

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

EVENT DATE/TIME: AUGUST 01, 2017 / 1:00PM GMT



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

### CORPORATE PARTICIPANTS

**Han Kieftenbeld** *Innophos Holdings, Inc. - Senior VP & CFO*

**Kim Ann Mink** *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

**Mark Feuerbach** *Innophos, Inc. - CFO and VP - IR, Treasury, Financial Planning & Analysis*

### CONFERENCE CALL PARTICIPANTS

**Brett Michael Hundley** *The Vertical Trading Group, LLC, Research Division - Research Analyst*

**Curtis Alan Siegmeyer** *KeyBanc Capital Markets Inc., Research Division - Associate*

**Francesco Pellegrino** *Sidoti & Company, LLC - Research Analyst*

**Lawrence Scott Solow** *CJS Securities, Inc. - Research Analyst*

**Rosemarie Jeanne Pitras-Morbelli** *G. Research, LLC - Research Analyst*

### PRESENTATION

#### Operator

Welcome to the Q2 2017 Innophos Earnings Conference Call. My name is Nicole, and I'll be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I would now like to turn the call over to your host, Mark Feuerbach. Mr. Feuerbach, you may begin.

---

**Mark Feuerbach** - *Innophos, Inc. - CFO and VP - IR, Treasury, Financial Planning & Analysis*

Good morning, and thank you for joining us today for Innophos' Second Quarter 2017 Results Conference Call. Joining me on the call today are Kim Ann Mink, Chairman, President and Chief Executive Officer; and Han Kieftenbeld, Chief Financial Officer.

Please turn to Slide 2. During the course of this call, management may make or reiterate forward-looking statements made in this morning's press releases regarding financial performance, the acquisition of Novel Ingredients and future events. We will attempt to identify these statements by use of words such as "expects", "believes", "anticipates", "intends", "estimates" 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.

Also, I would like to remind you that during the course of this conference call, management will discuss non-GAAP measures in talking about the company's performance. Reconciliations to the most directly comparable GAAP financial measures are provided in the tables of today's press release and in the appendix of today's presentation.

We will make a replay of this conference call available for a limited time over the telephone at the numbers set forth in the press release and via webcast available on the company website.

In addition, please note that the date of this conference call was August 1, 2017, and the presentation for this call can be found on our website at [www.innophos.com](http://www.innophos.com) in the Investor Relations Events section. 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.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

Please turn to Slide 3. During the call today, management will be reviewing our second quarter financial performance before discussing the Novel Ingredients acquisition that we announced this morning.

With that, please turn to Slide 4 as I turn the call over to Dr. Kim Ann Mink.

---

### **Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Thanks, Mark, and good morning, everyone, and thank you for joining us today. We're very, very excited to be with you to share an update on our recent quarter performance and the exciting Novel Ingredients acquisition that we announced this morning.

Before Han reviews our second-quarter performance, let me touch on the highlights of Q2 and the deal. We delivered top and bottom line results for Q2 that were above our expectations. By remaining focused on cost discipline and operational excellence across the organization, we delivered year-over-year adjusted EBITDA margin growth again despite a 2% decrease in sales.

There was also an encouraging development that emerged in the quarter, namely all segments showed positive year-over-year volume comparisons. As a result of these factors and our continued performance to plan, we remain confident in our ability to deliver on a robust second half of the year and are reiterating our full year 2017 revenue and earnings guidance, excluding the impact of the Novel Ingredients acquisition.

Moving to Slide 5. We've continued to make excellent progress executing against our three strategic pillars. While the headline today is the Novel Ingredients acquisition, our work in Operational Excellence and Commercial Excellence remain a critical focus within the organization. We have now completed our Phase 1 Operational Excellence efforts. And for the second half of 2017, we're on track to realize \$5 million of the total \$13 million of identified Phase 2 Operational Excellence cost savings in the areas of MRO, packaging and logistics.

We're looking at additional opportunities to achieve further productivity improvements in 2018 and beyond. This includes the areas of manufacturing optimization and fundamental strategic supply chain enhancements. We look forward to updating you on our progress in these areas in the coming quarters.

In Commercial Excellence, our newly aligned market-focused global sales organization and "3 in the box" go-to-market model are now fully implemented.

And lastly, with the Novel Ingredients acquisition, we have made a very significant advancement under our Strategic Growth pillar.

Let's start with some of the key highlights on this synergistic and strategic deal shown on Slide 6. The addition of Novel Ingredients creates a nearly \$0.5 billion Food, Health and Nutrition platform for Innophos. It advances our Vision 2022 growth strategy that we outlined at our Investor Day in April. The deal enhances innovation through Novel Ingredients' leading-edge development capabilities. It expands our offerings in high-growth nutrition end markets and, in turn, enhances the added value we provide to our customers. The transaction delivers several financial benefits as well, including \$15 million of combined cost and tax synergies. And the acquisition will be funded with borrowings under Innophos' existing credit facility.

I'll come back and provide you with more detail about the transaction and our new growth opportunities with Novel Ingredients after Han provides a review of our Q2 financial results. Han?

---

### **Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Thank you, Kim Ann. Please turn to Slide 8. Before I discuss our financial results, I want to remind everyone that our adjusted EBITDA financial measure excludes stock-based compensation, currency translation and severance. Please refer to our press release and SEC filings for the GAAP to non-GAAP reconciliations.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

Starting with highlights. As Kim Ann indicated, we had a very robust quarter, with revenue and earnings exceeding expectations. We delivered year-on-year adjusted EBITDA margin improvement of 18 basis points despite a 2% decline in sales. As the adjusted EBITDA bridge demonstrates, our continued focus on lowering input costs and tight cost control delivered \$13 million of savings year over year, which, combined with favorable volumes, offset the unfavorable \$9 million impact from price erosion.

We delivered solid operating cash flow and free cash flow for the current quarter. Comparisons were down year over year due to working capital reductions in the prior year when we very significantly reduced average working capital as a percent of sales by 540 basis points.

Now let's turn to Slide 9 to take a closer look at some of the quarter details. Sales of \$179 million in the quarter were down 2% versus the prior year, which was better than expected, with volumes up 3% but selling prices down 5%. Sequentially, we also made good progress, with sales up 8% compared to the first quarter 2017. Gross margin of 22% improved 194 basis points year over year due to favorable input costs and the effects of pruning, which were partly offset by unfavorable pricing and segment mix.

Moving on to earnings on Slide 10. Net income was down \$1 million or an unfavorable 7% versus the prior year. This was due to higher tax rates as earnings before tax was flat. Net income as a percent of sales was 6% in Q2, down 39 basis points year over year.

Adjusted EBITDA of \$30 million was flat year over year and yielded a margin of 17%, which was up 18 basis points compared to prior year.

Operational Excellence initiative continued to make a strong contribution, with favorable input costs more than offsetting lower selling prices. The final \$2 million out of a total of \$16 million Phase 1 Operational Excellence was delivered in the quarter.

The SG&A increase was primarily due to strategic project initiatives and incentive compensation programs. The effect from FX was down to 0, a \$1 million decrease sequentially due to a strengthened Mexican peso versus the U.S. dollar.

Moving on to Slide 11. Food, Health and Nutrition sales of \$92 million declined 3% versus the prior year, with a 2% improvement in volumes offset by a 5% decline in price primarily due to unfavorable market and customer mix from lower sales to health end markets.

FHN generated an adjusted EBITDA of 20 -- EBITDA margin of 20%, up 138 basis points sequentially, but down from 22% in the year ago quarter due to lower average selling prices from unfavorable mix that I just explained.

Industrial Specialties sales of \$67 million declined 6%, with flat volumes and mix and a 6% decline in selling price due to strong competition in technical-grade products. IS margins declined 78 basis points due to lower average selling prices that were partially offset by improved mix from product pruning and cost controls.

Other sales of \$20 million were up 28% versus the prior year, primarily on higher co-product volumes. Other margins were 12%, a significant improvement versus the negative 8% recorded in the same period last year, benefiting from the new tolling arrangement implemented in December 2016.

Now turning to Slide 12. Net interest expense of \$1 million in the second quarter was favorable compared with the same period last year, showing the benefits of our renewed credit facility. Our effective tax rate of 34% for the second quarter was unfavorable due to the strengthened Mexican peso along with general inflation versus a prior year benefit for the deconsolidation of Mexico subsidiaries when our effective tax rate was low at 29%.

Capital expenditures of \$7 million in the quarter were well down versus the same quarter last year despite the strategic investment in the Geismar deep well that we discussed during previous calls. Capital expenditures include approximately 50% for maintenance, 20% for growth-related projects and 30% for the Geismar deep well investment.

We paid \$9 million in dividends during the quarter, and our annual dividend rate of \$1.92 per share is a 45% payout ratio of LTM free cash flow.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

Finally, in the second quarter, net debt of \$147 million was 23% lower than a year ago quarter, and our net debt to adjusted EBITDA ratio decreased to 1.2x, a 29% improvement over the same period last year.

Now turning to Slide 13. Q2 GAAP diluted EPS was \$0.57, down 8% from the same period in 2016 due to higher taxes, as noted earlier. On an adjusted diluted basis, Q2 EPS was also \$0.57, above our expected range primarily as a result of higher revenues driven by stronger volumes. Both GAAP and adjusted EPS in the current quarter include \$0.08 for costs to complete the implementation of Phase 2 Operational Excellence initiatives, while the prior year period included \$0.08 of maintenance stoppage costs. We continue to anticipate the Phase 2 expenses to be more than offset by savings that will start to occur during the second half of 2017.

The EPS bridge on the right-hand side of the page takes a closer look at the elements that drove the \$0.05 unfavorable variance in adjusted diluted EPS, split nearly evenly between the operational and other items.

Moving to Slide 14. As expected in Q2, working capital decreased after a seasonal increase in Q1 and positive cash generation from operations returned. More specifically, Q2 cash from operations were \$30 million, 33% lower than the same period last year due to a large working capital improvement in the prior year period. You may recall that we ended 2015 with average working capital at 31% of sales, which we then reduced to 25% of sales by June 2016.

For the current quarter, average working capital improved by 17% or \$33 million year over year and represented 22% of Q2 2017 annualized sales. Free cash flow of \$23 million were 35% lower than the same period of 2016, primarily due to the aforementioned prior year working capital improvement. Free cash flow was primarily used to fund the dividend and debt reduction.

Now turning to our outlook on Slide 15. Excluding the addition of Novel Ingredients, we continue to expect full year sales to be down approximately 4%, primarily due to the factors we have outlined before, namely the impact from reduced sales for lower-margin products that were pruned from our portfolio in 2016, affecting our first half 2017 comparables; and the soft customer demand in packaged food along with price competition from imports in our Industrial Specialties business.

The Phase 2 Operational Excellence fees incurred in the first half of the year will be more than offset by the Phase 2 savings, of which \$5 million is estimated to take effect in the second half of 2017.

Excluding Novel Ingredients, full year earnings are still expected to be broadly in line with 2016, reflecting the impact of management's focus on cost action and productivity initiatives given the challenging market conditions.

In regards to cash flow generation, we forecast 2017 capital expenditures to be in the range of \$35 million to \$40 million, which is lower than previously indicated. This still includes spending of \$14 million at Geismar to construct the deep well injection system.

As it relates to the third quarter, sales are expected to be similar to the second quarter level but down approximately 4% year over year, with an improved mix towards FHN. Adjusted EBITDA is expected to increase sequentially by approximately 15% on the reduced Phase 2 Operational Excellence implementation fees and first-time cost savings for that same initiative. Input costs are expected to be in line with Q2 2017. We anticipate that the tax rate will return to the more normalized level of approximately 33% in the third quarter.

As Kim Ann said at the start of the call, our progress with our cost and performance initiatives gives us confidence that we will deliver a robust second half performance.

With that, I'll turn the call back over to Kim Ann to discuss our acquisition of Novel Ingredients.

---

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Thanks, Han. Turning to Slide 17. Again, I could not be more pleased to announce today that we entered into an agreement to acquire Novel Ingredients. This acquisition represents an exceptional opportunity for our company by positioning us for revitalized growth.

## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

Turning to Slide 18. Innophos has a clearly defined purpose to provide vital ingredients to customers that support the improvement, nutrition and health of those around us. This purpose defines the choices we make, the way that we operate and the potential that this company has. This purpose is the engine behind the achievements we've accomplished over the past year, and it is at the heart of the rationale behind our Vision 2022 strategy that we unveiled at our Investor Day in April as well as today's announced acquisition of Novel Ingredients.

Moving to Slide 19. Vision 2022 is our strategic road map to unlock the full potential of the company and become a larger, more profitable Innophos, with an enhanced growth profile, asset-light investment needs and market-leading position as a specialty ingredient solutions provider to the food, health and nutrition markets. Vision 2022 builds on our solid foundation and the value we bring to customers through our existing capabilities and relationships. It focuses on more deeply aligning the company with consumer megatrends and becoming a clear partner of choice for our customers by offering a broader set of value-added and innovative technology-based, vital ingredient solutions for the Food, Health and Nutrition markets, all while retaining a select added value business in Industrial Specialties.

Vision 2022 establishes our goal to grow our top line by more than 70% to \$1.25 billion and deliver a 20% adjusted EBITDA margin, a 250 basis point improvement, all by 2022. The acquisition of Novel Ingredients is a significant and meaningful step forward to achieving this vision.

As shown on Slide 20, bringing Novel Ingredients and Innophos together will create a nearly \$0.5 billion food, health and nutrition platform, representing approximately 60% of the total company revenue and advancing our strategic goal of transforming our growth profile. Further, over 80% of the combined company's revenue will be North America based.

Moving to Slide 21. Headquartered in East Hanover, New Jersey and with annual revenue of nearly \$100 million, Novel Ingredients has a history of strong revenue growth, having generated an attractive 19% compounded annual growth rate from 2008 to 2016. Novel Ingredients is a technology-driven, specialty ingredient supplier serving attractive high-growth nutrition end markets, including Immune Health, Sports Nutrition and Cognitive Health, with a portfolio of botanicals, proteins, amino acids and other healthy ingredients as well as branded ingredient and custom-formulated solutions. They were also recognized for their best-in-class quality assurance, strategic sourcing and world-class cGMP manufacturing facility supporting more than 185 unique ingredient solutions.

In addition to the complementary products, technical capabilities and strong financial record, we are acquiring Novel Ingredients because of its experienced and dedicated people. Novel Ingredients has 100 customer-focused employees that serve more than 200 customers and bring to Innophos deep customer relationships, exceptional know-how in ingredient solutions and applications, quality assurance and customer service skills.

And finally, it's important to note that we have acquired Novel at an important inflection point in their history. Between 2014 and 2016, Novel Ingredients expanded its service offering and capabilities, investing in a new facility and complex manufacturing, driving higher quality and greater supply chain management and rebranding the company to support its new business positioning. With this transformed business model, Novel successfully transitioned from an ingredient supplier to a value-adding ingredient solutions provider, poised and well positioned for future revenue and earnings growth.

Turning to Slide 22. At the foundation of Novel Ingredients' specialty functional ingredients portfolio are a suite of value-added capabilities, including manufacturing; technology development to help customers create their next great product innovation; sourcing, around which Novel Ingredients is well positioned as an industry leader in the development of full supply chain control, working directly with certified growers to ensure that ingredients offer best-in-class quality and traceability; processing technologies; and lab facilities and certifications.

Moving to Slide 23. As I have shared with you for some time now, we are purposefully transitioning away from a product-push approach to a much more market-facing approach, where we're aligning our strategy, technology portfolio and organization with megatrends that drive how consumers make food, health and nutrition decisions. Today's consumers are making more informed decisions regarding their food choices, seeking clean labels and natural and organic products. Consumers are more active and health-conscious than in the past and are seeking products that support their desire for a healthy, on-the-go lifestyle. The acquisition of Novel Ingredients undoubtedly strengthens our ability to help our customers address many of these growing consumer demands. These megatrends present great opportunity for the combined company as we will be better



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

positioned to leverage our technical know-how, to deliver more meaningful solutions to our customers and ultimately to today's health-conscious consumer.

Moving on to the next slide. By combining forces, we expand and strengthen our position in attractive functional ingredient markets, like the \$2.6 billion dietary supplements market. In addition, we add to our potential addressable market by improving our prospects for breaking into adjacent, new high-growth market segments where neither Novel Ingredients nor Innophos meaningfully plays today, such as personal care and animal nutrition.

Turning to Slide 25. In combining Novel Ingredients' product portfolio with our own, we're not only expanding our offerings but also broadening our participation in the attractive and growing \$7.2 billion North American nutraceutical market. Together, we strengthen our ability to offer more comprehensive, science-backed solutions to our customers in the functional food, health and nutrition space. Our integrated portfolio, combined with a broad range of enhanced capabilities, will enable us to offer and expand its scope of specialty ingredient solutions across a wide range of end-use markets, including cognitive health, sports nutrition, digestive health, weight management as well as men and women's health, all of which are growing from 7% to double-digit rates.

On Slide 26, you can see how Novel Ingredients' market presence and portfolio is highly complementary to Innophos' existing portfolio. As a combined company, we will expand our market coverage through Novel Ingredients' strong position with mid-tier supplement companies and our established position with global supplement and food companies. We also diversify and broaden our product portfolio and capabilities. Novel Ingredients' product line includes proteins, amino acids and unique botanicals, which are highly complementary to our current mineral, enzyme and botanicals portfolio.

Turning to Slide 27. Novel Ingredients' products truly are a complementary addition to the current Innophos portfolio. The addition of Novel Ingredients strengthens and, in some cases, establishes our presence in several attractive market categories that are expected to deliver growth at 2x to 3x GDP. Notably, Novel Ingredients has a strong presence in attractive categories such as cognitive health, digestive health and sports nutrition, where Innophos has no or limited participation today.

Further, as shown on Slide 28, Novel Ingredients' validated product portfolio includes some of the most exciting and scientifically differentiated branded ingredients. This is a very valuable competitive differentiator, delivering clinically verified nutritional benefit in the key areas of consumer wellness interest. In fact, Novel Ingredients has introduced three brands in the last two years alone and brings a robust branded products pipeline in support of future profitable growth.

Moving on to Slide 29. Novel Ingredients and Innophos' complementary product portfolios, market coverage and base of customers present potential meaningful commercial synergies. By leveraging our combined portfolio, we believe we can increase our share of business where there is customer overlap. For example, by leveraging Innophos' existing market position, we can bring Novel Ingredients products to clients that otherwise would not have been accessible for Novel Ingredients on their own. Similarly, there's an opportunity to grow share at Novel Ingredients' accounts that are not currently buying from Innophos. And we believe that combined, we're in a stronger position to compete for new business, particularly where there is overlap with our active prospect list.

Turning to Slide 30. The Novel Ingredients acquisition delivers strong shareholder value, adding nearly \$100 million of FHN segment revenue. In addition, we expect the deal to be accretive to EPS by the end of the first full year of combined operations. Further, we expect approximately \$4 million of ongoing cost synergies achievable by year one through several levers. This includes the opportunity to apply Innophos' proven Operational Excellence initiatives to Novel Ingredients' business model in areas such as purchasing, supply chain and manufacturing, and leveraging a product mix shift to higher-margin Food, Health and Nutrition business.

We believe, as previously highlighted, there are also several paths to achieve revenue synergies through combined product technology and customer relationships. We also estimate \$11 million of tax synergies.

The transaction terms provide a multiple of approximately 12.1x based on Novel Ingredients' estimated 2017 adjusted EBITDA and an attractive 7.7x adjusting for expected cost and tax synergies.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

Moving on to the next slide. This is an all-cash transaction consideration of \$125 million that would be financed by our existing credit facility. At close, our net leverage will increase from 1.2x to 2.1x, which is well within covenants of the credit facility. Our continued strong cash conversion cycle is expected to support our current dividend and move our net leverage to the pre-transaction level within 2 years. And finally, we expect to close the deal in Q3.

Turning to Slide 32. All in all, the acquisition of Novel Ingredients delivers on our established M&A criteria that we presented at our April Investor Day and represents an exceptional opportunity for our company. We are confident that this acquisition will create lasting long-term value for our customers and shareholders alike.

In addition to being an excellent strategic fit, this acquisition also meets our established financial criteria -- it delivers top line growth, credible earnings and cash generation. Novel Ingredients' EBITDA margin has the capacity to grow to a 20% range, and they are asset light with maintenance capital less than 3% of sales and working capital in the 20% range. The acquisition is also expected to be accretive to Innophos' earnings per share in the first year following the close of the transaction.

Turning to Slide 33. In summary, combining Novel Ingredients and Innophos truly is a winning combination. Together, we will have a very attractive business portfolio directed at growing end markets. The complementary combination will deliver enhanced value to our customers, drive financial benefits to drive value for our shareholders and create a foundation upon which to accelerate future growth.

With that, we'll open the call for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question comes from Larry Solow from CJS Securities.

---

### Lawrence Scott Solow - CJS Securities, Inc. - Research Analyst

Can you just clarify, on the accretion, so you -- it's not in year one? Is that what I'm just trying to -- or is it beginning year two? Is that what your -- the guidance? Or is it at the end of year one? Or is it in the first 12 months? I just was confused there.

---

### Kim Ann Mink - Innophos Holdings, Inc. - Chairman of the Board, CEO and President

What I indicated was that it would be within a year after the close of the deal.

---

### Lawrence Scott Solow - CJS Securities, Inc. - Research Analyst

Okay. So it's a little dilutive, I guess, upfront then. Is that -- or is it sort of...

---

### Han Kieftenbeld - Innophos Holdings, Inc. - Senior VP & CFO

Yes. So two-dimensional, Larry. Good question. So from a cash EPS perspective, we would be accretive well within the first 12 months. From a GAAP EPS perspective, it's just around the turn of the 12 months.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Lawrence Scott Solow** - *CJS Securities, Inc. - Research Analyst*

Okay. I realize that, that's the amortization of the intangibles, right. So if you exclude that, is it accretive right off the bat? Or is it not?

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Pretty much similarly, as we enter 2018.

**Lawrence Scott Solow** - *CJS Securities, Inc. - Research Analyst*

Okay. So initially, it might be a little bit of a drag even on cash earnings?

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes.

**Lawrence Scott Solow** - *CJS Securities, Inc. - Research Analyst*

Okay. I understand it comes from a small base, but pretty prospective -- the 19% growth over the last 8 years, has that number changed at all? Has it increased, slowed? Anything in the last few years that's noteworthy?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

No. It's been pretty positive throughout the years. So we don't see anything that's out of whack for any of those years. So we continue to feel very, very confident in what the future holds for this company.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes. And actually, if you look at the most recent years, so where they're currently tracking '17 over '16, they're actually slightly north of that. So the track record continues, is what I would suggest.

**Lawrence Scott Solow** - *CJS Securities, Inc. - Research Analyst*

Okay. And you mentioned sort of just an inflection point more of a value -- or a solutions provider than just ingredients. Is that indicative? Would you expect that to lead to more newer -- new products? Is...

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. Good question, Larry. Yes, I described the inflection point, and Novel Ingredients started as what would be considered as a nutritional ingredient distributor. But with all of the investments that they've done particularly over the last couple of years, they're really much more an ingredient solutions provider. So while initially, they used manufacturing as a tool to sell ingredients, now the ingredients are really a tool to sell added value solutions, which means that they've got very, very exciting new technologies in the pipeline, which will then change the mix, if you will, as the years progress from now and beyond. So very, very confident about that innovation pipeline.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Lawrence Scott Solow** - *CJS Securities, Inc. - Research Analyst*

Got you. And has the profitability been held back just because of their sheer size? Is that -- or is there lower gross margin, too? Or what's -- I assume they were -- they probably had an inflection point on profitability over the last 2 years, too.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes, yes, sure. So as part of that, regarding profitability, the inflection point, it's really been over the last 2 years where they've done a lot of investments, and I talked about that, whether it was investing in a new facility, the complex manufacturing, adding resources to improve -- to really drive higher quality and greater supply chain management. So they've done all this investment. Now they're really in what they -- what I would consider their growth phase. So we should begin to see improvement in profitability because they have more tools in their toolbox and better facilities and resources that can take them to the next level. You combine that with our ability, with things that we're bringing to the table, the Operational Excellence that we have, the proven track record here at Innophos, again, those cost synergies that we've identified, the \$4 million, that we think we can move on pretty quickly. That, combined then with their customer relationships where they are very active in producing new formulations and blends and also new branded products, we believe that we see a path towards that financial criteria that we put out at 20% EBITDA.

**Lawrence Scott Solow** - *CJS Securities, Inc. - Research Analyst*

Got you. And then just one question on the quarter itself. Is it fair to say, just to summarize it because I believe you haven't changed your numbers, but obviously, this quarter was a little bit better -- looks like a little better on the cost side and a little better on the Other segment. Was that just basically timing? Q3 is a little bit -- does that mean...

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. Based on our performance in the first half of the year and given the potential quarter-to-quarter variability in our results, we are maintaining our guidance for the full year to be broadly in line with 2016, so making no changes to the guidance that you've heard previously.

**Operator**

And our next question comes from Brett Hundley from Vertical Group.

**Brett Michael Hundley** - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Congratulations on the deal and for your relative performance in the quarter.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Thank you. Thank you very much.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Thank you.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Brett Michael Hundley** - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

A few of my questions center on the Novel deal. So number one, I wanted to follow up on that line of questioning about margins. The growth rate is, of course, outstanding for this business relative to what you identified at your Investor Day as far as targets go. The margins of this business have room to grow, as you just announced. Can you give us maybe timing of the pathway to 20% EBITDA margins? You named some buckets and gave some reasoning as to why margins improved. But have you sat and thought a lot about just timing of that improvement?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes, we have. And so for the first bucket, the cost synergies, again, I think you would agree that we've got a proven track record in some of the areas that we want to be looking at that we think we can now bring to the table with -- to Novel Ingredients. So if we do -- we look at the EBITDA margin now at 11%, plus we give the cost synergies, Brett, that brings you to 15%. So we think we can move pretty quickly on those. Revenue synergies, we are working very diligently on those, and we'll have more to talk to you about in Q3 and beyond. But because of the markets in which we play, we have now more tools in our toolkit to offer to customers, being more meaningful. While there is some overlap with customers, there is a great area where there isn't overlap, which is great because now we can do a lot of cross-selling. And then just by the sheer fact that we've got these combined innovation portfolios or ingredient solutions portfolio, we could actually really work hard at creating new formulations and blends. So you'll start to see that over the next 1, 2 and 3 years. But I think -- but easily up to 15% with just our cost synergies alone, very quickly.

**Brett Michael Hundley** - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay. And on the growth rate, the CAGR of 19%, do you -- as you look out multiple years, is there a point in time where you would expect that 19% CAGR to converge on the 4% to 8% end market growth that you're seeing? In other words, have you thought about how long a CAGR in the teens can continue, what kind of white space you have before you converge on that end market growth?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Right, right, right. So yes, we've been seeing pretty hefty growth in the markets that we are focusing on, probably in that 7% to 8%. Of course, there are some that even show in higher double digits. I think we'll start to converge to maybe that 10% growth over the next 3 to 5 years. I think that's what you should expect, Brett, which is still very respectable.

**Brett Michael Hundley** - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Yes, yes. That's helpful.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes, just kind of the basis, Brett, in terms of when we look at the business case, if you will, that's what we've assumed. So although if you look at the mix in the portfolio and the trends, clearly, I mean, the numbers are up there. But we've kind of dialed it down, and we believe that around the 10% for the next 3, 4 years is feasible.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes.

## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Brett Michael Hundley** - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay. And I'm sorry if I missed this in the slides, but does -- is Novel known for any particular blend or solution or even product area within the industry? Is it stronger in any one area? Or does it have good representation across a number of the product areas that you guys talked about?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. I think it has good representation across many of them. But what the -- botanicals is extremely important, and they bring a leadership position in that area. And they have a range of antioxidants and specialty botanicals and extracts. And I think another area really that -- the immune health and the heart health and sports nutrition, those are the 3 things -- they're very, very strong in those areas. And they've got branded products, which is really important because they are known for that, and they are scientifically supported, based, branded and product -- branded ingredient solutions that they've brought out, which is really, really a great step. And that also has helped change their mix. And they -- again, as I said, Brett, they have a very strong pipeline going forward as well for future years.

**Brett Michael Hundley** - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay, that's great. And then if I can just sneak in 2 questions related to your existing business, and I'll yield the floor here. Venezuela, meltdown there. I was actually surprised to see you guys mention in your slides that you expect exports to regenerate in Q3, I think you said. Can you just give us a sense for your confidence around that and why we shouldn't be kind of putting a 0 on that business? And then secondly, your -- all segments showing positive volume performance, that was great to see. That came about a quarter early relative to my model. Was there any movement from Q3 into Q2? It doesn't sound like it. It sounds like you guys are confident on volumes continuing to perform into the back half of the year. I just wanted to get a comment there.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Okay. So with regard to Venezuela, now our -- we have the orders in hand. So hopefully, that may -- gives you some comfort level, Brett. Our Venezuela customer has been able to make arrangements for us to resume exports to them. We had also talked about some other areas of health. Our expectation for India was always a pickup in the second half as the first half slowdown was market demand driven. And so now we think we're back on track there. So very, very pleased with the Venezuela situation, orders in hand and excited about that. With regard to Q2 sales, again, no, we didn't do pulling in from Q3. I think we found our business to be much more stable, so we don't view the Q2 results as seasonal or a onetime event. And then we are expecting Q3 to be similar-level sales as in Q2. I think it also really represents and I think this is Commercial Excellence in practice, okay? Remember I had indicated that we have now fully implemented our market-facing sales organization, our "3-in-the-box" go-to-market model with sales, technology and marketing. And we really are pushing, pushing, pushing and talking to customers at an amazing rate and getting into the customers' -- into their research and marketing organization. And we've moved pretty quickly. So very pleased about that.

**Operator**

And our next question comes from Francesco Pellegrino from Sidoti & Company.

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

First off, congrats on your recognition by CEO Connection.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Oh, thank you very much. I appreciate that.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

It looks as if -- with this acquisition that you're not a person that rests on your laurels. So I just want to actually jump a little bit into the acquisition and just sort of reconcile some of the things from your Investor Day and how this acquisition sort of gets us to your 2022 vision. So at roughly \$100 million in sales, I was getting a 17% EBITDA margin. It looks as if you had targeted to acquire \$475 million in revenue via M&A, of which you were looking for, like, adjusted EBITDA of about \$95 million.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Right.

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

When I think about you just taking this business, Novel Ingredients, to a 20% EBITDA margin business, that incremental margin expansion and that incremental EBITDA that you get, what buckets should I think that's coming from, the Operational Excellence that you're going to be applying to it? Or should it be part of that M&A bucket?

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes. So...

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

Because I think you had recognized -- you had said you were looking for, like, \$20 million of Operational Excellence.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

We were looking -- so just to give you a sense, what we said was half of the business will come from inorganic growth, right, the \$475 million. The other components of growth were expected to be organic growth, pricing and innovation. And that innovation was that \$20 million. Then these growth drivers then, we -- as we add those up, that's how we got to that 2022, if you will, over that 5-year period. Now some of that organic growth will also come from acquisitions that we will add. Hence, the Novel Ingredient acquisition. At that time, I had not announced an acquisition. So we'll continue to look at that because you could see very nice organic growth from Novel Ingredients, as we described. So again, you had inorganic growth. We had other components, organic growth, we had pricing, and then we had innovation.

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

Okay. So then the way that it shakes out, the remaining revenue that you're looking to get via M&A is going to actually have to be a lot higher. I think probably 21% EBITDA margins, it sort of shakes out the rough numbers. It seems as if, while this is a nice acquisition, it sort of makes the internal requirements for what you're looking for to acquire going forward a little bit more difficult as this business has to be higher margin than what...

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

I think you have...



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

---

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

Yes, go ahead.

---

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

I think, Francesco, you have to look at it that we were really targeting that we would be at that 20% by the end of that planning period.

---

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

At the back end of the 5-year period.

---

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

At the back end of the 5-year, and that's how you'll have to look at it.

---

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes, yes. So as we said and I and Kim Ann commented, this transaction -- this company has absolutely the makings of getting there and actually probably faster than within the 5-year period given also the synergies we've identified and what have you. So from a first step perspective, as Kim Ann commented earlier, you get to the 15%, then along with some of the other revenue synergistic activities and some of the other things we're doing on the Operational Excellence side, we'll get there. And I think -- I'll expect us to get there well within the 5-year period.

---

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes, very positive.

---

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

Okay. Do you have 2016 sales or adjusted EBITDA for Novel?

---

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes, we do. But what we're going to do, Francesco, as you would expect obviously, we're going to put pro-formas together as part of the Q3 exercise, and we will obviously post all those details by the end of this upcoming quarter. So you'll see the analysis and actually more than you're probably asking for right now coming through. And that's probably the appropriate time to review it.

---

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

Okay. Because then the follow-up question was going to be about just the balance sheet of the business that you were acquiring. And I guess just a little bit of color of, right now, your understanding of how clean are the inventories in the channel.

## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes, no. I mean, with the diligence that we've managed to do, we've looked at it. Overall, I think the takeaway is, and it was in Kim Ann's comment, is this is an asset-light business all around. It requires little from a capital expenditure perspective. From an inventory perspective, obviously, a number of things in that pipeline, if you will. But if you look at the -- from a working capital profile, that's around just on the 90 days, which is very typical and consistent with what we see, so around 3 months as a lot of the ingredients are sourced obviously from overseas.

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

So there's no concern that they're stuffing the channel before you acquire them?

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Right.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Right.

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

Okay. Any seasonality in the business?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

No, nothing in particular.

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

Okay. And I guess the only thing that I really want to talk about in regards to the quarter was the adjusted EBITDA performance of the Other segment. I'm not sure if I missed it, but it was pretty impressive. A little bit of color behind that, and I probably did miss it, so I apologize.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes. So what I commented, I think, is that obviously, we see the fruits, if you will, of the tolling arrangement that we implemented in 2016, December 2016, that is. So the year-ago quarter, things were negative, if you will. And -- but now we're taking advantage of that, and we had around \$3.7 million, \$3.8 million of revenue in that segment alone linked to that arrangement. And that's coming in obviously either neutral or just slightly positive depending on. But that's why you see a significant swing year over year because a year ago when we didn't have that arrangement in place, we would have kind of lost money on it.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

And why it was so important for us to ensure that we had such an arrangement going into the year.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Francesco Pellegrino** - *Sidoti & Company, LLC - Research Analyst*

Okay. And just actually, if I could sneak in one more question, can you say that pruning is done?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. For the most part, it is, yes.

**Operator**

And our next question comes from Curt Siegmeyer from KeyBanc Capital.

**Curtis Alan Siegmeyer** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Congrats on the quarter and the deal.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Thank you. Thank you very much.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Thanks.

**Curtis Alan Siegmeyer** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Just one follow-up on the potential EBITDA margins for the acquisition. You mentioned sort of mid-teens range once you factor in the cost savings and the tax synergies. And then you talked about the formulation benefits that you think can help drive it to that 20% range. Is that sort of the primary thing we should focus on that will make that kind of account for that 400 to 500 basis points of improvement over time? Or do you anticipate any further potential for cost savings as well? Or is it just the formulations?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. So first, let me start with the cost. And we feel very confident about that -- the \$4 million we've identified. Clearly, as we go through our very diligent and disciplined integration process, we will continue to report out where we're at with that. But based on our due diligence to date, that's where we're at. But again, I think our team has shown some excellent discipline in that area, so stay tuned for that. From commercial synergies, we have already very, very -- worked very hard on trying to look at those as well as much as we could during the due diligence. We'll have a better sense, Curt, to give you in Q3 and in Q4. But we feel very confident that that will continue to help us move to those higher levels of performance. With that said, I want Han to comment to you about the tax benefit.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes. Just one additional comment, Curt, in terms of how you asked the question. The way we see getting first step to 15% on the business is fully linked to that cost synergy. The tax synergy is a separate item, if you will. So that's not bundled in there.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Right.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Just to clarify that.

**Curtis Alan Siegmeyer** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Okay. Yes, that makes sense. And can you just talk about sort of the specific product gaps or ingredients that the acquisition brings that you -- what holes does it fill that you guys didn't already have?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes, sure. We had talked about, first, again, they've got botanicals, enzymes, amino acids. So they are actually bringing some technologies that we don't even currently have. The other thing that -- where they are focused, for example, some of the markets, they are very, very strong in cognitive health and digestive health and so forth, some areas in sports nutrition where we're very -- we're small. So I think it really does a great -- I would hate to use gaps, but it absolutely -- hate to use the word gap, but it absolutely brings us to the forefront of many of these segments with the acquisition in hand. And that's how we looked at it. And that was very important as we did our due diligence of looking at many targets. We needed something that was going to expand our portfolio and also expand our presence in markets -- current markets but also bring us new markets. And that's why I believe this is such a great strategic fit, particularly on the criteria that we laid out to you during the Investor Day in April.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes. One aspect that I think Kim Ann tried to highlight that should be not underestimated here is the -- given the end markets, the quality of the sourcing aspect, which I think Kim Ann commented on, but it's really truly important to the end markets. And where we believe a good part of the value proposition is, is in that quality assurance, the traceability and the sourcing, the way Novel has established this, so very, very integral to the value proposition.

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. And I would just add to that, that really a ticket to the dance in many of these health and nutrition markets is to ensure verified quality product supply. And the strategic sourcing capability that Novel brings to the table is second to none. They have a fundamental knowledge of the supply chain. They have experienced sourcing capability. They've built relationships with many suppliers. And it's that whole farm-to-factory that they have, that very disciplined traceability. And that's what customers are looking for. And as we go further into this market over the next couple of years, that will only become more important.

**Curtis Alan Siegmeyer** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Great. And then if I could, just one follow-up on the balance sheet. You mentioned at close, your leverage will be just over 2x. And at the Investor Day, if I recall correctly, you guys said you'd be comfortable for the right acquisition to go up over 4x. Is that still the case, for one? And then two, do you expect there to be a digestion period? Or if something attractive came along, would you be comfortable moving rather quickly on something else in the near term?



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. As far as -- yes, I'm very -- we are comfortable. I maintain what I said during the Investor Day in April. For the right acquisition, I am comfortable moving up into those areas. We continue to evaluate other potential acquisition opportunities that would be a natural next step to further enhance our Food, Health and Nutrition platform. And I think that's very important, and that's in line with our strategic objectives as we laid out in our Vision 2022 road map. I think I would -- the only thing I would add to that is that the work that we did to create really an active pipeline of potential targets, it's not a one and done. So you always have to be on your feet, on your toes because things move very quickly in this market. So we -- again, we have a very active prioritized pipeline.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

And what I would say, Curt, is we obviously strategically refinanced last year with this kind of -- Kim Ann talked about the pipeline. With this kind of trajectory in mind, very cost-effective, as we commented. So that works, and it's in line with our business strategy. And back to your point about the up to 4, that's within the covenants of our existing agreement, so that's where we're comfortable. But it gives us that ongoing ability to do what we've just proven we can do with an acquisition like Novel.

**Operator**

And our last question comes from Rosemarie Morbelli from Gabelli & Company.

**Rosemarie Jeanne Pitras-Morbelli** - *G. Research, LLC - Research Analyst*

Congratulations, Kim Ann, for everything. So you just -- just following up on the last question regarding the fact that you are comfortable going -- leveraging to -- up to 4x for the right acquisitions. And yet in the press release, you made a point in saying that your net leverage is going to go from 1x to 2x -- 1.2x to 2.1x, and you will be back down to 1.2x based on and within the covenant requirements. So I am just confused as to, if the covenants' requirements are for this low level of debt, how do you get to that 4x leverage potential for the right acquisition?

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Yes. So what we're saying is the covenants allow us to go to 4x. Under this -- under the current set of circumstances, with us acquiring Novel, the net debt leverage ratio goes from 1.2x to 2.1x. With all things being equal and staying constant as is, meaning Innophos plus Novel, and we wouldn't do any further acquisitions, and the way we look at our cash flow generation, we would be paying it down, our debt, that is, and be back at a similar level, around just 1x, 1.1x, in just that period of time. And that's what we're saying. But...

**Rosemarie Jeanne Pitras-Morbelli** - *G. Research, LLC - Research Analyst*

Okay. Not that there was some kind of a condition that required you...

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Not at all.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Not at all, not at all.



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Not at all.

**Han Kieftenbeld** - *Innophos Holdings, Inc. - Senior VP & CFO*

Because we're just leveraging our existing credit facility. And that's why it's so attractive and cost-effective.

**Rosemarie Jeanne Pitras-Morbelli** - *G. Research, LLC - Research Analyst*

Okay. And so staying with the acquisitions, it sounds as though DuPont -- the combination of FMC and DuPont is going to generate the availability of some alginates businesses. I think they are going to be required to sell some of that. Is that something that you are interested in? Or is it too upstream for you?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. We don't typically talk about the various acquisitions or targets we're looking at. What I would say is that we continue to look at the markets in the Food, Health and Nutrition area and looking at portfolios that complement our existing ones. So we're talking about things like the botanicals, the enzymes, the amino acids and so forth. So I would say that we're on track with that strategy.

**Rosemarie Jeanne Pitras-Morbelli** - *G. Research, LLC - Research Analyst*

All right. And then going to Novel. So they were a distributor, and they are now manufacturing the end products. How much of their business is a distributor -- is distribution as opposed to manufacturing and selling branded products?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Right. So if you see in one of our slides, about 60% of it is in the ingredient area. And then we -- and then they've expanded; 26% is the blends and formulations that they have made. And that, of course, begins to really change that mix from a value standpoint, and then 8% is in the branded area. So again, they have these ingredients, they're selling them to many of the same customers, and that was their entree into some of their top customers in the nutrition area. Then talking with these customers, building those relationships, better understanding the customer needs, they have now put science behind this. And they are blending and formulating, and now also doing the branded. And again, we're not going to be talking about prior years until Q3 or later, but there has been a definite mix -- shift mix over to these higher-value areas.

**Rosemarie Jeanne Pitras-Morbelli** - *G. Research, LLC - Research Analyst*

And when you look at that 20% margin, in order for you to get -- for Novel to get to that particular level, how small is that ingredients or distribution -- share of distribution business supposed to go down to? What would be the ratio between the 2 that will be required really to get to that 20%?

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

It will really -- I'd rather switch it the other way, Rosemarie. If you start to look at the blends and the formulations and the 8% of branded, if that branded starts to go into that double-digit because of that very high value and you grow that orange part, by definition, then that -- I'm looking at Slide 20, by definition, that red part, that's the 60% of ingredients, will start to shrink for the overall. So the target really is to use those relationships



## AUGUST 01, 2017 / 1:00PM, IPHS - Q2 2017 Innophos Holdings Inc Earnings Call

where we already have established ingredient supplying to these companies is really to expand that 26% above 30% and that 8% in double digits. And I should add, the company has a very, very good pipeline that we will be acquiring.

---

**Rosemarie Jeanne Pitras-Morbelli** - *G. Research, LLC - Research Analyst*

Okay, that is very helpful. And lastly, if I may, could you give us a little more details on the -- your comment regarding the packaged food decline in demand?

---

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Yes. The packaged food decline in demand, it continues. It's not really different from the previous quarters that we've discussed. We know that processed foods are beginning -- are softening. We understand that. You can look at any of the earnings releases from the various global food companies. So that continues, and hence, the impact on our phosphate business.

---

**Operator**

We have no further questions at this time. I'd like to turn the call back over to Kim Ann Mink.

---

**Kim Ann Mink** - *Innophos Holdings, Inc. - Chairman of the Board, CEO and President*

Okay. Thank you, Nicole, and thank you, everybody, for joining us today. We look forward to keeping you updated on our progress and hope to see many of you at the Industrial Jefferies Conference on August 8th in New York City. On behalf of the Innophos organization, I'd like to welcome the Novel Ingredients employees to our team, and I look forward to working together to ensure a smooth transition. Thank you, and have a great day.

---

**Operator**

Thank you. Ladies and gentlemen, that concludes today's conference. Thank you for your -- thank you for participating. You may now disconnect.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.