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<<Connor Crump, Analyst, Jefferies, LLC.>>

Good afternoon, everyone. Welcome to Jefferies 13th Annual Industrials Conference. My name is Connor Crump. I'm an analyst with our Industrials Investment Banking team. And it's my pleasure to introduce Han Kieftenbeld, Senior Vice President and CFO of Innophos.

<<Han Kieftenbeld, Senior Vice President, Chief Financial Officer>>

Thank you, Connor, and good afternoon, everyone. I'm Han Kieftenbeld, the CFO for Innophos. And today I'm going to spend a bit of time introducing Innophos for those of you that are not as familiar with our story. I also will secondly review our Vision 2022 growth strategy. And then I will focus on the exciting acquisition of Novel Ingredients that we just announced last week. Before I start I want to just like you to note our Safe Harbor provisions, which pertain to forward-looking statements that we might make this afternoon in our presentation and during the Q&A.

So on Slide 4, talking about our purpose. We have a clearly defined purpose to provide vital ingredients to customers that support improvement, nutrition and health of those around us. This purpose defines the choices we make, the way that we operate and a potential that this company has. It's also behind the achievements that we've recorded over the last 12 months. It's also at the heart of our rationale behind a Vision 2022 strategy that I'll talk a bit more about in a moment's time and that we unveiled during our Investor Day in April. It's also consistent with the announced acquisition of Novel Ingredients. I also want to point out, and I'll talk to that in a little bit in more detail, that our strategic roadmap is underpinned by three pillars: operational excellence, commercial excellence and strategic growth.

Just talking a little bit about how we see the aspects of our Vision 2022 goals and the capabilities that we have as a company. We're operating in attractive food, health and nutrition markets already and we have a significant part with packaged food manufacturers. We look to expand in that space further particularly in health and nutrition sub segments.

Science and technology driven; this is key to us, so underpinning that technology in terms of our value proposition to customers. The manufacturing capability; our footprint is largely in North America between Canada, U.S. and Mexico, and that's an important capability that we have in close proximity to the customer base. The strong branded customer base; we supply to premium branded Blue Chip packaged food customers, also to nutrition large nutrition and large pharmaceutical companies.

Our three in the box concepts that you will hear about a bit more in just a moment time, which is basically aligning our go-to-market model around technology, marketing and sales as a kind of joined up force is entrenched via technical service and product development as we engage with our customers. We have a strong reputation for cash generation. Our balance sheet and cash flow performance are strong and we are proven stewards of returning capital to shareholders. And lastly, we have an experienced management team. We've brought in quite a few new players at the executive level, but also at the first and second level below that, with a view to deliver on our strategy Vision 2022.

So just talking a little bit about the company as is today and before the acquisition of Novel, so it's based on serving the food, health and nutrition markets is just over 50% of our portfolio. Then we have another 38% in the industrial specialties space. If we look at the food, health and nutrition portfolio and some of the core applications, some of the core segments we service, for example leavening for sweet and savory baked goods, fortification, mineral fortification that is, in beverages, deli meat ingredients, but also seafood and poultry for moisture retention and excipients into the pharmaceutical industry.

If we look at our nutrition applications, we have chelated minerals, premium botanicals and enzyme formulations that are key ingredients in many dietary supplement products available on the market. If we look at the industrial specialties, it's actually a wide array of applications with our mature technology in phosphates. So we see some of the examples here on the page with asphalt, with fire suppressants and water treatment, but there's many more.

If we compare and contrast the kind of profile of the two, the food, health and nutrition and particularly the health and nutrition sub markets are much higher growth and that's where we're focusing our growth trajectory for Vision 2022. That segment is currently running from an adjusted EBITDA perspective just north of 20% of sales. If you look at the industrial specialties, that's running in the 14% to 15% range, which is quite respectable.

Let me just talk about our recent fiscal year performance 2016. We have been focused on cost and productivity initiatives and we have delivered strong margin enhancement, solid earnings growth and very strong cash generation; all despites top line pressures. Here you can see our progress from 2015 to 2016 and as I will highlight in a moment through our focus on cost improvement initiatives, we have continued to deliver on these metrics into 2017 to make Innophos a more fit enterprise, revitalized to take on the inorganic growth that I will discuss later.

Our reputation for cash generation is very strong as I mentioned earlier. On this page, you can see our track record here. So from 2012 to 2016, we delivered $558 million of cash from operations, $395 million of free cash flow and $340 million of dividends and share buybacks. This trend continues into 2017.

Let me get on to our Vision 2022 strategy, which is really around three pillars and enhancing our growth and earnings profile. Now our underlying business is growing with GDP at best. For that reason, we have been looking to establish a long-term strategic roadmap that sets the course for revitalized, profitable and sustainable growth. This is our Vision 2022 that we launched as I mentioned earlier during our Investor Day of just this last April.

Now our financial goals are to grow our top line over this five-year period by more than 70% to $1.25 billion and deliver a 20% adjusted EBITDA margin, a 250 basis point improvement by 2022. All that is quite achievable, we believe, given that our FHN platform as is already operating in the 20% range. If we look at our recent delivery and we look at our strategic pillars that I had mentioned previously, executing against these has been key for our performance over the past 12 months, but equally as we look ahead to deliver on our Vision 2022 and we continue to make excellent progress here.

While the current headline is the Novel Ingredients solutions – Novel Ingredients acquisition, our work in operational excellence and commercial excellence remains a critical focus and into the future. So we look at working from the left to the right, when we assessed the business a year ago as an executive and set out our strategic path, we looked at operational excellence first and making sure that we were fit as an organization. We came up with Phase 1 and identified a total of $16 million in cost savings, particularly on the input cost side with raw materials. We have delivered that $16 million over the past 12 months.

We're also on track for Phase 2, the first half of this year was involved with that particularly looking at MRO, logistics and packaging opportunities. We identified an additional $13 million of which $5 million will be delivered in the second half of 2017 and the balance into 2018. At the same time, we systemically reduced our average working capital, which is on a 12 months trailing, from 31% to 23% taking out $67 million in cash.

Now we continue to look at these opportunities. So we don't look at these just as programs and projects in isolation. With a continuous kind of improvement mentality, we're also looking at the wider manufacturing opportunity and fundamental strategic supply chain enhancements. If you look at commercial excellence, we evaluated our go-to-market. I talked about the three in the box previously in terms of the joining up between technology, marketing and sales. So this is the model we've also implemented internally and as we talk about the business externally, we re-segmented the company starting with this year. And lastly and importantly, we've now made an important step forward as a company with the exciting opportunity that we see with the acquisition of Novel Ingredients, which I will talk about next.

So Novel Ingredients creates – the addition of Novel creates a nearly $0.5 billion food, health and nutrition platform, 60% of the total company. It clearly advances our Vision 2022 growth strategy and it brings new innovation and product development opportunities to our customers. It expands Innophos' offerings in high growth nutrition end markets. I'll talk about some of the sub segments in just a moment time to give you a window into those growth trends.

We're also expecting to deliver attractive cost and tax synergies of around $15 million and we believe we have very cost effectively financed this deal out of our existing credit facility. Now just as a little bit of background, we refinanced the company in December of last year actually with a strategic intent in mind. So we stretched up our facility in a very cost effective way and we've now taken full advantage of that with making this acquisition.

As we just look at the two businesses side by side Innophos as is and Novel in terms of what it brings. So we're obviously looking to shift our mix and here you see how we bring the FHN segment to a total of 60% of the company. So nutrition business – nutrition focused business driving the company's core leverage and segments to that kind of scale, which becomes a meaningful platform for future growth.

A couple of things in terms of details on the company in and of itself; annual revenue of nearly $100 million, very impressive CAGR over the last eight years from 2008 to 2016 of 19%. Serving attractive end markets, again I will talk about it in a bit more detail, that's growing 4% to 8%, but actually more as you will see in some of the sub-segments in Immune Health, Sports Nutrition, and Cognitive Health.

The technology and science that I mentioned earlier also went through here, this is an important part of our product offering and will be going forward in terms of cost and formulated solutions. So best-in-class quality assurance, strategic sourcing very important and world class cGMP manufacturing capability. And lastly 100 very dedicated customer focused employees. Also want to kind of spend a brief moment on the inflection point here mentioned at the bottom. The current ownership has made significant investments in the core capabilities, which sets the business up for continued strong growth. Let me briefly discuss those capabilities on the next page.

So looking at manufacturing here bringing some new capabilities to our portfolio and equally we have some capabilities already in-house that are complimentary to what Novel brings. Obviously product development and custom formulation is key. The next point in terms of sourcing is an absolute competitive advantage the way we see it.

Novel is very well positioned as an industry leader in the development of full supply chain control, working directly with certified growers in the Far East to ensure that those ingredients offer best-in-class quality and traceability. And the other aspect I would highlight here on the page is really the quality assurance and the certification with this of increasing importance in this space.

I talked about some of the growth patterns, but also then, with that, linked to that, is the consumer megatrends. So we're really transitioning away as a company from the product push that we have with our traditional phosphate portfolio to a much more market facing approach as evidenced by the three in the box and the way we're organized and we go to market. So we're aligning our strategy, technology portfolio and organization with the megatrends that drive how consumers make food, health and nutrition decisions.

Obviously today's consumers are much more educated, more informed about clean labels and natural and organic products. And they are more active and health conscious for healthy and on the go lifestyle. So we believe that these megatrends as you see them, and this is just a selection, as you see them here on the page, present a great opportunity for the combined company to grow in those sub segments.

So let me actually discuss those in a little bit of detail. In the middle of the page, you see where we already have a presence as Innophos in specialty food ingredients with our food platform there. We have a very small presence currently in the health and nutrition ingredients and clearly this is where Novel plays to our advantage. As you can see, the dietary supplement North American market is around $2.6 billion growing at 6 to 7%, and if you look at some of the sub segments that I mentioned just previously in terms of cognitive health, digestive health, sports nutrition, weight management and women and men's health, all growing upward from 7%.

Now how are these two portfolios and the customer bases complementary? Innophos typically plays with the large global supplement companies and the large global pharma companies, but also with large Blue Chip food companies whereas Novel brings the mid-tier supplement companies kind of to the fore.

We look at it from a product coverage perspective again some of the unique botanicals that Novel has in the portfolio, the proteins, amino acids and some of the other actives are complementary to the portfolio that we have and also we have a very strong presence both from a geographical perspective in the North American markets.

Looking at some of these, we have – there is significant white space here where we currently don't play in some of these sub segments that you see on Page 18 here. So those products are truly complementary addition to the current Innophos portfolio. Most of these are growing at two to three times GDP. Also Novel has a validated product portfolio with branded products that we currently don't have, where they are able to make scientifically differentiated claims. So that's a valuable competitive differentiator that we believe will add significant value to our customers and to our shareholders.

Just look at it in terms of the rationale of the transaction. Novel adds $100 million of annual revenue bringing the total company to about $800 million in revenue, but again that food, health and nutrition platform to 60% of that. The deal will be accretive to earnings, that's on a GAAP basis, within the first year of combined operations. I talked about the $15 million in cost and tax synergies; the way that breaks out is $4 million in cost synergies and approximately $11 million in tax synergies. We also see revenue synergies clearly as evidence by what I just discussed in terms of market and customer synergies there.

The deal is on a multiple of 12.1 times on Novel estimated 2017 adjusted EBITDA, and if you take the tax and cost synergies into consideration that I just discussed, that brings you down to 7.7 times, which we believe is very attractive given where – given the industry space Novel is operating in. And lastly, a multiple of approximately 1.3 times on Novel's estimated 2017 sales in revenue.

I mentioned earlier that we have refinanced the company and we're able to fully leverage our existing credit facility for this all cash consideration of $125 million. Our net leverage just at the end of the second quarter here was 1.2 times with this deal in hand that will increase to 2.1 times, well within the covenants of the credit facility. We have a very strong cash generation reputation as I mentioned and actually Novel brings an even stronger cash conversion cycle, which will support the current dividend and also will be able to bring net leverage down to pre-transaction level in two years. Also finally, we expect to close this deal within the third quarter of 2017.

Now it's a winning combination; we believe that Novel, in terms of the strategic criteria we set ourselves as well as the financial criteria, are a very strong fit. So the strategic fit from overlapping customers and their megatrends that I discussed, the growth it brings well beyond our GDP at best portfolio right now. It also extends our aperture for profitable and faster growth into adjacent markets that we're currently not in. We believe that the economics of the deal are very favorable and also the integration and the opportunity to take advantage of the human capital any the additional capabilities is very significant and fully in line with our 2022 vision.

So lastly, just on the 2022 vision, let me remind you of the long-term targets that we have set ourselves and we are on track to deliver on those. We have set a sale growth CAGR of 2% to 4%. This is based on the entire company, on the entire portfolio. So between the high growth elements that we're bringing here as well as the more mature parts of the portfolio that we already have. The total adjusted EBITDA margin of 20%, again which we believe to be very attainable, EPS growth CAGR of 10%, maintenance capital expenditure of around 3.5%. You put that in a context of Novel, they are currently operating between 1% and 2%. We're currently at around 5% as Innophos standalone. So that gives you a sense of how the two contrast and compare. And then from a net working capital again 20%. I mentioned earlier that we brought down our average working capital metrics from 31% to 22%. So we believe the 20% is in reach and also Novel is currently operating at around 16%.

So in conclusion here, we have a clear strategic direction with the Vision 2022 as underpinned by the three pillars. We don't look at those as individual programs are just in a given year, but as an ongoing effort to further our business. We have the financial strength and a balance sheet to achieve our goals. We have demonstrated disciplined capital allocation, commitments to operational excellence in all that we do, as we instill a mentality of continuous improvement in the business and the milestone acquisition of Novel clearly advances our Vision 2022 to be revitalized for growth.

With that, we'll take questions.

Q&A

<Q>: Yes. The $11 million tax benefit you're getting on the deal, can you walk us through that?

<A – Han Kieftenbeld>: Yes. Its two dimensionals, two components. One is NOLs and the other one is basically the amortization on the step up. So it's two pieces. The one piece is good for another 12 years and the second piece is good for another 20 years. So we'll be able to take full advantage of that.

<Q>: [Question Inaudible]

<A – Han Kieftenbeld>: What we have here with the $11 million is the net present value of that tax benefit.

<Q>: So what's the total value, gross value?

<A – Han Kieftenbeld>: In a given year, or you asking just in aggregate?

<Q>: What's – yeah, what do you – how you're looking at it? So is the gross value – what $30 million and you're discounting it back to $11 million. How do you think about that?

<A – Han Kieftenbeld>: Yeah. I got to look of the exact detail on that. And I will in a moment if you want, but yeah, obviously the gross value is a larger number in a given year, given that we made it to $11 million is net present value.

<Q>: And how much of a cash benefit will you receive each year on that?

<A – Han Kieftenbeld>: It's basically will manifest itself in cash, right, as opposed to the effective tax rate.

<Q>: But it's not going to be a $11 million every year, what is it $1 million a year how do you…

<A – Han Kieftenbeld>: No. It's more than that. So it's the one component alone is like $3 million a year. And then I got to look up on the other one.

<Q>: Okay.

<A – Han Kieftenbeld>: Yeah.

<Q>: As you start building other deals on top of Novel.

<A – Han Kieftenbeld>: Yeah.

<Q>: And I assume some of the same competitors were bidding for the same properties that you're bidding on whether it was this deal or a prior deal you try to do or any future deals.

<A – Han Kieftenbeld>: Yeah.

<Q>: What makes your ability to close at the right price more favorable as you try to build upon Novel, because Novel becomes sort of the foundation of the company. So obviously Novel becomes the foundation of which you have to build other deals. The other deals have to provide enough synergies. So if you pay 10 or 11 times you get down to 7 or 6 times that it plays that you can actually compete with other people. And what makes you the preference player? That's why I'm just trying to get an appreciation for.

<A – Han Kieftenbeld>: Yeah. And it's – thanks, Charlie. So it's not a one simple answer to that, obviously right.

<Q>: Sure.

<A – Han Kieftenbeld>: Because typically and I said is on the different discussions we had today is companies like this, businesses like this, typically range in a $75 million to $200 million range

from a revenue perspective. Many of them, and I'm giving you a little bit of color that I know some of you have, but just for the audience, many of those are privately held. So this is about forging relationships and somewhat working patiently through the process. So there's not a standard recipe for what makes us more successful than others or less successful than others per se, but I think like we've proven our – with Novel, we've managed to actually work relationships and actually get a great asset.

We'll continue to do that, but also it's true to say that most of the transactions nowadays have become an auction type of environment, right. And so we're very much aware of that. But through our diligence, we believe that there is large companies typically looking at larger assets and looking at larger opportunities where we see a sweet spot is kind of in the $75 maybe to $150 million revenue range. We just got to be diligent and work through it and that's what we've done. So I know that doesn't kind of give you a specific answer. But there is none and I think to say that these are the three things we need to do to be successful.

<Q>: For the next deal, if you end up in six months or two years calling another one-off that successful like this. I assume we're talking about another $100 million type of envelope, is that sort of the right range.

<A – Han Kieftenbeld>: Yeah, I think that is kind of we believe an ideal range, that's not to say that if something that was like $200 million came along and it was truly synergistic on many fronts from portfolio perspective and support that we clearly look at as to, but we believe there is an ideal range if you will.

<Q>: What about the dividend, Han. What about – how do you – how does the dividend distribution, which is still attractive to many of us.

<A – Han Kieftenbeld>: Yeah, we typically – so the question was around a dividend and we typically get that question. We've been very clear that with this deal in hand, we will maintain our dividend in absolute terms. But obviously, depending on size of deal, if we kind of do these type of size deals consecutively, we believe that the dividend is manageable and maintainable. Because we're running at around 40% of free cash flow in terms of dividend payout, but we know it's very attractive and important to our shareholders. So we know that's a priority.

<Q>: Okay, thanks.

<Q>: To the extent that you pull off another deal in the near future or next year. That doesn't come with NOLs or tax positions like this one. Will you then be able to pull forward some of that value, if it's to be an $11 million NPV.

<A – Han Kieftenbeld>: In terms of…

<Q>: I mean the businesses you're buying are high free cash flowing businesses.

<A – Han Kieftenbeld>: Yeah.

<Q>: So to the extent you'll be able to grow the free cash flow of the company makes more acquisitions, presumably the $11 million PV starts to grow, because you'll be able to utilize it sooner rather than later.

<A – Han Kieftenbeld>: That is correct.

<Q>: Okay.

<A – Han Kieftenbeld>: Yeah.

<Q>: Any other questions anybody.

<Q>: Could you speak to the competition from Chinese imports – weakening dollar here of late and potential actions from a Trump government.

<A – Han Kieftenbeld>: I'll try on the last one. Because I'm not sure that I can predict exactly the actions there. In terms of the weakening dollar I think we've talked, if we look at our kind of traditional portfolio – the phosphate portfolio and particularly in the industrial specialty the lower level more undifferentiated technical grade, we've been clear all along that, we've had a Chinese competition. That's here to stay, it's there. We haven't talked about that much recently because, we really believe it's kind of part of the fabric of the competitive landscape.

So we haven't seen it intensify or change – now with the dollar weakening more recently, we need to see whether that has any impact on that particular one. Overall, there is a reality that the margin expectations I think some of those importers have is a slightly different maybe than some of the players like Innophos. And that's also, as you're well aware, where we've done some of the pruning, right, in the second half of 2017 and the early part of this year kind of cutting away from some of that portfolio that is far less profitable and more prone to that kind of competitive landscape.

The other thing from competition, we've talked about in the past is some of the imports from Europe in the food space. Now with – that became kind of a little bit more prevalent and a little bit more opportunistic, when the euro moved from 136 to below 110 now that it's kind of in the 118 range, we need to see how that plays out over time. But, again we're taking those as kind of constant factors that we just dealing with. They haven't intensified any further, so they haven't necessarily changed our – the way we think about a portfolio and how we behave in the market.

<Q>: Do you ship into the United States from your Mexican facility.

<A – Han Kieftenbeld>: Yeah but that's limited. So we send most of the product that comes out of that into South America, that's a vast majority. What we send up here is mostly an intermediate for further processing into our specialty channels.

<<Connor Crump, Analyst, Jefferies, LLC.>>

Anybody any questions. If not then I thank everybody for attending here in the room as well as online. And thank you for your interest in Innophos.