

INNOPHOS 1Q14 RESULTS CONFERENCE CALL

EDITED TRANSCRIPT

CALL HELD APRIL 29, 2014

CORPORATE PARTICIPANTS

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

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MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen and welcome to the Innophos first-quarter 2014 results conference call. My name is Vanessa and I am your operator for today.

At this time all participants are a listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now 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, IR, Treasury, Financial Planning & Analysis*

Good morning and thank you for joining us today for Innophos's first-quarter 2014 results conference call. Joining me on the call today is Randy Gress, Chief Executive Officer, and Robert Harrer, Chief Financial Officer.

Randy will start with comments on our first quarter and progress in executing our strategic initiatives. I will then provide details on our financial results and a look ahead to the second quarter and full-year 2014. Randy will then conclude with some final remarks before we open the call up to your questions.

During the course of this call management may make or reiterate forward-looking statements made in our April 28 press release regarding financial performance and future events. We will attempt to identify these statements by use of words such as expects, beliefs, 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 number 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 April 29, 2014.

Any forward-looking statements we may make today are based on assumptions that we believe to be reasonable as of this date and we undertake no obligation to update these statements. Now I would like to turn the call over to Randy Gress, CEO of Innophos.

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

Thanks, Mark, and good morning, everyone. Before we discuss our results for the quarter I would first like to introduce Robert Harrer, who has recently joined us as Vice President and Chief Financial Officer.

Robert brings extensive experience in a number of key areas to help us achieve our strategic objectives having worked in global financial leadership positions for more than 20 years, most recently as Chief Financial Officer and Chief Administrative Officer for Avantor Performance Materials. Robert will address you now and will join us for the Q&A portion of the call. Robert?

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

Thank you, Randy, and good morning, everyone. I am certainly very excited to join the Innophos team. And although I have only been here since the beginning of March I can already feel the team's enthusiasm and energy for the opportunities we have in front of us to achieve above-market growth and generate long-term shareholder value.

Innophos's vision and strategy to grow through innovation and geographic expansion are features that attracted me to the Company. I believe with my experience I can help the team execute on our growth objective and deliver on our stated targets.

I have already had the pleasure of speaking with a number of our investors and analysts over the past few weeks and I am looking forward to meeting those that I have not in the coming months. Now I'd like to turn the call back to Randy.

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

Thanks Robert. On behalf of the Company I want to say that we are excited to have you here and look forward to your many contributions to Innophos's long-term success. I would also like to thank Mark Feuerbach for a great job filling in as CFO during the interim period from July 2013.

Now onto the results for the quarter. Overall, we are pleased with our results for the first quarter of 2014 highlighted by stronger performance in our Mexico operation which continues to achieve greatly improved

yields. The improved performance supported an increase in net sales for Specialty Phosphates on both a sequential and year-over-year basis along with improved operating income and margins versus the prior year.

We delivered total Company net sales of \$216 million in the first quarter, up 1% from the same period last year and up 10% sequentially. We recorded diluted earnings per share of \$0.64 compared to \$0.60 recorded in the prior-year period after giving effect to disclosed adjustments for the prior-year quarter.

Specialty phosphate volumes grew 4% compared to the prior-year period driven by improving operations in Mexico. In addition, we sustained margins in our US and Canada business while contending with unfavorable mix issues and challenging weather conditions in the period.

Like most domestic manufactures, the harsh weather conditions in January and February affected customer demand, particularly in our US and Canada business, and disrupted transportation networks during the first quarter. We also experienced a year-over-year sales decline in our nutrition businesses as a few of our customers faced some challenges during the quarter with changes in China import classification requirements which caused product shipment delays.

Despite these headwinds, US and Canada sales were 5% higher on a sequential basis. Importantly, we experienced improved year-over-year demand in the asphalt market which led to a recovery in our INNOVALT® product line. Naturally we were pleased to take a step in the right direction with higher volumes in the first quarter of 2014 compared to the prior year but the long-term prospects of this product line are even better as we expect deferred projects to come back online from local governments that are replacing and updating their aging road infrastructures. Trials conducted in two states over the last two years continued to show good results and promise for approval. There is a paving trial scheduled for the summer in another state and a fourth just rewrote its specifications to allow the use of INNOVALT. Export volumes for INNOVALT are up significantly this year, particularly to Latin America.

Operating income in US and Canada was up \$4 million compared to an adjusted first-quarter 2013 and operating income margin was within our expected range for the quarter. Our profitability was affected by higher costs of purified phosphoric acid, or PPA, inventory and expected higher cost of merchant grade acid, or MGA, due to phosphate rock consumption variances at our supplier's facility.

In Mexico sales were higher on both a sequential and annual basis driven by improved operations which are running more smoothly, generating higher yields and producing improved operating performance. As previously discussed, we invested a significant amount of time and resources in Coatzacoalcos last year to improve its efficiency, capability and future reliability. While we had a few challenges along the way, we have now had four consecutive quarters of sequential improvement in phosphoric acid yields. In addition, our recently commissioned higher grade PPA operation in Mexico has performed well to date, providing greater efficiency and flexibility in Mexico, supporting our North American network, and strengthening our product mix in Latin America.

Once again export sales grew nicely this quarter, up 6% compared to the same period last year. Growth was primarily driven by a recovery in the Latin American region. We view the export regions as an important channel for growth, especially for the food and beverage markets.

Turning to GTSP, we reported \$21 million in sales and \$4 million operating loss. The loss was \$1 million worse than our expectations due to lower demand and selling prices than expected for the second half of the quarter. Although market fertilizer prices increased 25% to 30% in the first six weeks of the quarter, they then stabilized after that and remained considerably below the year-ago levels. We expect profitability to return to breakeven in the second quarter of 2014 based on current market selling and raw material prices.

As I've said before GTSP is roughly 10% of our business by revenue and is not a core focus. It is a necessary piece of our economic model that arises as a sellable co-product in our Mexico acid purification process that is the foundation for our Specialty Phosphates produced in Coatzacoalcos.

In summary, we are off to a good start to the year. We are seeing the benefits from the turnaround of our Coatzacoalcos facility in the form of better performance and greatly improved yields. Although we encountered some challenges within our US and Canada segment, particularly due to weather related issues, we closed the quarter on a high note. March was our best performing month of the quarter. And we carried that momentum into April with solid demand which is a good indication for what we expect to see in the second quarter.

We are reconfirming our specialty phosphate growth rate of 3% to 5%, which is in excess of market, and profitability targets of 14% to 15% operating income margin for the year. We expect continued strong performance in Mexico as we begin to reap the full benefits of our investments to enhance the capabilities of the Coatzacoalcos facility.

We also anticipate continued strength in export sales particularly in Latin America as we return to those markets with the improved performance of the Mexico operations. The asphalt market should also continue to improve, providing a tailwind to our INNOVALT product line in the second quarter and the rest of 2014. And we expect our nutrition business to grow in excess of the 6% to 8% projected market growth rates for 2014. The business remains an important part of our growth strategy and we will continue to look for additional opportunities that enable us to expand our position in the high-growth micronutrient ingredients sector.

Finally, our capital allocation policy remains focused on investing in our growth and returning cash to shareholders. Our quarterly dividend at \$0.40 per share puts our yield at a healthy 3%, and we will continue to pursue opportunities in the market that are consistent with our growth strategy.

I will now turn it back over to Mark for additional detail on the financial results in the quarter. Mark?

Mark Feuerbach - Innophos Holdings, Inc. - VP, IR, Treasurer, Financial Planning & Analysis

Thanks, Randy. Net sales of \$216 million for the first quarter of 2014 consisted of \$195 million from Specialty Phosphates and \$21 million from GTSP and Other. This represents a \$2 million increase compared to last year with higher sales of Specialty Phosphates more than offsetting lower sales of GTSP and Other.

Diluted earnings per share for the first quarter of 2014 were \$0.64 compared to \$0.55 in the year-ago period. Included in the prior-year quarter was a gain of \$0.24 per share related to Mexican water duties more than offset by \$0.29 per share of elevated cost of goods sold as detailed in last year's filings. Giving effect to the prior-year adjustments, first-quarter 2014 diluted EPS of \$0.64 compared to \$0.60 for the first-quarter 2013.

Earnings growth was driven by better US margins and improved operations in Mexico.

Specialty Phosphates revenue was 3% higher compared to the prior-year period and 5% on a sequential basis on higher volumes partially offset by slightly lower prices both of which are attributable to Mexico.

US and Canada Specialty Phosphates recorded sales of \$151 million, up 5% on a sequential basis but flat from the prior-year period due to the severe winter conditions in January and February. Actual tons shipped increased by 2% year-over-year; however, unfavorable mix contributed to a flat volume and mix comparison.

Mexico's Specialty Phosphates sales of \$44 million were up 4% sequentially and 14% compared to last year primarily on higher volumes. Our Coatzacoalcos plant continues to run well as illustrated by the volume growth

and strong yields and has us well positioned from an operational standpoint for 2014 and beyond. Volume growth was partially offset by a decline in selling prices.

Total Specialty Phosphates generated \$26 million of operating income, down \$1 million on a sequential basis, but up \$14 million over the prior year primarily due to improved US margins and Mexico sales volumes. After giving effect to the disclosed adjustments for the prior-year quarter, operating income was up \$6 million.

Overall, operating income margin in Specialty Phosphates was 13%, in line with our expectations. This represents a 730 basis point improvement compared to the prior-year period and 290 basis point improvement after giving effect to the prior-period adjustments.

Operating income in the first quarter 2014 for US and Canada Specialty Phosphates was \$20 million, up \$9 million versus the year-ago period. After giving effect to the disclosed adjustments for the prior-year quarter, operating income was up \$4 million. Operating income margin was 13% for the quarter, up 630 basis points from the year-ago period and up 260 basis points against the adjusted prior-year level. On a sequential basis operating income declined by a 100 basis points reflecting higher cost PPA inventory and higher MGA costs caused by phosphate rock consumption variances at our supplier's facility.

Operating income for Mexico Specialty Phosphates was \$6 million, up \$5 million compared to the same period last year and up \$2 million after adjusting for elevated costs in the prior-year quarter. Year-over-year operating income growth for Mexico was driven primarily by improved sales volumes and lower costs. Operating income margin was 13% for the first quarter, up 1,150 basis points from the year-ago quarter and up 430 basis points against the adjusted prior-year level.

Turning to GTSP and Other, we reported a \$4 million loss for the quarter, down \$10 million from the prior-year quarter, and lower by \$4 million against the adjusted prior-year level, due to lower selling prices.

Our effective tax rate for the first quarter was 30%, which was below our expectation, due primarily to favorable tax benefits for state R&D credits and changes in provisions for uncertain tax positions which essentially offset the negative after-tax effects of translation expense. We expect an effective tax rate between 33% and 35% for the remainder of 2014.

Depreciation and amortization was \$8 million for the quarter, \$1 million lower than a year ago and flat sequentially.

Capital expenditures were \$6 million in the first quarter, about half the previously expected 2014 run rate for an average quarter. Given the slower-than-expected start, we now expect full-year 2014 capital expenditures to be in the \$35 million to \$40 million range, about \$10 million below previous expectations. This is due solely to the phasing of our projects.

We continue to focus on capacity enhancements to our US and Canada and Mexico specialty ingredients facilities and further improvements of Mexico's capability to process multiple grades of rock and to manufacture a more diverse mix of products.

Net debt decreased sequentially by \$18 million in the first quarter of 2014 to \$112 million on solid earnings and working capital reductions.

We maintain a strong balance sheet and strong free cash flow. We continue to focus on maximizing shareholder value as evident by our dividend payout which remains at \$0.40 per share after being recently increased by 14% in the fourth-quarter 2013.

For the full-year 2014 we continue to expect market growth rates of approximately 1% to 2% and we remain confident in our previously announced outlook for Specialty Phosphates of 3% to 5% volume growth and 14% to 15% operating income margins. Growth is supported by continued strong performance at our Coatzacoalcos facility, above-market growth rate for our nutrition business, expected asphalt market demand recovery and continued success in our geographic expansion efforts.

Fertilizer market prices increased 25% to 30% in the first six weeks of 2014 but then stabilized for the remainder of the quarter, remaining considerably below the year-ago levels. Raw material prices rebounded as well in the first quarter, with market sulfur prices increasing by nearly 50%. This puts sulfur prices somewhere between second- and third-quarter 2013 levels. Sulfur market prices are expected to increase another 20% in the second-quarter 2014. Market phosphate rock prices were recently reported up about 15% from fourth-quarter 2013 levels and are expected to increase slightly in the second quarter. To mitigate the impact of rising raw material costs we have already announced selling price increases.

On GTSP, we continue to expect breakeven operating income for the second quarter of 2014 based on current market selling and raw material price indications. Now back to you, Randy.

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

Thanks Mark. I am pleased with our first-quarter performance in spite of the severe winter conditions that affected our business. We made good progress on our annual growth targets demonstrating continued strong performance in Mexico, improving asphalt market demand, which led to higher volumes for our INNOVALT product line, and continued success in our geographic expansion efforts.

We exited the first quarter on a strong note in March and have seen demand levels remain strong into April, which is encouraging. We are maintaining our outlook for 2014 that our Specialty Phosphates business will outperform the market growth rate for the year.

As we look to the second quarter and beyond, our focus remains on the following -- growing export sales by expanding geographically across numerous regions in Latin America, Europe, Middle East and Africa and Asia Pacific; investing in research and development to enhance our product offering; taking advantage of the recovery in asphalt market demand; building on our position in the high-growth micronutrient ingredient space; and maximizing value for our shareholders through our quarterly dividend and share repurchase program.

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

QUESTION AND ANSWER

Operator

Thank you, we will now begin the question-and-answer session. (Operator Instructions). Larry Solow, CJS Securities.

Larry Solow - CJS Securities - Analyst

Good morning and welcome, Robert. Randy, could you maybe just -- I know you gave some good detail about some of your product lines, could you maybe discuss the macro trends you guys are seeing? Obviously the weather and the first couple of months impacted that, what are the general food industry volumes and whatnot?

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

Sure, let me talk about the weather impacts first. That impacted us primarily in the January, February timeframe. And as we saw with announcements from some of our customers there was one food customer that said that the impact on the food business was down 1% from the impact of the weather and another distributor indicated roughly a loss of two days in total from that impact.

So that would have an impact there of roughly I think 2% to 3%. But overall we are seeing some recovery there as I said in the INNOVALT product line. That was up 3% year-over-year.

I think for the food trends in general I think demand is fairly solid. I think what we're seeing within the baking industry we expect to have some continued solid strength there.

We do have our Cal-Rise® product line, which is a good formulation, good for the baking industry and formulation for lower sodium products and we expect some solid demand there. I think what we're doing within the food business, and this is probably more along our efforts, some of the improvements and innovation in the application side to continue to strengthen the business for the food ingredients and beverage side of things going forward. So, fairly optimistic about what we can deliver there in some of our focus.

Larry Solow - CJS Securities - Analyst

And you mentioned a couple of your products. Do you happen to know, VersaCAL® and Cal-Rise, I know they have been driving some of your growth, were they up in the quarter?

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

For Cal-Rise, I think it was up some in the quarter and the VersaCAL I think we are showing some positive results there. But again, it's off of a smaller base of the business there.

Larry Solow - CJS Securities - Analyst

Right. STPP and PPA have been hurting you guys. I know they are much lower margin phosphates but have those sales begun?

There was no mention of them in the release? Have those sales begun to at least flatten out?

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

Larry, you may have seen in the report that overall for the business, the PPA volumes and demands were up. I think some of that's certainly attributable to the strength and the recovery within the Mexican operations as well as in the STPP business was up and showing some pretty solid demand although in both areas we did show some price decline overall.

But I think with some of the strength within our Mexican operation and the improvements there we've been able to deliver and also participate in some of the export markets there for those two products. But I think longer term, I said before on prior calls, with the STPP market, there is some announced de-formulation by one of the customers expected over the next couple of years although we don't expect that to negatively impact us this year. And then what we have to try to do is turn that into an opportunity for us.

Larry Solow - CJS Securities - Analyst

Right. Okay, great. Thanks.

Operator

Mike Sison, KeyBanc.

Mike Sison - KeyBanc Capital Markets - Analyst

Hey, good morning guys, congrats to you Robert and nice start to the year. In terms of Mexico could you just sort of step back and give us a heads up of where you are at in terms of operating rates, how you feel about the turnaround efforts there and what the potential you think is when you think about that facility two to three years out?

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

For Mexico as far as where we are I think the improvements that we've made are certainly indicative of what we've reported in the yields. Last quarter we showed a significant improvement in the yields and this quarter, the first quarter, we again showed some improvement in yields although not as great as what we saw in the fourth quarter but still some steady improvement.

I think with what we've implemented as far as an improvement process at the site and some of the additional resources on the technology side as well as the investments, I think we are at a good level today with certainly some opportunity to improve both in the operations and the efficiency with a continuous improvement effort that has been implemented. So I think as we stand today there is some expectation that I have that we're going to continue to improve there.

And that will also be exhibited as far as some additional improvement in capability, capacity and also building on the PPA investment that we made last year to further differentiate the product. I guess difficult to look out two to three years but I would hope that we would be able to continue to invest and make further improvements as we go forward because I think it's a good site. I think the turnaround that we've had there has been pretty strong.

Now one thing we will continue to have, I think I reported last earnings call that we were going to have a turnaround starting in the second quarter. What we expect now for the turnaround, and it's a lighter turnaround, to start at the end of the second quarter and bridge into the third quarter.

Mike Sison - KeyBanc Capital Markets - Analyst

Okay, great. And then, Randy, it did sound like your nutrition businesses coming in a little bit stronger here in 2014. Is that more of a function of stronger market demand or had you picked up maybe more wins or market share, new products rolled out, can you just give us a little bit of the background of why that's coming in better?

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

Well, actually for the quarter we had some challenges there with the nutrition business. As I pointed out the impact on some of our customers, a few of our customers, who were exporting some of their products to China, they ran into some challenges on a regulatory basis for how they were exporting into China.

However, with our acquisition of Chelated Minerals in the fourth quarter, combined with the other three acquisitions we had over the past 2.5 years, I expect some continued strength of that business. And also some good projects that they are working on so that they could deliver in excess of that 6% to 8% market growth that we are expecting for that overall market.

Mike Sison - KeyBanc Capital Markets - Analyst

Okay, great. And then, Robert, maybe just give us a feel for what you think you want to work on. I know you have only been there for a couple of months, but what you think your focus will be this year as you get rolling?

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

Well, as Randy already indicated looking at return to shareholders is one of the key priorities here. So we have said and talked about the dividends and the share buyback program. So that deserves certainly some closer attention given the market dynamics as of today.

But if you ask me where I'm mostly excited joining the Company and what I have done in my past life it is really around product innovation and geographic expansion. That's what I have seen working beautifully, to make significant shareholder value, to create significant shareholder value on the long run. And so certainly I have already toured our lab facility to get a better understanding of which products we are working to yield innovative products with higher margins.

And last but not least, I think I have done in my prior life a number of M&A activities, and so reviewing that pipeline together with the team here it is probably the third basket where I would say that represents a priority.

Mike Sison - KeyBanc Capital Markets - Analyst

Great. Thank you.

Operator

Edward Yang, Oppenheimer.

Edward Yang - Oppenheimer & Co. - Analyst

Hi, good morning. The reduction in CapEx that was pretty significant, \$10 million, maybe some color there. And you mentioned phasing of projects but when I look at your historicals you always tend to spend a fairly low amount of CapEx in the first quarter.

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

Yes, for the capital spend we did reduce it by \$10 million. And I think we have a wealth of capital projects for improvement, debottlenecking to also help the growth of our business.

And I think our look at the end of the year was I think a little bit more optimistic than what we thought we could do for the year but still have the same number of projects in the pipeline. And it's as we stated more a timing and phasing of projects going forward.

Edward Yang - Oppenheimer & Co. - Analyst

Okay, are there any particular areas that you would call out, Randy? Where you pruned?

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

Well, we will continue. Certainly we have highlighted before our maintenance capital is in that \$20 million to \$25 million range and I think we have historically spent a good portion of that in the Coatzacoalcos facility. I would expect that we will continue to spend on the improvements, on the capability at the site probably half of our overall capital in rough terms, for the year in the Coatzacoalcos facility for improvements as well as continued maintenance of the site.

Edward Yang - Oppenheimer & Co. - Analyst

And when do you expect to see that CapEx spend go down to that more typical \$20 million to \$25 million -- I've seen some years where you have been as low as below \$10 million. With your shares outstanding that's almost an extra \$1.00 per share of free cash flow.

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

Yes, I don't remember the below \$10 million, but your memory may be a little better than mine, Ed. But I think the \$20 million to \$25 million is more of the base with what we had.

I expect with our focus on the business, on the growth, we will continue to look at opportunities there. I think what we have highlighted was more of a \$40 million spend over a couple of years, two, three years going forward. And I think what I am hoping for and expecting is that on top of that \$20 million to \$25 million we look at continued growth and improvement opportunities that may surface.

Edward Yang - Oppenheimer & Co. - Analyst

Okay. And that sub-\$10 million spend, that was in 2004, I think that was when you were a private company, but \$7 million in spending.

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

Yes, that may have been just highlighted from a partial year because that was the year that we were spun off.

Edward Yang - Oppenheimer & Co. - Analyst

Got you. What's a good target leverage for you at this point? Obviously when you were private it was as high as 5 times net debt to EBITDA.

Currently you are maintaining a very conservative balance sheet below 1 times net debt to EBITDA. What's a level of leverage that you are comfortable with long term?

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

Mark, do you want to address that, please?

Mark Feuerbach - Innophos Holdings, Inc. - VP, IR, Treasurer, Financial Planning & Analysis

Sure, so, yes, I sleep very well at night, Ed as you know giving the current levels. And as we have said in the past we certainly wouldn't be against raising the leverage to maybe a 2 or 2.5 type of number if it came along with a growth opportunity. We are certainly not ever interested in getting back to the 5 type of number that we were at one time.

Edward Yang - Oppenheimer & Co. - Analyst

Understood. And just finally, you're obviously focusing a lot on R&D and introducing new products. I was wondering if you are also growing in other customer areas like private label?

That seems to be a market that continues to grow above the overall food and consumer market. What is your exposure there and what kind of margins do you see? Normally other companies have lower margins and private label versus branded but what is your experience there?

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

I can't give to you a specific number on the private label and our exposure there, Ed, but we certainly offer products to support customers' developments across all the specific market areas. And I think as some of these innovative products take hold their acceptance across the board become more widespread.

So I think again back to some of the emerging trends and what we are supporting there with some of the low-sodium efforts as well as some of our innovations that we are certainly excited about. And granted as we have seen in the past all a bunch of singles, but in total support what we've outlined for our strategic growth initiatives.

Edward Yang - Oppenheimer & Co. - Analyst

All right. Thank you, and congratulations on a nice quarter.

Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - Sidoti & Company - Analyst

Hi, good morning, everyone. I wanted to ask about price increases that you had discussed with rising raw material costs.

With the fourth-quarter release you had indicated that you would be looking to raise prices. Did you have success sequentially and we just don't see that in the annual numbers with contracts, etc. going on?

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

What we did was within the first quarter start to increase prices primarily in the Latin America and Mexico area that would take more effect with the second quarter and announced recently an increase effective in the second quarter for more of the US, Canada area. But I think as we are increasing prices to cover the raw materials I think again what we try to do is capture the value for our products, focus on the value and use on an individual basis and continue to drive in that direction as well.

Christopher Butler - Sidoti & Company - Analyst

And shifting over to GTSP, it sounds as if the quarter didn't play out the way you expected especially on the pricing side of the equation yet you maintained your breakeven guidance for the second quarter. It didn't sound apparent that there was a significant change going on that was going to get from lower expectations in the first quarter back to where you were. Could you kind of bridge that gap for us?

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

Yes, sure. The given co-product nature of the GTSP business, we locked into some business earlier on in the quarter at the early quarter pricing which was higher sequentially from the fourth quarter but not as high as the mid-quarter levels. And this was what had driven the \$4 million loss.

I guess with mid-quarter selling prices supporting roughly a breakeven operating income and our expectation for higher selling prices in the second half of the quarter to offset some of that early quarter did not materialize. So since we were roughly at the breakeven level we expect that to be the result through the second quarter here.

Christopher Butler - Sidoti & Company - Analyst

And just finally could you speak to acquisitions? With the geographic expansion as a good opportunity for you, do acquisitions play in there now or do you continue to target acquisitions as a way to expand the product portfolio and organic growth outside of the US?

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

We are open to doing both. One with the expansion of the technology with the bolt-on acquisitions we have already achieved. We will continue to look for bolt-ons in that area, primarily in the nutrition and food and beverage ingredients side of things.

And then for geographic expansion we started up the investment we made in China as one route. We will continue to look for opportunities in that area but also have to continue to be successful with exporting from our North American system and see what the best supply chain is and best route to satisfying those other geographies but I think are still successful in exporting from our base here. But we will look at those opportunities.

Christopher Butler - Sidoti & Company - Analyst

Seeing as you seem to place greater emphasis on returning cash to shareholders in your early statements, can we read into that that the pipeline for acquisitions isn't as robust as it has been?

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

Well, I think we have an active pipeline. Again, I think the priority for our capital has been and will be the growth in the business. As we move forward we will continue to discuss with the Board what the best use of that capital will be going forward.

Christopher Butler - Sidoti & Company - Analyst

Thank you for your time.

Operator

Chris Shaw, Monness, Crespi.

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

Good morning, everyone, how are you doing? Just first clarify on the weather impact, was that all on the sales line or was there some additional cost because of weather and transportation and such?

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

It was really just on the sales line.

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

Okay. And then a question on GTSP. Given where raw materials are headed and I know that has been one of the big issues there in terms of the margin, what do you see now in looking at the second half?

I know you are seeing 2Q breakeven. But where current conditions are and where you would think entire raw material prices would flow through the income statement, would you be breakeven or above the second half now in GTSP?

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

Mark, do you want to address that?

Mark Feuerbach - Innophos Holdings, Inc. - VP, IR, Treasurer, Financial Planning & Analysis

Sure, the fertilizer price environment is always much more difficult to see out very clearly beyond a quarter or so. So at this point we are very comfortable in the breakeven for the second quarter, and it's really hard to tell if raws are going to stay where they are, or if they are going to move. I would say if things remain status quo certainly breakeven makes sense, yes. But we have to see what happens and how those marketplaces develop over time.

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

Okay, and then on the turnaround, you characterize it as -- Coatzacoalcos -- you termed it as lighter and I know it's lighter than I guess the other turnaround, but is it still the sort of \$2 million to \$3 million cost impact that you were planning before?

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

Yes, I think what we had said is we expected it to be certainly lower than last year's turnaround but that's probably a good range to use for that turnaround.

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

And then just looking at that vis-a-vis the margin guidance, does that include the \$2 million to \$3 million or the impact of the turnaround or does the margin guidance sort of exclude that?

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

Yes, that includes the turnaround within that guidance, those guidelines.

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

Okay. That's all I've got. Thanks.

Operator

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

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

I would like to thank everyone for joining us today and we certainly appreciate your interest in Innophos. We look forward to speaking to you next quarter when we report our second-quarter 2014 results. Thanks and have a good day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference.

Thanks you for participating. You may now disconnect.