

# INNOPHOS 2Q13 RESULTS CONFERENCE CALL

## EDITED TRANSCRIPT

CALL HELD JULY 30, 2013

## PARTICIPANTS

### Corporate Participants

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**Mark Feuerbach** – Vice President, Investor Relations, Treasury, Financial Planning & Analysis  
**Randolph Gress** – Chairman, President & Chief Executive Officer

### Conference Call Participants

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**Larry S. Solow** – Analyst, CJS Securities, Inc.  
**Peter Cozzone** – Analyst, KeyBanc Capital Markets  
**Edward Hoon Shik Yang** – Analyst, Oppenheimer Securities  
**Christopher W. Butler** – Analyst, Sidoti & Co. LLC  
**Chris Shaw** – Analyst, Monness, Crespi, Hardt & Co., Inc.  
**Richard O'Reilly** – Equity Analyst, Revere Associates

## MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Innophos Second Quarter 2013 Results Conference Call.

My name is Shannon, and I'm your operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I would now like to turn the presentation over to your host for today's call, Mr. Mark Feuerbach, Vice President, Investor Relations and currently serving as CFO. Sir, you may begin.

### ***Mark Feuerbach, VP-Treasury, Financial Planning & Analysis***

Good morning and thank you for joining us today for Innophos' second quarter 2013 results. Joining me on the call today is Randy Gress, Chief Executive Officer. Randy will open with comments on our second quarter performance and progress in executing our strategic initiatives. I will then summarize our financial results in more detail and provide a look ahead to the third quarter, after which Randy will conclude with some final remarks before opening the call up to your questions.

During the course of this call, management may make or reiterate forward-looking statements made in our July 29 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, 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 risk and other factors as set forth in the forward-looking statement section and in Item 1A, Risk Factors in our Annual Reports on Form 10-K as filed with the SEC that could cause actual results to differ from those in the forward-looking statements made in this conference call.

We will make a replay of this conference call available for a limited time over the telephone at the number set forth in our press release and via webcast available on the company website. In addition, please note that the date of this conference

call is July 30, 2013. Any forward-looking statements we may make today are based on assumptions that we believe to be reasonable as of this date and we undertake no obligation to update these statements.

Now, I would like to turn the call over to Randy Gress, CEO of Innophos. Randy?

**Randolph Gress, Chairman, President & Chief Executive Officer**

Thanks, Mark, and good morning, everyone. We continued to make significant progress against our strategic objectives in the quarter and exited the period in a markedly better position than we entered. We delivered improved volume growth in the U.S. and Canada with great performance coming from our low sodium product line and our recently acquired nutrition businesses along with continued strong export sales. We also successfully resumed shipments to Venezuela towards the end of the quarter. Importantly, we made great progress on the short-term production improvement program in Mexico and exited the quarter back on track toward our longer-term performance objectives, with June yields and production rates well above first quarter averages.

Although, we executed well during the quarter, our reported results were not in line with our long-term performance expectations. In the first half of the quarter, we experienced higher cost related to getting our Mexico production performance back up to speed along with the impact of a revision of estimates for our phosphate rock inventories. However, underlying business performance improved during the quarter, and we saw some solid demand improvement in consumer oriented end markets, while some industrial markets remain below year-ago levels. We also experienced extremely soft market conditions in our GTSP & Other business.

As a result, we delivered total net sales of \$213 million in the second quarter, 1% decline from last year. Adjusted diluted earnings per share were \$0.79 compared to the \$0.81 recorded in the prior-year period after giving effect to the disclosed adjustments for each period.

Let me provide some details on our results for the second quarter and the progress we are making in our growth strategy.

Overall sales for U.S. and Canada Specialty Phosphates were up 9% on 3% higher volumes in our core business, which reached its highest level in more than three years. Our recent acquisitions in the nutrition space contributed 7% to our Specialty Phosphates growth. We continue to gain momentum and are positioned well within the highly attractive bioactive mineral ingredients space where our business has grown above the 6% to 8% market growth rate for the first half of 2013.

Continuing the trend we have been experiencing over the past few quarters, our innovative CAL-RISE® products for low sodium baking applications generated good results this quarter, recording sales more than double the prior year period. We have also seen market acceptance of our low sodium products and other applications and are pleased to have achieved several new business wins for low sodium blends for meat and poultry applications.

Lastly, export sales out of our U.S. and Canada business remained strong to the Europe, Middle East and Africa and Asia Pacific regions with year-over-year sales up 9%. This remains a critical source of future growth and an opportunity that we continue to pursue in attractive markets. Our strong growth was primarily derived from success in Europe, following a competitor's exit after bankruptcy. We also benefited from market share gains in both industrial and food markets, which is consistent with our European strategy to focus on those segments, where we have a clear differentiation in the market.

Finally, we began production of Specialty Phosphates at our Taicang, China facility. As we look ahead I feel we now have a very strong platform in China to capture opportunities, while enhancing our presence in this important region.

Turning back to our operating performance in the quarter, we began to realize an improvement in U.S. and Canada mix trends during the quarter with stronger sales to the pharmaceutical market. And as I mentioned before, we successfully resumed shipments to Venezuela towards the end of the quarter, re-establishing our supply chain there after delays due to Venezuela monetary controls. However, these favorable mix trends were partially offset by continued soft demands for our INNOVALT® products for asphalt modification as well as other industrial applications.

Weather issues in both North America and Europe again affected the asphalt modification business. Despite this near-term weather disruption, we feel positive on the longer-term growth prospects for this business, although the third quarter demand in Canada will likely be affected by the recent train crash in Quebec, which will affect crude supply to at least one of our asphalt manufacturing customers.

At our Mexico business, we have largely completed the short-term production improvement program to fix unexpected equipment failures that arose in the first quarter. This allows us to now focus on longer-term operational improvements to produce higher grades of purified phosphoric acid and enhance our ability to handle and process multiple grades of phosphate rock. We are pleased to report that we exited the quarter with our Coatzacoalcos facility operating at its short-term target levels. Although this took until mid-quarter to complete, which negatively affected our profitability for the quarter, we are encouraged by the performance of the facility in June. In fact, June yields improved 380 basis points and production rates were up 38% compared to their first quarter 2013 averages. Importantly, Mexico Specialty Phosphates showed continuous sales volume improvement in each month of the quarter, which gives us confidence heading into the second half of the year in terms of our overall performance in Mexico.

Finally, co-product GTSP revenues were significantly lower this quarter as the typical spring acceleration in market fertilizer prices did not happen. The adjusted operating loss for GTSP was \$1 million with market pricing ending the quarter below first quarter levels on very soft market demand.

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

**Mark Feuerbach, VP-Treasury, Financial Planning & Analysis**

Thanks, Randy. Net sales of \$213 million for the second quarter of 2013 consisted of \$202 million from Specialty Phosphates and \$11 million from GTSP & Other. This represents \$1 million overall decline compared to the second quarter of 2012 with higher Specialty Phosphate sales nearly offsetting lower GTSP & Other sales. Specialty Phosphates' revenue was 4% higher compared to the prior year period with our recent acquisitions contributing a 5% gain. Our U.S. and Canada core business volumes, which were at their highest level in over three years, more than offset lower Mexico volumes that were affected by the previously mentioned equipment reliability issues at Coatzacoalcos.

Overall, net selling prices declined 2% compared to the year-ago period, reflecting some continued unfavorable mix in the U.S. and the price reset on a long-term contract in Mexico that we mentioned last quarter. Specialty Phosphates generated \$25 million of operating income, down \$4 million from the second quarter of 2012 due to our performance in Mexico, but up \$14 million sequentially. Before I get into the underlying business drivers for the quarter, let me cover in more detail the unusual items, which we disclosed in our press release.

The Mexico business incurred \$4 million of higher cost of goods sold due to lower operating efficiencies and higher maintenance costs from premature equipment failures that we began to fix in the first quarter and continued through the first half of the second quarter. Also during the quarter, our rock inventories were run down to unusually low levels due to the scheduling of new shipments into Coatzacoalcos. At that point, it became apparent that our book inventory was overstated compared to the rock in the warehouse. So in addition to our historical survey firm, we hired new surveyors to take physical counts using a different topographical measurement methodology. We have always relied on independent outside experts for booking our month-end phosphate rock inventories. While the several firms performed a number of measurements throughout the remainder of the quarter, we conducted a number of engineering studies, and after comparing results we adjusted our inventories to the new methodology, recording a \$2 million inventory write-off in the second quarter 2013. Of the total \$6 million of higher cost that I just mentioned, Mexico Specialty Phosphates incurred \$4 million and GTSP & Other incurred \$2 million.

The second quarter 2012 results for GTSP & Other included \$3 million of adjustments in cost of goods sold, including amounts related to prior periods.

I will now return to comments on our underlying business performance excluding the unusual items I have just described.

Total Specialty Phosphates' operating income during the second quarter was up \$10 million sequentially and up \$1 million from the second quarter 2012. Operating income margin was 15%, down 20 basis points compared to the prior year period.

Operating income in the second quarter 2013 for U.S. and Canada of \$24 million was up \$8 million sequentially and up \$3 million versus the year-ago quarter. On a reported basis U.S. and Canada operating income improved \$13 million sequentially.

Operating income for Mexico Specialty Phosphates was \$3 million lower than the same period last year as a result of lower sales arising from production restrictions. However, operating income was up \$2 million sequentially reflecting the progress made in operations during the second half of the quarter which drove improved sales and profits.

GTSP & Other recorded an operating loss of \$1 million due to the lower volumes and market prices, which resulted from soft market demand during the current quarter.

Our effective tax rate for the second quarter of 2013 was 34%, at the upper end of previous expectations, primarily due to foreign exchange effects on the Mexico income tax provision, which had a 260-basis point effect on the rates. Going forward, we anticipate an effective rate in the 33% to 35% range for the remainder of the year.

Depreciation and amortization was \$9 million for the quarter, \$2 million lower than a year ago. For the full year, we expect depreciation and amortization to be \$6 million less than in 2012 with approximately \$4 million benefiting Specialty Phosphates. This resulted from the asset values created at the formation of the company in 2004 reaching the end of their depreciation lives, partly offset by the amortization of the intangibles associated with recent acquisitions.

Capital expenditures were \$8 million in the second quarter of 2013, a slight increase from first quarter 2013 levels as expected. We now expect 2013 capital expenditures to be in the \$35 million to \$40 million range, about \$5 million below earlier expectations due to timing on some project start dates.

Net debt increased by \$8 million in the second quarter of 2013 to \$136 million as a result of the increased working capital in Mexico to support improved production and sales.

Looking at our strong balance sheet, we continued to enhance value for our shareholders by investing in our business and future growth while also paying an attractive \$0.35 per share to quarterly dividends.

Our investment priorities continue to focus on supporting our future growth driven by capacity enhancements for U.S. and Canada, and Mexico Specialty Ingredients facilities, expanding geographically and enhancing Mexico's capability to process multiple grades of rock, consistent with the company's supply chain diversification strategy.

Looking ahead, we continue to expect modest market growth in 2013. However, we believe that the progress we are making in our growth strategy will still enable us to achieve year-over-year growth in Specialty Phosphates for the second half of 2013, excluding the benefits from our recent acquisitions, to be within our 4% to 6% long-term target range. The June improvement seen in Mexico manufacturing performance and sales volumes gives us confidence that the second half 2013 sales volumes for that business will return to second half 2012 levels, an improvement of 6% to 7% compared to the first half 2013.

Strong performance by our recent acquisitions is expected to continue and this together with the full-year benefit of the two acquisitions made in 2012 is expected to contribute an additional 4% revenue growth for the second half 2013 in comparison to the prior year period. We do not expect any major change in overall raw material purchase prices or underlying selling prices through the third quarter of 2013.

With regard to operating income margins, continued improvement in U.S. and Canada business mix should support improved margins for that business in the second half of 2013. However, sequential margin improvement will not reach its full potential in the third quarter for Mexico, because of a planned maintenance outage in Coatzacoalcos that typically occurs every 12 months to 18 months and typically costs \$2 million to \$3 million. This outage is not expected to have a significant effect on sales volumes in the second half 2013.

Specialty Phosphates' operating income margins are therefore expected to remain at 15% for the second half of 2013, as fourth quarter improvements in the Mexico margins will likely be offset by seasonally lower volumes affecting fixed cost leverage for the U.S. and Canada business. GTSP is expected to remain at slight operating loss through the third quarter.

Now, back to you. Randy?

**Randolph Gress, Chairman, President & Chief Executive Officer**

Thanks, Mark. By the end of the second quarter, we had achieved the targeted improvement in our underlying business performance and we're seeing the effects of our strategic initiatives take hold. While the full benefits were not thoroughly

apparent within the quarter, the business is in good shape going forward. At this point, we are on track to deliver on our expectations of strong revenue and earnings growth in the second half of the year.

From a macro level perspective, market demand showed signs of moderate improvement in consumer-oriented food ingredient applications. However, demand remained below year-ago levels in some industrial markets. In spite of these modest market conditions, we have sustained good growth for our products and earned many new business wins.

Our priorities for the second half of 2013 remain focused on executing our growth initiatives and building on our performance run rate that we experienced when we exited the second quarter. I believe we have made significant strides during the second quarter and are well positioned to deliver against our goals for the remainder of 2013 and beyond.

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

## QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Larry Solow from CJS Securities.

<Q – Larry Solow – CJS Securities, Inc.>: Hi, good morning.

<A – Randy Gress – Innophos Holdings, Inc.>: Hi, Larry.

<A – Mark Feuerbach – Innophos Holdings, Inc.>: Good morning, Larry.

<Q – Larry Solow – CJS Securities, Inc.>: I just wondered on the growth outlook in the back half of the year, so I assume that the 4 - 6% mostly volume sort of muted on price, or do you still see a little bit of mix impacting you?

<A – Randy Gress – Innophos Holdings, Inc.>: For the second half, 4 - 6% is on a volume basis.

<Q – Larry Solow – CJS Securities, Inc.>: Okay.

<A – Randy Gress – Innophos Holdings, Inc.>: As far as pricing, we expect things to be relatively stable. And as far as mix, still not expecting much recovery there within our INNOVALT® product line.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And I remember – I know last year the back half of the year was – was I think a little weaker than the first half and seasonally too, and there were some impacts I know in Mexico. Do you – the growth over last year, still pretty nice improvement relative to what's happened in the first half, is that more a function of just easier comps and improvement in Mexico in terms of the production issues, or are you seeing good demand uptick as you – basically through the quarter, this quarter sequentially as you look out what happened in July and going forward?

<A – Randy Gress – Innophos Holdings, Inc.>: For the most part, we are seeing some solid demand. I think you hit on a number of contributing factors there. The success we've had with improving the Mexican operations gives us some additional volume for sales to support the sales growth out of Mexico. And for U.S., Canada, I think we do expect a continued solid performance. Typically the fourth quarter is a little weaker, but expect that to be offset with some further strength within Mexico, which is going to be dampened a little bit in the third quarter because of the outage here. So net-net, I think feeling good about that four to six overall demand number.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. Just a last question. I realized it's probably likely only be in the GTSP where it's really impacting, but just in terms of sort of volatility in the fertilizer market, does that basically only impact you under GTSP or could there be some short-term impacts on the other parts of the business?

<A – Randy Gress – Innophos Holdings, Inc.>: For the most part, our expectation is within the GTSP area, I think with the impact on raw materials relatively stable as far as our cost position, but primarily just the GTSP area.

<Q – Larry Solow – CJS Securities, Inc.>: Okay, great. Thanks, Randy.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. Thanks, Larry.

Operator: Our next question comes from Peter Cozzone from KeyBanc Capital Markets.

<Q – Pete Cozzone – KeyBanc Capital Markets>: Good morning, guys.

<A – Randy Gress – Innophos Holdings, Inc.>: Good morning, Pete.

<Q – Pete Cozzone – KeyBanc Capital Markets>: Randy, can you provide some more color on what specific indicators or trends are kind of given your incremental confidence for the growth outlook for Specialty in the back half and maybe some indication of what that the underlying market here has maybe bottomed from the sluggish environment we've seen over the last several quarters, maybe how our order book's shaping up thus far in June and July?

<A – Randy Gress – Innophos Holdings, Inc.>: Sure. The – I guess contributing to the confidence here is certainly the way we ended the second quarter. We are seeing some good solid demand within the food and consumer side of the business and I think that's still been confirmed with a number of reports from customers with their quarterly results. Also I think the success we have seen with the export business, as one of our strategic initiatives and the strength there and continuing to get some wins there. Plus the strength within our initiatives for the new products CAL-RISE® still showing some good growth. And then I guess lastly back on the export side of things, some resumption of some business there in Venezuela. It's a whole bunch of I guess, little wins that give me that confidence. And I think we're starting out the quarter fairly well there.

<Q – Pete Cozzone – KeyBanc Capital Markets>: Okay. Then Mark in relation to the additional expenses incurred in the first half as a result of the Mexico equipment failures, is this the last quarter we should see those expenses and lower efficiencies impacting, gatherings outside of the plant turnaround? And as a follow-up, given the production issues impacting the first half, would have made some sense to maybe accelerate the planned maintenance outage earlier than 3Q or was there something else kind of impacted the timing of that?

<A – Mark Feuerbach – Innophos Holdings, Inc.>: Well, your assumption in the first half of the statement is correct. Yes, we feel that we've got the problems resolved now. And as we demonstrated the second half of the quarter operated that at normal rates. As far as timing of when you do these things, the outage we're going into now was for the sulfuric acid unit and there is a certain life span to the equipment that we're going to be replacing there. So it normally stays in a certain window and so it just wouldn't have made sense to try to squeeze that in with all the other issues that we were having to deal with the same time on the other parts of the plant.

<Q – Pete Cozzone – KeyBanc Capital Markets>: Okay. And then lastly in the release you noted some new business wins in the low sodium blends for meat and poultry. Is this a secular trend that you see accelerating going forward? What is the expectation or visibility there around planned customers, new product launches or that might use these blends?

<A – Randy Gress – Innophos Holdings, Inc.>: The successes we've had certainly have a certain level of, I guess, incubation and quite a bit of time as far as testing and product trials. I think with some recovery within the food industry there has been some increased desire or continued desire to reduce sodium levels in some of the new product launches and that's where we're seeing some of those successes. So I think again, a number of wins there that – I think we'll continue to have traction over time and also where we're going to take in the – some of the export markets as well supporting our growth strategy there.

<Q – Pete Cozzone – KeyBanc Capital Markets>: Great. Thank you very much.

<A – Randy Gress – Innophos Holdings, Inc.>: Thanks, Pete.

Operator: [Operator Instructions] Our next question comes from Edward Yang from Oppenheimer.

<Q – Ed Yang – Oppenheimer Securities>: Hi, good morning.

<A – Randy Gress – Innophos Holdings, Inc.>: Good morning, Ed.

<Q – Ed Yang – Oppenheimer Securities>: Randy, it sounds like you're relatively sanguine about the impact of fertilizer volatility on your business. As you know, there's been some news out of the potash market this morning, you have zero exposure on the potash side.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah.

<Q – Ed Yang – Oppenheimer Securities>: But do you have phosphate exposure on the GTSP side and since you're running at a loss, there is no earnings contribution there. But will there be any sort of knock-on effects on Phosphate rock prices and does that help you or hurt you if Phosphate rock prices rise or fall? I know that you had sourced from different suppliers now and more on market-based pricing on that rock, but can you walk through the different puts and takes in terms of how fertilizer weakness might impact or help, I don't know your raw material sourcing, but also your pricing for your end products as well?

<A – Randy Gress – Innophos Holdings, Inc.>: Sure, I think really what we had seen through the second quarter, there started to be some recovery in the second quarter and we're talking phosphate as opposed to potash.

<Q – Ed Yang – Oppenheimer Securities>: Sure

<A – Randy Gress – Innophos Holdings, Inc.>: Some recovery in the pricing, but then it just tailed off through the quarter and we attribute that a lot to the weak demand coming from India and they have the weak exchange rate and some reduced subsidy levels and then also because of the weather impacts, I think closer to home here with the phosphate fertilizer market, so we saw some decline there. I haven't really seen that tight link between the two areas, but you guys are probably better experts at the linkage in the fertilizer. And I think if there is some decline in the fertilizer price that clearly impacts GTSP and we had some margin decline there with the decline in prices, but eventually I would expect some raw material cost will also decline if there is a drop there, but pure speculation at this point.

<Q – Ed Yang – Oppenheimer Securities>: So it's more of a pass-through for you?

<A – Randy Gress – Innophos Holdings, Inc.>: Yes.

<Q – Ed Yang – Oppenheimer Securities>: Okay. Yep.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, I was going to say, Ed, it's more of a pass-through, and I think historically, we've been able to show that we've been able to do well with our pricing relative to the fertilizer, although in some cases and as you see in the GTSP, some negative lag effects there.

<Q – Ed Yang – Oppenheimer Securities>: All right, correct. Okay, and maybe staying along with that theme a little bit, could you update us on the phosphate sands concession and what's the quarterly earnings drag from exploring those concessions? And in light of an environment that seems to be more plentiful raw material on the phosphate side, does it make sense to continue to spend money exploring those concessions?

<A – Randy Gress – Innophos Holdings, Inc.>: Ed, I think it still makes sense to continue to explore the concessions. Our spending this year is expected to be pretty much in line with the last couple of years. We're looking at roughly \$1 million of expenditure to continue our – I guess...

<Q – Ed Yang – Oppenheimer Securities>: \$1 million quarter?

<A – Randy Gress – Innophos Holdings, Inc.>: \$1 million for the year.

<Q – Ed Yang – Oppenheimer Securities>: For the year, okay.

<A – Randy Gress – Innophos Holdings, Inc.>: [indiscernible] (31:13) 2015, yes. And -

<Q – Ed Yang – Oppenheimer Securities>: So that's higher than that.

<A – Randy Gress – Innophos Holdings, Inc.>: And that is to prove out some of the gates as far as our decision points and do it in a very orderly way. And I think over the long term here depending on how attractive those reserves maybe in the decision to exploit those, my desire would be to make sure we had a partner to invest and explore that.

<Q – Ed Yang – Oppenheimer Securities>: Okay, understood. And Mark mentioned, you reduced your CapEx guidance for the year by \$5 million and I think Mark couched it as timing on project start dates, maybe provide some color there. And does that affect your thinking on use of cash flow for such things as buybacks or dividends or a reduction in CapEx this year?

<A – Randy Gress – Innophos Holdings, Inc.>: My thinking along the whole capital allocation I think remains the same. Our Board is continuing to look at our capital allocation and making sure we prioritize first for growth and profitability improvement in the business and then the return to shareholders primarily in the form of dividend. I think still thinking along the lines of increasing dividends with earnings and I think that still stays the course there.

<Q – Ed Yang – Oppenheimer Securities>: And the color on the timing of project start dates, the reduction in CapEx?

<A – Randy Gress – Innophos Holdings, Inc.>: Sure. I think our priority was on what we do with the improvements in Mexico and [ph] sure (33:19) the reduction in the capital is just a matter of timing not the number of projects or what we have planned for the future.

<Q – Ed Yang – Oppenheimer Securities>: Okay. Thank you.

<A – Randy Gress – Innophos Holdings, Inc.>: Thanks, Ed.

Operator: We have Christopher Butler from Sidoti & Company on line with the question.

<Q – Chris Butler – Sidoti & Co. LLC>: Hi, good morning, guys

<A – Randy Gress – Innophos Holdings, Inc.>: Good morning Chris.

<A – Mark Feuerbach – Innophos Holdings, Inc.>: Good morning Chris.

<Q – Chris Butler – Sidoti & Co. LLC>: You had previously talked about raw materials in regards to GTSP, but could we have the same conversation for the – on the Specialty side, you had said that raw material – your cost position for raw materials would be about the same in the third quarter. Is that just due to a lag that's – that you typically have on your raw material contracts?

<A – Mark Feuerbach – Innophos Holdings, Inc.>: [ph] Impact (34:11) on the contracts, but also the inventory lags as well Chris. So for the U.S./Canada business, our inventory levels are typically in the two to three-month range. So you would – if there were any changes on raw purchase prices you would still have most of that on the balance sheet.

<Q – Chris Butler – Sidoti & Co. LLC>: And as we look at the quarter, are we going to see further price concessions? I noticed that you talked about a contract price reset in the Mexican segment. Is that something that's going to squeeze your margins as we look to the back half of this year?

<A – Mark Feuerbach – Innophos Holdings, Inc.>: That one that we called out for the Mexico business, that took effect at the beginning of the year, so there is really no change in this quarter for that but just that continued effect. We've seen some reductions in our less differentiated STPP products certainly, but overall our pricing on our Specialty Phosphates has remained fairly constant. And it's really just been a mix factor that's caused the overall slight price decline that we've seen.

<Q – Chris Butler – Sidoti & Co. LLC>: And could you speak to your acquisition pipeline and how things are looking on that front.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah, I think with the overall success that we've had with the three acquisitions we did in the year, past year and a half or a couple of years, we're continuing to look at the adjacency businesses as possible bolt-on acquisitions. Again, when we talk bolt-on acquisitions, it's typically in that less than \$50 million range. But continuing to evaluate a number of projects, but certainly premature to say anything at this point.

<Q – Chris Butler – Sidoti & Co. LLC>: Are you finding valuations in and around what you would hope to pay.

<A – Randy Gress – Innophos Holdings, Inc.>: I think for valuations, that's always been something that has been important to us to make sure that we got the right value for anything that we're considering and making sure that is a good fit for our business.

<Q – Chris Butler – Sidoti & Co. LLC>: I appreciate your time.

<A – Randy Gress – Innophos Holdings, Inc.>: Thanks, Chris.

Operator: Our next question comes from Chris Shaw from Monness Crespi.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Yeah. Good morning, guys. How are you doing?

<A – Randy Gress – Innophos Holdings, Inc.>: Hi, Chris. Good.

<A – Mark Feuerbach – Innophos Holdings, Inc.>: Good. Hi, Chris.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: [indiscernible] (36:52) clarify the 15% margins you're looking for in the second half on Specialty Phosphates. Did that include the \$2 million to \$3 million for the plant downtime or is that net of that?

<A – Mark Feuerbach – Innophos Holdings, Inc.>: Yeah. That does include that as well, yes.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: So even with the \$2 million to \$3 million hit, you think you'll do 15%?

<A – Mark Feuerbach – Innophos Holdings, Inc.>: That's right.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Okay. Then I wanted to ask, just, hey, the scheduled maintenance time – downtime for the third quarter. How come that couldn't have been done when the plant was being – having the issues in 1Q and 2Q? Is that just two different things entirely or -?

<A – Mark Feuerbach – Innophos Holdings, Inc.>: Yes.

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. Let me answer that. Yes, it is different than what we were focusing on in fixing the equipment that had failed prematurely. This outage is a more planned outage that is more dependent on the cycles required for sulfuric and MGA turnarounds and fairly typical within the industry. So it's more to a scheduled approach and it's a major outage that we do every, roughly 18 months – year to 18 months.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: And it couldn't have been done at the same time as the other stuff, I guess, right?

<A – Mark Feuerbach – Innophos Holdings, Inc.>: It would not make sense to do it at that time.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Okay. And then on GTSP, I could say, I thought the issues were before was that there was okay demand and it was just the pricing wasn't very – or wasn't high enough to be really creating positive margins and the costs were still somewhat elevated. What happened this quarter, demand is not there, and I mean – what do you guys foresee in – so that -maybe that segment is coming back to profitability, is it – we're looking at a year, we're looking out two years, any ideas?

<A – Randy Gress – Innophos Holdings, Inc.>: For GTSP, I think people know that we're in that business because it's an important co-product of our purified acid operation in Coatzacoalcos. And the profitability is pretty much based on whatever the market will bear there. What we have done is made some improvements within the quality as well as the number of markets that we're selling to, so we have made some improvements there, but I think with the impact of the lag in or the decline in the fertilizer price with the soft demand put us in a negative position. I think over the long-term, we would expect to get back to a breakeven or a slight profit position there.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: In this quarter, was it a case of you holding back some product at all just because the market wasn't very good or is it just the demand wasn't there at all?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. It was more the demand that wasn't there.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: And if I can ask one quick one, and a follow-up, I think you said or someone said that the third quarter also be remain a little bit weak, I thought it was a weather issue for the first couple of quarters. What's going on in the INNOVALT®?

<A – Randy Gress – Innophos Holdings, Inc.>: Yeah. For INNOVALT®, it has been some weather impacts for the U.S. and Canada, but also there's been some softness in the overall demand as far as the road improvements, I think there's been some recent articles on the state of roads within the U.S. and [ph] our bad day has gone (40:46). But that aside, I

think we have seen some softness in demand and then on top of that mention the impact of customer in Canada that was unable to get the crude to make the asphalt and hoping to get some recovery there. But overall, it has been the softness in demand. I think on a positive side though and over the long-term, still optimistic about that business, I think there is opportunity there to continue to grow. We have new products coming out as well as starting to get some traction in that business in some of the export countries and some opportunities identified there that we think will come through.

<Q – Chris Shaw – Monness, Crespi, Hardt & Co., Inc.>: Great. Thank you.

<A – Randy Gress – Innophos Holdings, Inc.>: Thanks.

Operator: [Operator Instructions] Our next question comes from Richard O'Reilly from Revere Associates.

<Q – Richard O'Reilly – Revere Associates>: Thank you. Good morning.

<A – Randy Gress – Innophos Holdings, Inc.>: Good morning.

<Q – Richard O'Reilly – Revere Associates>: You largely just answered my question. Your last response to my question about the fertilizer business. I guess we should just think of it as a noise or it's more plus or minus now. Many years ago, it was kind of the tail wagging the dog, now it's just a small item as long as you're processing your rock in Mexico.

<A – Randy Gress – Innophos Holdings, Inc.>: I think that's a good way to look at it, Richard.

<Q – Richard O'Reilly – Revere Associates>: Okay, okay. Fine, thank you. That's all it is.

<A – Randy Gress – Innophos Holdings, Inc.>: Thank you.

Operator: [Operator Instructions] At this time, we have no additional questions.

Randolph Gress, Chairman, President & Chief Executive Officer

Well, I'd like to thank everyone for joining us today, and we certainly appreciate your interest in Innophos. We also look forward to speaking to you next quarter when we report our third quarter 2013 results. Thank you.