in net income and 13% increase in adjusted net income despite 7% sales decline due to better mix and cost actions
- Adjusted EBITDA of \$34 million and 18% of revenue was strongest performance in 8 quarters, 12% ahead of Q1/Q2 2016 average
- Specialty phosphate adjusted EBITDA of 19%, up 392 bps versus same quarter last year
- Strong cash generation with \$40 million operating cash flow, \$33 million free cash flow

Q3 2016 Sales Revenue and Gross Margin



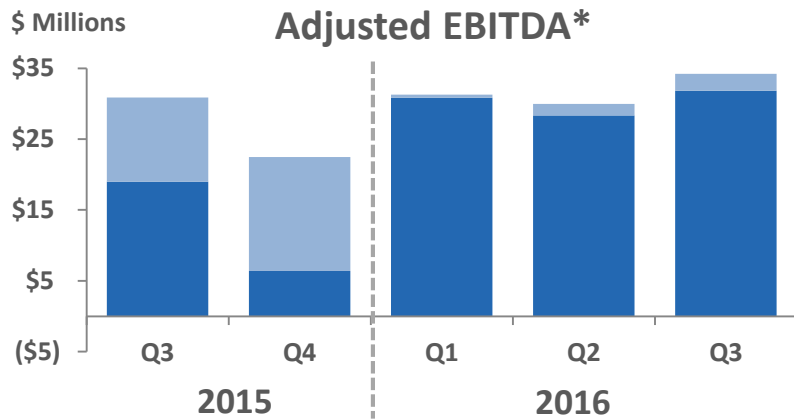
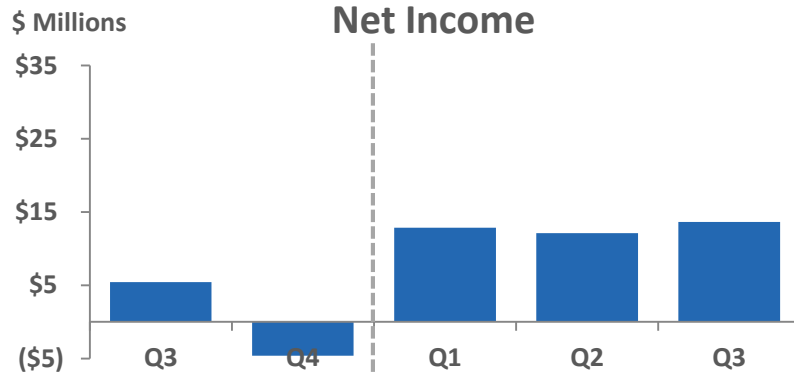
Spec Phos	186	165	177	171	169

Sales Revenue Bridge	Q3		YTD	
	\$m	%	\$m	%
2015	200		619	
Volume/Mix	(9)	-5%	(45)	-7%
Price	(5)	-2%	(16)	-3%
2016	186		558	
YOY Variance	(14)	-7%	(61)	-10%

Quarterly Comments

- Sales Revenue down 7% versus prior year due to unfavorable volume/mix and lower average selling prices. Sales were down in both the direct and distribution sales channels
- Specialty Phosphates, 91% of total sales, 9% down versus prior year mostly driven by reduced volume/mix at minus 8%, in lower margin, less differentiated applications
- GTSP/Other, 9% of total sales, up 24% versus prior year. Volume/mix was up 51%, partially offset by 27% lower price due to lowest market price levels seen in six years
- Gross margin of 22% improved 319 bps versus prior year due to favorable input costs and continued good cost controls

Q3 2016 Earnings



■ Adjustment
■ Reported

*Excludes charges of \$11.9m in Q3 2015, \$16.1m in Q4 2015, \$0.4m in Q1 2016, \$1.6m in Q2 2016 and \$2.4m in Q3 2016.

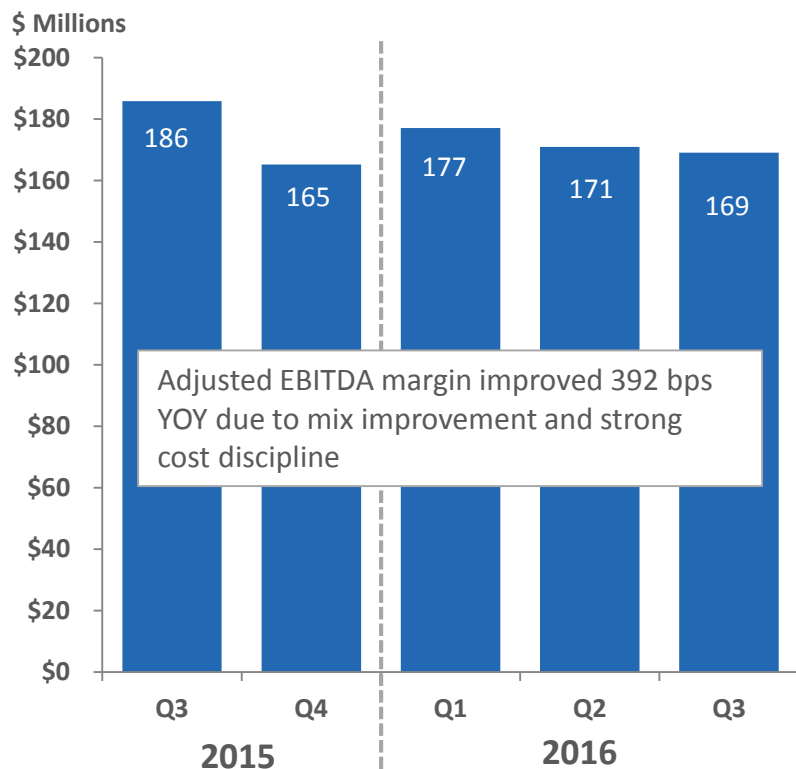
Adj. EBITDA Bridge	Q3		YTD	
	\$m	%	\$m	%
2015	31		96	
Volume/Mix	(3)	-10%	(15)	-16%
Price	(5)	-16%	(16)	-17%
Input costs	7	23%	14	15%
Manufacturing	1	3%	7	7%
SG&A	2	6%	4	4%
FX	1	3%	5	5%
2016	34		95	
YOY Variance	3	11%	---	---

Quarterly Comments

- Net income up \$8m or 151% YOY, yielded a margin of 7%, up 456 basis points compared with the prior year quarter
- Adjusted EBITDA up \$3m or 11% YOY, yielded a margin of 18%, up 291 basis points compared with the prior year quarter
- Volume/mix and average selling prices below last year were mostly offset by cost actions in manufacturing and SG&A along with lower input costs from procurement initiatives
- SG&A down \$2m from restructuring and cost actions

Q3 2016 Performance by Segment

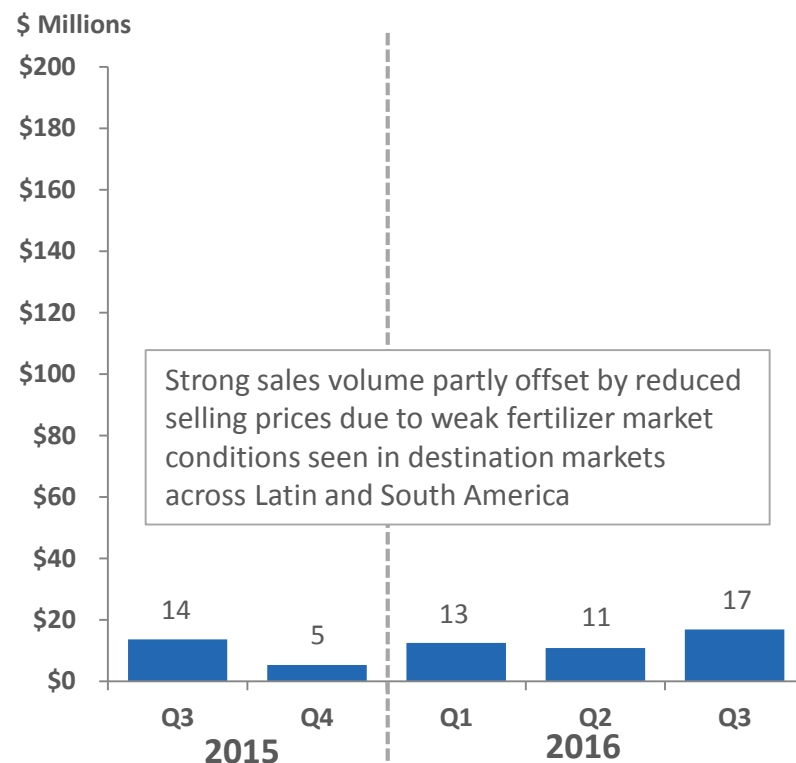
Specialty Phosphates Sales Revenue



Adjusted EBITDA*

28	22	31	32	32
15%	14%	18%	19%	19%

GTSP & Other Sales Revenue



Adjusted EBITDA*

3	0	0	(2)	2
20%	4%	---	-22%	12%

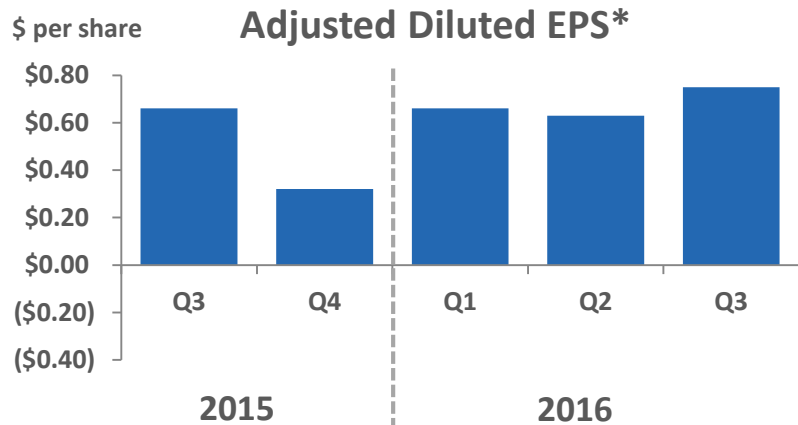
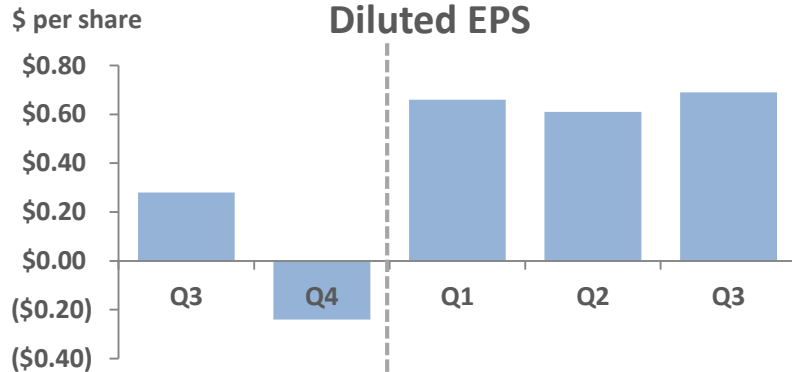
*Excludes charges of \$11.9m in Q3 2015, \$16.1m in Q4 2015, \$0.4m in Q1 2016, \$1.6m in Q2 2016 and \$2.4m in Q3 2016.

Q3 2016 Other Items

Item	Q3	YTD	Comment
Net interest expense	\$2m	\$6m	In line with expectations
Effective tax rate	31%	32%	Favorable to Q3 2015 and expectations
Capital expenditure	\$7m	\$26m	Below projection
Dividends	\$9m	\$28m	74% pay-out ratio YTD
Share repurchase	-	-	No activity

Net Debt	\$166m	Decreased sequentially by \$23m
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Q3 2016 Earnings Per Share



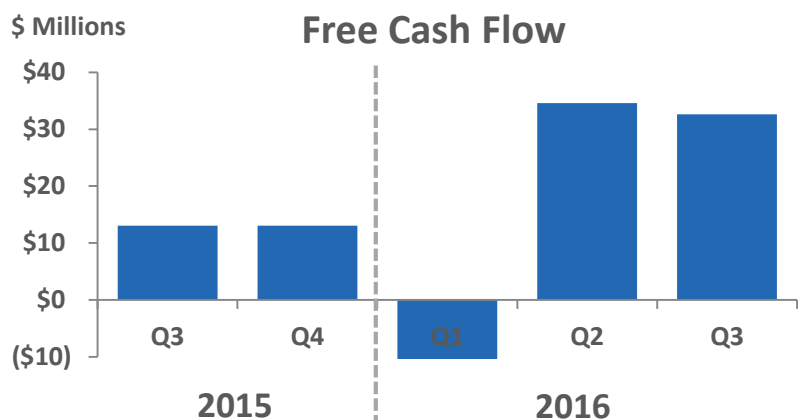
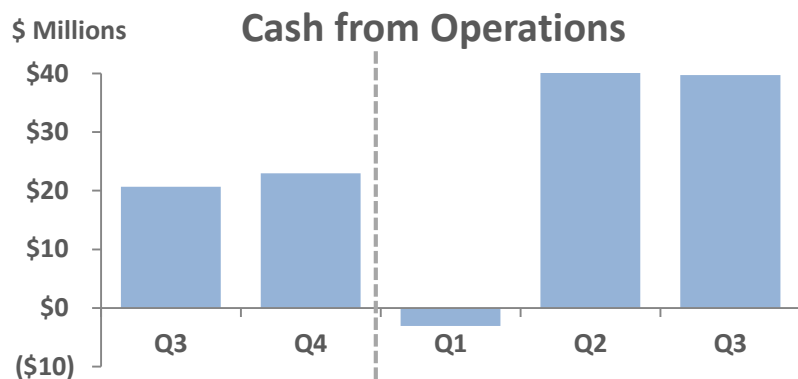
Earnings per share	Q3	YTD
2015 Diluted	0.28	1.50
Adjustments	0.38	0.44
2015 Adj. Diluted	0.66	1.94
YOY Variance	0.09	0.09
2016 Adj. Diluted	0.75	2.03
Adjustments	0.06	0.07
2016 Diluted	0.69	1.96

Variance \$ Per Share

Volume/mix	(0.16)	(0.74)
Price	(0.24)	(0.79)
Costs	0.41	1.31
FX	0.10	0.24
Operational items	0.11	0.02
Financing	(0.01)	(0.07)
Tax	(0.02)	0.03
Shares outstanding	0.01	0.11
Other	---	---
Other items	(0.02)	0.07

*Excludes charges of \$0.38/sh in Q3 2015, \$0.56/sh in Q4 2015, \$0.00/sh in Q1 2016, \$0.02/sh in Q2 2016 and \$0.06/sh in Q3 2016

Q3 2016 Cash Delivery



	Q3			YTD		
	\$m	Variance		\$m	Variance	
Adj. EBITDA	34	3	11%	95	---	---
Working Cap	20	12	135%	33	27	BIG
Tax	(8)	(1)	-20%	(35)	(25)	BIG
Interest	(2)	---	---	(5)	(1)	-28%
Other	(4)	5	56%	(6)	5	46%
OCF	40	19	92%	82	6	8%
Capex	(7)	1	5%	(26)	(4)	-18%
FCF	33	20	150%	56	2	4%

Quarterly Comments

- Cash from operations of \$40m was nearly double Q3 2015
- Free Cash Flow of \$33m, in line with prior quarter, was driven by working capital reductions enabling net debt to decrease \$23m sequentially
- Cash flow for YTD 2016 included \$25m higher tax payments; \$19m paid in Q1 2016 related to the cash repatriation program
- Principal uses of Q3 2016 OCF were capital expenditures of \$7m, dividends of \$9m and \$30m debt repayment

Opening	80	86	18	15	39
FCF	13	14	(11)	35	33
Financing	(7)	(82)	8	(11)	(39)
Closing	86	18	15	39	33

Outlook for Q4 and Full Year 2016

- Seasonably weak Q4 revenues are expected to result in Q4 net income and adjusted EBITDA that are softer than Q1 and Q2
- Specialty Phosphates volumes forecast to be down 6-8 percent for the year
- Inputs costs for Q4 to remain at current levels
- Cost actions continue to be a focus along with cash delivery

Delivering on Our Stated 2016 Objectives

Committed to excellence, transparency and accountability



Value Creation



**Operational
Excellence**



**Commercial
Excellence**



**Strategic
Growth**



**Strong Organization and Cultural
Transformation**



- ✓ Implemented operational and commercial excellence initiatives
- ✓ On target to solidify long-term growth plan by end of 2016
- ✓ Executing on cost reduction initiatives
- ✓ Continuation of dividend program
- ✓ Found strategic solution for GTSP business



ABOUT THE COMPANY

Innophos (NASDAQ: IPHS) is a leading international producer of specialty ingredient solutions that deliver far-reaching, versatile benefits for the food, health, nutrition and industrial markets. We leverage our expertise in the science and technology of blending and formulating phosphate, mineral and botanical based ingredients to help our customers offer products that are tasty, healthy, nutritious and economical. Headquartered in Cranbury, New Jersey, Innophos has manufacturing operations across the United States, in Canada, Mexico and China.

For more information please visit www.innophos.com

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Non-GAAP Reconciliations

Adjusted EBITDA Reconciliation to Net Income

(Dollars in thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net Income	\$13,643	\$5,433	\$38,589	\$30,979
Interest	1,915	1,869	5,627	4,423
Taxes	6,227	2,629	18,135	14,723
Depreciation & Amortization	10,043	9,048	28,607	29,681
EBITDA	31,828	18,979	90,958	79,806
<u>Adjustments</u>				
Non-cash stock compensation *	758	658	2,584	2,243
Translation (income) expense	110	2,629	426	5,061
Restructuring (income) expense	1,508	8,621	1,465	8,621
Adjusted EBITDA	\$34,204	\$30,887	\$95,433	\$95,731
<i>Percent of Sales</i>	<i>18.4%</i>	<i>15.5%</i>	<i>17.1%</i>	<i>15.5%</i>

* Not adjusted when calculating Adjusted EPS

Non-GAAP Reconciliations

Adjusted Net Income Reconciliation to Net Income

(Dollars in thousands, except EPS)	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net Income	\$13,643	\$5,433	\$38,589	\$30,979
<u>Pre-tax Adjustments</u>				
Translation (income) expense	110	2,629	426	5,061
Restructuring (income) expense	1,508	8,621	1,465	8,621
Total Pre-tax Adjustments	1,618	11,250	1,891	13,682
Income tax effects on Adjustments	507	3,669	582	4,475
Adjusted Net Income	<u>\$14,754</u>	<u>\$13,014</u>	<u>\$39,898</u>	<u>\$40,186</u>
Adjusted Diluted Earnings Per Participating Share	\$0.75	\$0.66	\$2.03	\$1.94

Cash From Operations to Free Cash Flow Reconciliation

\$ in thousands	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Cash From Operations	39,765	20,685	81,804	75,937
Net Cash Used For Investing Activities	<u>(7,137)</u>	<u>(7,624)</u>	<u>(25,675)</u>	<u>(21,770)</u>
Free Cash Flow	<u>\$32,628</u>	<u>\$13,061</u>	<u>\$56,129</u>	<u>\$54,167</u>