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PRESENTATION

Operator

Welcome to the third quarter 2017 Innophos earnings conference call. My name is Bob, and I'll be your operator for today's call. Please note that this conference is being recorded.

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

Mark Feuerbach - *Innophos Holdings, Inc. - VP - Investor Relations, Treasury, Financial Planning & Analysis*

Good morning. And thank you for joining us today for Innophos' third 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 release regarding financial performance 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 note future events. These forward-looking statements are subject to material risks and uncertainty 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 is October 31, 2017, and the presentation for this call can be found on our website at 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 obligations to update these statements.

Please turn to Slide 3. During the call today, management will be reviewing our third quarter financial performance.

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, President and Chief Executive Officer*

Thanks, Mark. And good morning, everyone, and thank you for joining us today as we share an update on our recent-quarter performance and the progress we continue to make executing against our three strategic pillars.

Now before Han reviews our third quarter performance, let me touch on some highlights from the quarter. We delivered solid top- and bottom-line results for Q3, with earnings above our expectations and the strongest adjusted EPS performance in the past 12 quarters. We swiftly closed on the Novel acquisition, which contributed $10 million to the top line and was accretive to EPS excluding purchase accounting adjustments. Having made excellent progress with the integration of the acquisition, this 5-week revenue contribution from Novel more than offset the natural disasters-related impacts we experienced during the quarter, as well as pricing declines that were in line with expectations.

In addition, by remaining focused on cost discipline and operational excellence across the organization, we delivered year-over-year adjusted EBITDA margin growth for the seventh quarter in a row despite a 1% decrease in sales. As Han will expand upon, we are increasing our revenue guidance and maintaining our earnings guidance for full year 2017, both of which are expected to be flat when compared with 2016.

Moving to Slide 5 -- we've continued to make excellent progress executing against our three strategic pillars. In Q3, we began the implementation of our Phase II Operational Excellence program, which involves process, systems and organizational changes to optimize our MRO, packaging and logistics costs. We already have a tremendous level of activity underway and are very pleased with the progress that our team has made in initiating these efforts, particularly given the complexity of this phase.

In Q3, we delivered $1 million of Phase II savings, and we expect to recognize an additional $2 million in Q4. Now although near-term logistic savings are being impacted by a lack of trucking equipment availability following the recent hurricanes, we're very, very encouraged by the early momentum and remain on track to deliver the full $13 million run rate of Phase II savings in 2018.

We continue to look at additional opportunities for further productivity improvements in 2018 and beyond in the areas of manufacturing optimization and value chain repositioning. These efforts will not only reduce costs over the long term, but they will be critical in ensuring that we maintain our North American leadership position in our core phosphate portfolio. This part of our business remains an important cash engine for Innophos. In Q4, we will initiate a Plant Maintenance and Supply Chain Optimization program that will phase throughout 2018. And Han will discuss this in more detail.

Now in Commercial Excellence, our market-focused global sales organization and 3-in-the-box go-to-market model have now been fully implemented for 2 quarters and continue to benefit our sales efforts. The work that we've done around Commercial Excellence over the past 18 months was paramount in ensuring an expedient and successful integration of the heritage Innophos Nutrition and Novel Ingredients customer-facing organizations.

And lastly, with the Novel Ingredients acquisition closed and the integration well underway, we have continued to make significant advancements under our Strategic Growth pillar. We have a robust pipeline of acquisition targets that we are actively evaluating to further expand our FHN platforms, advance our goal of being a leading specialty ingredients solutions provider to attractive FHN markets, and more closely align Innophos with consumer mega-trends, such as health and wellness, energized aging and clean labels. And we look forward to keeping you updated as our efforts in this area progress.

Turning to Slide 6 -- during the quarter, we made progress with our organizational and cultural transformation, which is at the foundation of our successful execution on our three strategic pillars. We've continued to build bench strength across the organization by acquiring external talent and promoting from within.

Diversity also remains an important priority for Innophos, our board, our employees and our shareholders. We are an organization that believes that diversity drives success, and we were honored to have received two external recognitions for this commitment, both of which are a true testament to the efforts of the entire Innophos team for embracing a culture of change. And finally, we are very pleased to have a Unified Nutrition customer-facing organization.

Moving to Slide 7, we've made excellent progress with the integration of Novel Ingredients. We've established a disciplined integration process led by our newly created Integration Management Office, or IMO, with oversight by an Executive Steering Committee. We have instated weekly process reviews that allow us to take advantage of best practices from our combined teams while also identifying and implanting external best practices. The repeatable integration process that we're mapping out will be instrumental going forward as we continue to execute on our Strategic Growth pillar to drive toward our Vision 2022 growth aspirations.

Through this disciplined approach, we've already achieved several key milestones with Novel. Our Unified Nutrition Commercial team came together as one at SupplySide West, the largest nutrition tradeshow of the year, launching a joint booth and engaging with customers as a combined organization for the first time. At the show, I personally met with nearly every one of our large customers. These meetings validated a significant amount of credibility that Novel has in the market and highlighted for me the very positive response from our customers to the deal. It is clear that both customers and employees see the value in bringing Novel into the broader Innophos organization, providing access to deeper resources for innovation and guided by a clearly defined vision to be a leading supplier of innovative, science-backed ingredient solutions for the growing food, health and nutrition market. It allows us to continue to build at our FHN platform, drive sustainable growth and advance toward our Vision 2022 goal.

We also continue to work toward the $15 million of identified costs and tax synergies that we previously identified. And we remain encouraged by the potential from cross-selling opportunities.

With that, I'll now turn the call over to Han to review our Q3 financials and our outlook for the full year 2017. 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, severance, fair value inventory adjustments and M&A related costs. Please refer to our press release, the appendix of today's presentation and our SEC filings for the GAAP-to-non-GAAP reconciliations.

Now let me start with some highlights. As Kim Ann indicated, we had a solid top- and bottom-line performance with earnings ahead of expectations. We delivered year-on-year adjusted EBITDA margin improvement of 79 basis points, despite a 1% decline in sales. Adjusted EBITDA margin for the total company grew to a very credible 19%, which compares to 17% adjusted EBITDA margin in quarters one and two of this year.

As the adjusted EBITDA bridge demonstrates, our continued focus on lowering input costs and tight cost controls delivered $11 million of savings year-over-year, which, combined with $1 million of savings from the second phase of our Operational Excellence program, more than offset the unfavorable $9 million impact from price erosion. This is consistent with the trends seen in prior quarters.

We delivered solid operating cash flow and free cash flow for the current quarter. Comparisons were down year-over-year due to significant working capital improvement in the year prior, when we significantly reduced average working capital as a percent of sales by 587 basis points. We have sustained our working capital around 22% of sales for multiple quarters now.

Now let's turn to Slide 9 to take a closer look at some of the quarter details. Sales of $184 million in the quarter were down 1% versus the prior year, with volumes up 3% and selling prices down 4%. Our top line performance reflects the 5-week contribution from Novel Ingredients, which more than offsets the demand impact caused by the natural disasters in the Caribbean and Mexico.

Gross margin continued at a steady 22% and improved 49 basis points year over year due to favorable input cost and the effects of pruning, which were partly offset by unfavorable pricing and segment mix. The stable nature of our margins is significantly helped by the GTSP tolling agreement that we implemented in December 2016, which has much reduced volatility in this regard.

Moving on to earnings, on Slide 10 -- net income was down $2 million or an unfavorable 15% versus the prior year. This was due to purchase accounting and M&A related expenses. Net income as a percent of sales was 6% in Q3, down 103 basis points year-over-year.

Adjusted EBITDA of $35 million was up $1 million year over year and yielded a margin of 19%, as I mentioned just a moment ago. This was up 79 basis points compared with prior year.

Operational Excellence initiatives continued to make a strong contribution, with favorable input costs more than offsetting lower selling prices. The quarter also included an initial $1 million of manufacturing cost savings related to Phase II of our Operational Excellence program. The increase in SG&A cost was primarily due to the addition of Novel Ingredients. The effect from FX was down $1 million year-over-year due to a strengthened Mexican peso versus the U.S. dollar.

Moving on to Slide 11 -- Food, Health and Nutrition sales of $98 million were up 5% versus the prior year, with an 8% improvement in volume, helped by the addition of Novel Ingredients. This was partially offset by a 3% decline in price, in line with our expectations, primarily due to unfavorable customer mix from lower sales to health end markets. FHN's Q3 adjusted EBITDA margin of 19% was strong and in our expected range.

Industrial Specialties' sales of $68 million declined 4%, but margins improved 628 basis points to 21%, due primarily to lower input costs resulting from our Operational Excellence initiatives.

Other sales of $18 million were down 20% versus the prior year primarily due to strength in commodity fertilizer in the prior year period. Other margins were 11%, down from 15% for the same period last year, which was prior to entering into our tolling arrangement. As I mentioned, that arrangement has smoothed out swings in our margin profile, which we saw in prior years.

Now turning to Slide 12 -- net interest expense of $2 million in the third quarter was flat with the same period last year due to the higher debt levels and leverage offset by lower applicable margins, benefitting from the cost-effective credit facility that we implemented in December of last year. Our effective tax rate of 33% for the third quarter was in line with our expectations and compares to 31% for the same period last year due to prior year tax return true-ups.

Capital expenditure of $9 million in the quarter was up from the same quarter last year, reflecting the investments in the Geismar deep well, which remains on track for completion in 2017 and is running favorable to budget. Capital expenditure this quarter included approximately 40% for maintenance, 45% for growth-related projects and 15% 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 55% payout ratio of LTM free cash flow.

Finally, in the third quarter, net debt increased to $262 million, due primarily to the $125 million borrowed for the Novel acquisition, which was completed in August 2017. Accordingly, our Net Debt to Adjusted EBITDA ratio increased to 2.1x compared with 1.4x in the same period last year. These metrics are consistent with what we communicated during our last earning call, when we discussed the Novel transaction.

Now turning to Slide 13 -- Q3 GAAP diluted EPS was $0.58, down 15% from the same period in 2016, due to purchase accounting and M&A related expenses as noted earlier. On an adjusted diluted basis, Q3 EPS was $0.78, up $0.03 or 5% from the third quarter 2016, which was the strongest performance in 12 quarters due to strong underlying earnings performance, helped by sales mix and a favorable cost profile.

Moving to Slide 14 -- Q3 cash from operations was solid, at $27 million, but lower than the same period last year due to a large working capital improvement in the prior year period.

For the current quarter, average working capital improved by 14% or $24 million year over year and represented 21% of Q3 2017 annualized sales. Free cash flow of $19 million was primarily used to fund the dividend and $10 million of debt reduction.

Now turning to our outlook on Slide 15 -- we're updating our 2017 guidance to reflect the contributions from Novel Ingredients as well as current industry dynamics and manufacturing actions that we plan to initiate in Q4.

More specifically, on a full year basis, we continue to expect overall market conditions and the competitive landscape to be similar to 2016. Demand impact from the recent natural disasters is expected to carry into Q4 and is forecasted to have an unfavorable $3 million effect on sales for the full year. In addition, Q4 is expected to reflect typical seasonality with lower sequential sales and unfavorable mix.

We expect Novel Ingredients to contribute total sales of $35 million, with $25 million forecast for Q4. We expect to deliver an additional $2 million of Phase II Operational Excellence savings in Q4, for a total of $3 million of savings from Phase II in 2017. As Kim Ann noted, the recent hurricanes have had an impact on near-term logistic savings.

In Q4, we are setting out a broader Maintenance and Supply Chain Optimization investment program to further enhance our supply agility and cost base. This program, which will be phased throughout 2018, supports our strategic priority to maintain our leadership position in the North American phosphate market.

As a first step, we are planning Mexico plant manufacturing stoppage in the fourth quarter, which will impact earnings by approximately $4 million due to maintenance expense, lower fixed cost absorption and higher cost from externally sourced material. This is up from the $2.4 million we spent on maintenance stoppage in 2016.

Q4 2017 is forecast to show double-digit sales and adjusted EBITDA growth versus prior year. And we expect the tax rate will remain at a normalized level of approximately 32% to 33% in the fourth quarter. As a result of these factors, we are raising our 2017 revenue guidance and maintaining our adjusted EBITDA guidance, with both forecasted to be broadly in line with 2016 actual results.

In regards to uses of cash flow, we now expect 2017 capital expenditure to be near the lower end of the $35 million to $40 million range we indicated last quarter. Our progress with our cost and performance initiatives, as well as the progress we have made with the Novel Ingredients integration, gives us confidence that we will deliver a strong Q4 performance to meet our guidance for the year.

With that, I'll turn the call back over to Kim Ann.

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

Thanks, Han.

And now turning to Slide 16 -- our Vision 2022 Strategic Roadmap is based in our pursuit of two concurrent tracks. We're growing our FHN platform to more deeply align with high growth, attractive end markets, while we also selectively defend our cash-generative core phosphate portfolio. The progress we are making in executing against our three strategic pillars is positioning Innophos for success on both fronts and keeping us on track to achieve our Vision 2022 goals.

The addition of Novel has enhanced the value we delivered to our customers and created a solid FHN platform that we can now build upon to drive revitalized growth and deliver enhanced shareholder value. The robust integration process that we now have in place will help support the successful close and integration of future strategic growth opportunities. And we continue to take important steps to position our core phosphate portfolio for success, while remaining committed to our Operational and Commercial Excellence programs across the organization.

This is an incredibly exciting time for Innophos, our employees, our customers and our shareholders. And we look forward to keeping you updated as we execute on our plan.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from the line of Brett Hundley with The Vertical Group. Please proceed with your question.

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

Han, my first question might be for you. I want to talk about legacy FHN performance and check some math with you. So essentially, the volume mix that you guys reported for FHN was a plus 8.4. And if I back out Novel, I get to a minus 2.2 as far as growth/decline. And then, if I take the $2 million that you guys called out in your deck, as far as negative impacts from weather, that gets me back to about even for the year if I'm doing everything correctly.

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

Your math is very good.

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

Okay. And so that's slightly below what I was anticipating for your legacy FHN business. We didn't have a ton of growth in there, but it was slightly below on the volume side. And I could've been modeling it wrong. And so I wanted to see how that performance kind of lined up with what you guys were anticipating both for the quarter and as you kind of look ahead.

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

So first off, your math is correct. I mean, what we said and what we've communicated is that underlying the FHN platform is probably -- and it's in the rounding, but it's just a smidgeon up volume, like we had last quarter. So that was pleasing, because also, remember, we were coming off a kind of a streak of quarters where we saw volume declines, right? So, what we said -- that's what we've talked about for the last couple of quarters is stabilization. And that's what we've seen actually in the second quarter and seen again in the third quarter on the underlying basis. So, if your question is, were we happy with that, and was that in line with our expectations, yes, it was. Now really, the one thing, and you did single it out, that none of us foresaw, obviously, was the weather impact from the hurricanes. And we've quantified that. But underlying, yes, absolutely, we're satisfied with what we've seen.

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

Yes.

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

Okay. Thank you. And then, basically, on the Phase II Op savings, it sounds like essentially $2 million is getting moved from 2017 into 2018. Would it basically be your explanation that you guys would expect to capture that relatively quickly in the front part of 2018?

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

Yes, I'll take that, Brett. Yes, just a couple of different things -- initiating a program like the Phase II program we talked about is a bit complex. It takes more time than we talked about around the Phase I. It involves making changes to complicated processes, systems, organizational structure. We continue to remain extremely encouraged. But because we've experienced an impact to Q3 from lacking trucking equipment availability due to recent hurricanes, and that impacted it a bit. So, with that said, though, we remain confident in our ability to achieve that $13 million of savings that we identified. And we should do that in the first half of 2018. So yes, you'll start to see, as we move into 2018, we'll capture what we did not get for this half.

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

Okay, in H1 of '18?

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

Yes.

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

All right, wonderful. And then, I just wanted to ask one more question, I'll yield the floor. Kim Ann, I thought it was really interesting to see what you guys were doing with the IMO, the Integration Management Office. And we're seeing that from other companies that we follow.

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

Yes.

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

I wanted to get some color from you on, I guess, three main questions, kind of the who part, so if you can give some added color on who's a part of that effort? Secondly, why -- I wanted to talk a little bit about why you and your team sat down and thought that this was truly needed, and maybe there were some learnings alongside Novel or even some forward expectations. But I wanted to talk about the why part, and then just maybe get some added color, lastly, on the processes that are going in place as far as enabling you to execute on what you talked about, which is the further evaluation of more strategic opportunities.

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

Sure, great question. Well, I'm a firm believer of IMO's from my previous experience, and really from the previous experiences of all my executives that I've brought onboard from other companies, we feel that's best in class to do something like that. With regard to who -- yes, I actually named -- we actually formed a PMO, an IMO being part of that. And that is being led by Sally Wilson, who was one of my vice presidents, actually, in the finance organization under Han. She now reports directly to me. And Sally has a great set of experiences coming from Rohm & Haas and Dow and some other companies along the way, where she's really participated in many of those areas within integration. So we really feel we've got a great executive in charge of that. And this is her full-time role, because this is part of our DNA now, what we're doing as far as strategic growth. The why -- I think because of the experiences we bring to the table, we've seen how this works. We've also seen -- when you don't have a disciplined and stringent integration process, we've also seen throughout our careers how things can go awry. Because the success of an acquisition, you can purchase something that that's successful. But we know so many of them fail due to a lack of integration. And so, it's really learnings along our myriad of experiences over the last 30 years or so. You learn the hard way sometimes, Brett. And we want to do this successfully. And we also felt that this really sets up a blueprint for future acquisitions. And we'll also be learning along the way as we implement this Integration Management Office. And we'll make sure we fine-tune it every step of the way to be best in class. With that said, Sally does head the IMO. And she has project managers reporting to her. And then, we've got an Executive Steering Council that oversees that. And we meet weekly to ensure that we're progressing along the right path for our integration and making sure we hit on our synergies. So the Steering Council is myself, Han, who you know is our CFO; Josh Horenstein, who is our Chief Legal Counsel; Mark Santangelo, our Senior Vice President, Manufacturing, Engineering; Sherry Duff, who is our CTO and CMO; and Amy Hartzell, who is our SVP of Supply Chain and Purchasing. The way we've set this up is we've got work streams for every key function -- supply chain, technology, manufacturing and so forth. They're co-led -- a member from heritage Innophos and a member from heritage Novel. Again, we want 1 plus 1 to equal 3 here, taking the best of both. And we're also looking for best in class. If we don't feel like we have best in class, we're implementing that along the way. So we're in our mojo, and those teams are working furiously. And it's been really a great experience to do this.

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

That's great color. Thanks, Kim Ann.

Operator

Our next question comes from Larry Solow with CJS Securities. Please proceed with your question.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Just a bunch of moving parts. And I think if we sort of peel back the onion, can you just help me sort of parse through the modest revisions to guidance. So EBITDA, essentially, looks like revenue basically has stayed the same. If you add back Novel, you have a little bit of weather impact. But outside of the impact from the weather or the natural disasters you've called, it looks like it's similar numbers, is that fair to say, on the revenue side?

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

If you look at the underlying business, or you peel back -- to answer your question, you peel back Novel, it's a couple -- I would say, a couple percent lower in Q4 overall.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Right.

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

And obviously, we have -- I referenced the sequential seasonality in that too, right?

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Right, which hasn't changed. So, seasonality hasn't changed, and it's just really -- right, it's just the weather. And then, on the EBITDA, you obviously have had -- your guidance has been basically flat. Obviously, you have a benefit of Novel, which, based on sort of the historical margins, I imagine that's adding about $4 million in EBITDA for this year, plus or minus. And then, you're losing essentially that same $4 million on that for the maintenance shutdown, although I don't know if some of that was already built into your expectations. So I'm just trying to figure that out. And then, obviously, you have a little bit of impact from weather. So all in, I'm just trying to figure out what has actually -- is it basically just Novel adds about $4 million offset by the maintenance shutdown, and then lower input costs sort of offset the lower sales from natural disasters? Is that an okay summary?

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

Absolutely, Larry. Those are the four pieces. So it's actually not that complicated, but you hit it right there. So between the seasonality piece, the weather impact, the turnaround; and then, on the upside, obviously the savings from the Op Ex (Phase) II. So between the plusses and the minuses, that's what makes up the delta.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Got it. So all in, we're basically about where we -- not a major significant change one way or the other, it seems like, from your guidance.

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

Right.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Got it. And then, the Maintenance Supply Chain Optimization program -- obviously a little bit of an impact up front. Is there some impact again, as you look out into '18? And then, what is the inevitable benefits you expect to get from this? Maybe not in the dollar amount, but maybe you can just help at least qualify a little better?

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

Yes, I can comment on that, Larry. Consistent with what we told you in April at our Investor Day, the Plant Maintenance and Supply Chain Optimization program is really part of our strategic plan to really make sure our phosphate business is healthy, right, and generates cash for us so we can invest in the growing business. And to ensure we maintain our market leadership position in North America and position Innophos for targeted growth, we really felt -- and we mentioned this, and I've been talking about this, consistent with what we've said -- we really want to try to optimize our cost position even further, with a strong focus on value chain positioning and our manufacturing footprint. Now with Mark Santangelo, our SVP of Manufacturing, joining us earlier in the year, we're now ready to do more of that. So these turnarounds have always been part of how we operate in our manufacturing network. And we're taking a much more holistic view to plant maintenance, to supply chain optimization. And this plant maintenance is just the first steps in a broader program that is going to be phased throughout 2018. And we determined we wanted to start that now in the fourth quarter. So we will talk more about this in the fourth quarter. But we'll start to see earnings benefits late 2018, with the majority of benefits expected to take root in 2019. Again, we'll update you along the way, we'll have more granularity when we come out with our fourth quarter. But we do anticipate -- and I think this is very important, this is exciting -- to generate strong rates of returns. This is an important aspect of our strategic plan, as we commented on in April.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Okay, great. And then, just last question -- obviously, the volumes have certainly stabilized through '17, and hopefully can remain stable or even slightly turn the corner in '18, plus the benefit of the acquisitions going forward. What about pricing? Obviously, there's still some pressure this quarter. It seems like you guys feel like we're hopefully reaching a point there that things will start to stabilize. So can you sort of help us -- I know you're not giving any guidance for '18, but just sort of how you see pricing trends from where we stand today going forward?

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

Yes, Larry, we're really starting to see a stabilization of that. And then, we should start to see that as we go into 2018. We've really worked very closely with our commercial organization to ensure that, working closely with our customers. I think going through contract seasons, things look very, very good. So all part of that Commercial Excellence, the benefits we're getting with the way we now are looking at our customers and so forth. So yes, stabilization will be the word around pricing for 2018.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Okay, great. Thank you very much.

Operator

Our next question comes from Michael Sison with KeyBanc Capital Markets. Please proceed with your question.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

In Industrial Specialties, the EBITDA margin is impressive, above 20%, at least in the third quarter. Can you maybe talk about some of the drivers for that year-over-year? And then, is that the right level to think about longer term, in terms of where you'd like to get that segment?

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

Yes. So let me start with the second part of your question first and then come back to the first part of your question. So where do we see typically these margins? Actually, a similar question was asked last quarter. We really see that around the mid-teens, so 15%, in that kind of range. And that's kind of where we've been. This quarter -- so that's the expectation going forward, and we would be satisfied with that level. Obviously, we're always aiming for higher. But that's something that we've also kind of communicated during the April Investor Day. Now in terms of what happened in Q3, we particularly benefitted from some of the product mix there as well as the input cost, I would say, out of our Mexican facility. And that's what we've seen manifest itself in the Industrial Specialties. So, I would say that the way that peaked this quarter, again next quarter and looking into 2018, we're looking more around 15% range.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay, great. And then, when you think about the incremental cost savings post the current one, Kim Ann, I think you talked about looking for other opportunities to lower costs there. Any particular areas in the business or maybe regionally that you can find in 2018?

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

Yes, Mike. When we talked about Operational Excellence, particularly around supply chain and purchasing, we already talked about Phase I, we're now in Phase II, which is the $13 which we'll see for 2018. Beyond that is really -- and we talked about this at our Investor Day -- beyond that is really continuous improvement. I'm a firm believer of setting productivity target improvements for that area. So past 2018, it's really going to be more of that, some percentage. And we'll lay that out probably in mid-2018 of what that looks like in 2019. So that's really more of that continuous improvement, productivity and efficiencies. Now, with that said, we are talking about some of the work we're doing in manufacturing under Mark Santangelo. And that's really targeted at lowering our overall cost structure, again for our phosphate portfolio. Because again, that generates great cash. And we want to take that cash and reinvest in the business to have a larger FHN platform. We'll be able to give you more granularity in Q4 around that. But that's the other area of cost improvement, if you will, and efficiencies.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Got it. And then, in terms of acquisitions for the FHN segment, are there certain chemical product lines or technologies that you'd like to add to the portfolio, and maybe any color on what would be a good fit in terms of acquisitions, and whether these would be more bolt-ons, or is there another sizeable addition to go after?

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

Yes. Our pipeline remains very active, and I know we've been talking with all of you for quite some time now about the very healthy acquisition pipeline we're looking at. And we continue to evaluate target acquisitions that build on the Novel acquisition and further strengthen the FHN platform. And really would strengthen our capabilities in our product portfolio, and then our presence in these high-growth markets. So we are continuing to evaluate M&A that would deliver bolt-on or be more meaningful in size. So we are considering those opportunities, and that's consistent with what I said. Right now, we're not going to comment on specific product lines. But you can imagine they would be complementary, if you will, to the Novel Ingredients acquisition.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Right. And then, just a quick one on third quarter -- you had $11 million in terms of a plus from lower input costs. Is that going to be -- are you going to have a similar positive in the fourth quarter?

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

Well, the fourth quarter, I mean, we're obviously getting to a point where the year-over-year COGS start to dial in. We still continue to expect a good size comp. But if you look at it sequentially, obviously, we commented on Phase II specifically, Mike, that's what we talked about in both the PR and the comments that we just made. So that you can dial in. But the year-over-year comp -- still Q4, yes, we will have it. But as we head into the first quarter of 2018, some of that will disappear from a year-over-year perspective.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. Great, thank you.

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

Thanks, Mike.

Operator

Thank you. I'd like to turn the call back to Kim Ann for closing comments.

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

Thank you for joining us today. And we look forward to keeping you updated on our progress. Have a great day.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.