

INNOPHOS 4Q14 & 2014 RESULTS CONFERENCE CALL

EDITED TRANSCRIPT

CALL HELD FEBRUARY 18, 2015

CORPORATE PARTICIPANTS

Mark Feuerbach *Innophos Holdings, Inc. - VP of IR, Treasury, Financial Planning & Analysis*

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

Robert Harrer *Innophos Holdings, Inc. - VP and CFO*

CONFERENCE CALL PARTICIPANTS

Larry Solow *CJS Securities - Analyst*

Mike Sison *KeyBanc Capital Markets - Analyst*

Christopher Butler *Sidoti & Company - Analyst*

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

Rick D'Auteuil *Columbia Management*

Richard O'Reilly *Riviere Associates*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Innophos fourth-quarter and full-year 2014 results conference call. My name is Sylvia, and I am the operator for today. (Operator Instructions) I would now like turn the presentation over to your host for today's call, Mr. Mark Feuerbach, Vice President Investor Relations. Sir, you may begin.

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

Good morning, and thank you for joining us today for Innophos' fourth-quarter and full-year 2014 results conference call. Joining me on the call today are Randy Gress, Chief Executive Officer; and Robert Harrer, Chief Financial Officer.

Randy will start with comments on our fourth quarter and full year results and provide updates on our progress in executing our strategic initiatives. Robert will then provide detail on our financial results and a look ahead to 2015. Randy will then conclude with some final remarks before we open the call up to your questions.

During the course of this call, management may make or reiterate forward-looking statements made in our February 17 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 risks and other factors as set forth in the forward-looking statement section and in item 1A risk factors in our annual report on Form 10-K as filed with the SEC that could cause actual results to differ from those in the forward-looking statements made in this conference call.

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

In addition, please note that the date of this conference call is February 18, 2015. 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?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Thanks, Mark, and good morning, everyone. Overall, we are pleased with our operating performance for 2014, as we generated strong cash flow for the year and returned the majority of that cash to shareholders. Our operating income improved by \$23 million in 2014 and our Specialty Phosphates operating income margins increased by 310 basis points compared to full year 2013.

While we continue to see headwinds that affected our top line during the year, I'm pleased with our execution and operating performance which improved significantly over the year-ago period. This resulted in Specialty Phosphate margins at the midpoint of the 14% to 15% range that we projected at the start of 2014.

Our cash flow conversion was again very strong, with \$97 million of free cash flow for 2014, more than 50% higher than our net income for the year, and we used our improved cash flow to increase our dividends and share repurchases that concluded our 2011 share buyback program.

For the full year 2014, we spent \$38 million on dividends and \$30 million on share buybacks for a total of \$68 million, or 105% of our net income, showing our continued commitment to increasing shareholder value.

We are proud of these efforts and are targeting even more aggressive shareholder returns in 2015 through our quarterly dividend and especially our recently authorized \$125 million share buyback program, which represents roughly 10% of our market capitalization.

We delivered total Company net sales of \$194 million in the fourth quarter, down 1% from the same period last year. Diluted earnings per share of \$0.52 were down 20% compared to the \$0.65 recorded in the prior-year period. Weaker earnings per share in the fourth quarter were driven by the following key factors:

First, we incurred \$0.13 per share translation expense and exchange effects in taxes during the fourth quarter 2014 due to the weakened Mexican peso and Canadian dollar against the US dollar.

Secondly, as we discussed after the third quarter, we experienced PPA supply issues in the US with our supplier who incurred an extended maintenance outage. This in turn negatively affected our PPA sales to our customers and our specialty ingredients production rates. This issue has since been resolved, and we expect to see more normal supply availability and PPA sales recovery in 2015.

Thirdly, in the current quarter, our Asian export sales were negatively affected by the West Coast dockworkers slowdown, which resulted in an overall 8% decline in export sales.

Lastly, we received \$1 million of interest income in the fourth quarter 2013 on overdue Mexican tax refunds that were collected in that quarter.

For the full year, our net sales came in at \$839 million, a 1% decrease year over year driven by lower prices and softer market conditions as well as the PPA supply issue previously mentioned.

On the Specialty Phosphates side, these same issues resulted in a 2% decrease in revenues for the full year and a 5% decrease for the quarter. Volumes were flat for the year and down 1% for the quarter on softer market conditions and the PPA supply issue.

That said, we continue to see excellent results for our INNOVALT® product line, which was again strong after posting record sales during the third quarter, with volumes up 49% year over year for the fourth quarter and 24% for the full year.

We remain confident in the long-term market potential of our INNOVALT product line as US funding issues get resolved, and we continue to gain traction in receiving state DOT approvals for the use of INNOVALT.

As always, we will continue to look for ways to expand our product portfolio with innovative technologies and offerings. We also saw a recovery in our nutrition business during the fourth quarter, with sales up 14% year over year and 16% sequentially as our customers finally resolve their issues for importing into China.

CAL-RISE®, our low-sodium baking product, also showed volume growth in the quarter, up 5% year over year and up 10% for full-year 2014 versus 2013.

Because of the challenges we faced during the quarter, Specialty Phosphates operating income margins were 13%, down 150 basis points year over year. However, margins were above our expected range of 11% to 12% based on a smaller than anticipated increase in cost of goods sold from higher raw material prices and lower production rates.

Full-year margins came in at the midpoint of our targeted 14% to 15% range, reflecting a positive impact from our improvement efforts at Coatzacoalcos. As previously discussed, we made many meaningful changes and invested a significant amount of time and resources in Coatzacoalcos last year, so it is encouraging to see continued improvements there. In fact, the fourth quarter marked the seventh consecutive quarter of improving yields, coming in 660 basis points higher than the lows seen in the first quarter of 2013.

Yields are running at the best rates in the last four years, demonstrating again our ability to take on a challenge and implement improvements that lead to lasting advancements and not just short-term fixes.

At the same time, we have more than doubled our food-grade asset capacity and set a number of production records on our Specialty Ingredients unit during the same time period.

Additionally, our higher-grade PPA operation commissioned in the latter part of 2013 to Mexico continues to perform well, providing greater efficiency and flexibility in Mexico, supporting our North American network and strengthening our product mix in Latin America. Mexico PPA sales volumes were up 27% for the fourth quarter compared to the same period of 2013 and up 15% for the year, which helps to offset the US, Canada PPA shortfalls.

Overall, considering the challenges we faced throughout the year, we are very pleased to have demonstrated improvement in our operating performance and bottom-line results, which reflects strong execution across our business.

While we are seeing the benefits in production volumes and yield from the turnaround of our Coatzacoalcos facility, we continue to deal with the effects of rising raw material costs and end-market-specific headwinds.

Looking at 2015, we do not anticipate any improvement in market demand compared to the second half of 2014. Throughout most of the markets we serve, underlying demand continues to be soft, which we believe will persist throughout 2015.

We do, however, expect to get a slight lift in our Specialty Phosphates volume during the year based on the recovery of the PPA business and continued contributions from innovations and geographic expansion. Robert will provide details on our 2015 outlook shortly.

In summary, I continue to believe in the organic growth opportunities within our core business. To support this, we continue to expand our technical and commercial resources with targeted innovation and geographic initiatives for growth. As I mentioned earlier, we will also continue to return excess capital to our investors in the form of dividends and share repurchases.

I will now turn it over to Robert for additional detail and financial results in the quarter. Robert?

Thanks, Randy. Net sales of \$194 million for the fourth quarter of 2014 consisted of \$178 million from Specialty Phosphates and \$16 million from GTSP and other. This represents a 1% or \$2 million decrease compared to last year.

Diluted earnings per share for the fourth quarter of 2014 were \$0.52, which included an unfavorable \$0.13 of translation expense and exchange effect in taxes compared to \$0.65 for the fourth quarter 2013.

It is important to point out that the US dollar is the functional currency of our Canadian and Mexican businesses, so these losses are solely due to the re-measurements of foreign-denominated balance sheet accounts.

For the full year, our net sales were \$839 million, a 1% decrease compared to 2013. Specialty Phosphate sales declined 2% year over year from \$777 million to \$762 million. On the other hand, GTSP and other sales were up 16% versus the prior year, reaching \$77 million for the fiscal year 2014.

Diluted EPS for 2014 was \$2.91, an increase of \$0.70 year over year, and 2014 included \$0.20 of unfavorable translation expense in exchange effecting taxes, while the prior year included \$0.14 of losses for these effects, which occurred mostly in the second quarter 2013.

US and Canada Specialty Phosphates recorded fourth quarter sales of \$139 million, down 4% from the prior-year period due to 3% lower prices and 1% lower volumes. More than half of the price variance was due to unfavorable customer mix, and the remainder was due to increased competitive pressures from imports given the stronger US dollar. The volume variance was primarily due to a 17% decline in PPA, which more than offset another strong quarter for INNOVALT.

For the full year, US and Canada Specialty Phosphate sales were \$594 million, or 2% decrease from 2013. Both price and volume were down 1% for the year, with volume being affected by a 9% decline in PPA volumes related to the previously mentioned supplier issues.

Mexico's Specialty Phosphate fourth-quarter sales of \$39 million were down 9% year over year on 5% lower prices due to increased competition in the Latin American export markets and 4% lower volumes.

Operations at our Coatzacoalcos plant continued to run well, as illustrated by improved yields and margin growth. Our actions to invest in the plant over the past 18 months have us well positioned to sustain strong, long-term operational execution for these strategic assets.

Full-year Specialty Phosphate sales in Mexico were \$167 million, a 1% decrease year over year, as prices were down 2% and volumes up 1%. Total Specialty Phosphates generated \$23 million of operating income for the fourth quarter, down \$4 million over the prior year, and \$111 million for the full year, up \$22 million over 2013.

Despite fourth-quarter weakness due to lower PPA volumes and higher cost in the US-Canada segment, our full-year operating income and margins were encouraging and demonstrate the effectiveness of our performance improvement initiatives.

Overall, operating income margin in Specialty Phosphates were 13% for the fourth quarter, down 150 basis points from the prior-year period but above the high end of the expected range. Operating income in the fourth quarter for the US and Canada Specialty Phosphates business was \$17 million, down \$4 million versus the year-ago period due to lower volumes and pricing and higher costs. Operating income margin was 12% for the fourth quarter, down 240 basis points compared to the prior-year level.

Operating income for Mexico Specialty Phosphates was \$7 million, flat with the same period last year. Operating income margin was 18% for the fourth quarter, up 180 basis points versus the prior-year period.

For the full year 2014, operating income margin was 14.5% for Specialty Phosphates, up 310 basis points against 2013. Operating income in the fiscal year 2014 for US, Canada and Specialty Phosphates was \$82 million, up \$5 million versus the year-ago period due to improved product mix. Operating income margin was 14% for the full year, up 120 basis points compared to the prior-year level.

Operating income for Mexico Specialty Phosphates was \$29 million in 2014, up \$17 million compared to the same period last year due to improved operations and yields and lower costs. Operating income margin was 17% for the fiscal year 2014, 2.5 times the 7% margin recorded in 2013.

Turning to GTSP and other, we reported an operating loss for the quarter of \$1 million, an improvement of \$4 million compared to the prior-year quarter, while for the full year, our operating loss was \$1 million better than 2013 due to improved operations and lower costs which led to essentially break-even operating income over the last three quarters of 2014.

Our effective tax rate for the fourth quarter was 37% and the full year was 34%. The fourth-quarter rate was above expectations due primarily to currency conversions which affected the tax rate by 370 basis points and EPS by \$0.03. We expect an effective tax rate in the range of 33% to 34% for 2015.

Depreciation and amortization was \$9 million for the quarter, up \$1 million compared to the year-ago period, and total year 2014 was flat with 2013 at \$35 million. Capital expenditures were \$7 million in the fourth quarter and \$28 million for the full year.

Approximately 70% of the full-year capital spending was for maintenance, and the remaining 30% was for strategic growth initiatives. The majority of the strategic growth investments were focused on capacity expansions at Nashville as well as on improving capabilities, yields and capacity at Coatzacoalcos. Our expectation for 2015 capital expenditures is approximately \$35 million.

Net debt increased sequentially by \$17 million in the fourth quarter of 2014 to \$100 million due to \$15 million of share repurchases. With our solid balance sheet and our ability to generate free cash flow on the recurring basis, we remain committed to continue to maximize shareholder value. This was evident in our repurchase of 279,000 shares for \$15.3 million during the quarter and 528,000 shares for a total of \$29.5 million over the course of 2014.

As Randy noted earlier, for 2014 we returned 105% of our full-year net income to our shareholders via dividends and share buybacks. The same holds true for the last 15 months.

Due to the second-half volume softness and the PPA supplier issue, Specialty Phosphates full-year 2014 volume was flat compared to 2013. This was slightly ahead of the expected decline of 1% to 2% we projected in the third-quarter 2014 earnings release. Specialty Phosphates volumes are expected to grow by 2% to 3% for full-year 2015 compared to 2014 based on the recovery of the PPA business and continued contributions from innovation and geographic expansion. However, market demand in our US and Canada home markets is currently not expected to recover from second-half 2014 levels.

As noted earlier, Specialty Phosphates operating income margin exceeded our fourth quarter 2014 expectations. This was primarily because the sequential increase in cost of goods sold from higher raw material prices and lower production rates was \$3 million compared to the expected \$5 million due to higher year-end inventory levels. Therefore, the residual \$2 million expense is expected hit the US and Canada P&L in the first quarter 2015. This, combined with a planned maintenance outage in Coatzacoalcos that typically occurs every 12 to 18 months and typically costs \$2 million to \$3 million, is expected to reduce Specialty Phosphate margins by approximately 100 basis points sequentially for the first quarter 2015.

Full-year 2015 Specialty Phosphates operating margins are expected to be in the 13% to 14% range. The margin decline is primarily caused by a \$6 million cost increase for the PPA supply contract that resets annually on January 1. Given the increased attractiveness of the US market because of the strong US dollar, we don't believe the current selling price environment will allow for price increases to cover this cost increase. Despite this temporary setback on margins, we remain confident in the cash flow generation capabilities of our business.

Fertilizer market prices showed some decline early in the fourth quarter 2014 but then quickly rebounded back to third quarter 2014 levels. Market phosphate rock prices were fairly stable sequentially in the fourth quarter 2014 and are

expected to remain stable for the first quarter 2015. Sulfur market prices decreased 5% sequentially in the fourth quarter 2014 but increased 14% for the first quarter 2015.

GTSP and other recorded a \$1 million operating loss for the fourth quarter 2014, which was within the expected range. Given the current market conditions, we expect a similar operating result of between breakeven and a \$1 million operating loss during the first quarter 2015.

Now back to you, Randy.

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Thanks, Robert. The most important takeaway from 2014 was our ability to overcome the operational issues at Coatzacoalcos with seven consecutive yield improvement quarters resulting in significantly improved profitability. We remain committed to invest in further improvements over the coming years.

On the commercial front, we were challenged with a few significant events out of our control, including the strengthening US dollar, PPA supplier issues, the West Coast port issues and the general food market softness in the second half of 2014. Despite these headwinds, we were able to deliver strong free cash flow which came in at \$97 million, more than 50% higher than our net income.

As we look to 2015 and beyond, our focus remains on the following: growing export sales by expanding geographically, especially in Latin America, China and the Middle East; investing in research and development to enhance our product offerings; and building on our position in the high-growth micronutrient ingredient space. We will also continue to explore acquisition opportunities on favorable terms. Through these actions, we remain committed to delivering on our growth objectives and maximizing value for our shareholders through our quarterly dividend and our expanded share repurchase program.

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

QUESTION AND ANSWER

Operator

(Operator Instructions) Larry Solow, CJS Securities.

Larry Solow - CJS Securities - Analyst

Randy, I know you spoke, I think, on the last quarter call about sort of increasing inability to pass on some of these higher costs. And I think that's always been a positive in your business model, your ability to pass on these costs. Specifically with the \$6 million higher PPA costs for you, and sounds like you won't be able to always pass it on immediately. What makes you think that this is temporary? And perhaps why are customers less willing to take on higher prices today, and what will change that?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Larry, I think that's pretty accurate as far as what we've conveyed here as far as not being able to pass on to get the \$6 million in cost increase. I think as always, we do get pushback on price increases from customers but have, I think, done a real good job selling our value and pushing aggressively to get that value.

And I think a little bit different this time, we are seeing some even more aggressive pushback, I think, from customers as they are facing some challenges financially within their markets, especially the food markets. And I think also with the stronger dollar, it makes -- especially versus the euro -- it provides some additional pressure, I think, on the prices, especially in our less differentiated products.

I think going forward, I think, again, our push is to continue to show the value, continue to work on our innovation and our growth projects and continue to try to drive to improve the mix, and continue to get the value there.

Larry Solow - CJS Securities - Analyst

Just a follow-up to that, just in terms of sort of the lackluster end markets and -- I think it's -- the macro environment has been difficult for, I think, a few years straight now and have not been able to come too close even to your target of 4% to 6% longer-term volume growth. Fair to say at least we see dramatic change, that maybe the 4% to 6% target is perhaps a little too high?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Yes, I think what we've really looked at for the longer-term was a 3% to 5%. We have reduced it from the 4% to 6% down to the 3% to 5%. And what went into that, again, was more of a 1% to 2% for the geographic expansion and 1% to 2% for the innovation side of things.

I think we're going to have to focus more on those latter two strategic initiatives. And I think that with a -- more of a global base -- in the US, obviously we've seen some softness in the customers within the US. But then looking at maybe a more blended growth rate better than the flat to slight decline that we've seen there.

Larry Solow - CJS Securities - Analyst

Got it. Okay, great. Thanks. I appreciate it.

Operator

Mike Sison, KeyBanc.

Mike Sison - KeyBanc Capital Markets - Analyst

You know, the 2% to 3% volume growth you expect to see in 2015 for Specialty Phosphates, can you maybe help us break that down a little bit? It does seem like a tough environment to do that. So maybe talk a little bit how much new products will support that, some of the inventory restocking for the PPA and whatever else you think gives you confidence in hitting that number.

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Let me just start out, and I'll ask Robert to add to that. I think because the base market relatively flat is still soft from the second half, we are still targeting the 1% to 2% in each of the geographic expansion as well as the new products. And I think we've shown some good performance on those new products, as I said on the call there.

The INNOVALT products, expecting that to be sustained, the demand there going forward. And also supporting that with innovation and geographic expansion, with that being up 49% in the fourth quarter.

With CAL-RISE up 5% continuing in the fourth quarter, that continuing strong. And then also trying to build on our nutritional businesses and some of the success that people had in China. That combined with the recovery of the PPA volume and not expecting any issues on the supply issue, we are thinking that was a one-time situation.

Robert, I don't know if you have anything to add on that.

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

If anything, all of those are the main drivers. I would probably go back to what we shared with you after the third quarter earnings call when we talked about some of the innovation technologies which is going to hit the market in 2015. L-Vis, you know, within the INNOVALT family was one product here which we are pretty excited about, the low-viscosity product.

Textur-Melt, we mentioned that product, which is actually improving some applications on our customer side. And then also Nutra Tab™, we shared with you after the third quarter as a product for the pharmaceutical industry which we are pretty excited about.

So those were in the early stages after the third quarter, and we continue on those developments, and we do expect that some of these applications will hit market in the 2015 timeframe.

Mike Sison - KeyBanc Capital Markets - Analyst

Okay, great. And then I think I understand a lot of the headwinds that you're going to see in 2015 -- higher raw materials, turnarounds and stuff. But the foreign exchange loss in the fourth quarter was about a little over \$3 million. Given where rates are now, is that what you are going to see every quarter throughout the year?

Robert Harrer - *Innophos Holdings, Inc. - VP and CFO*

No, no, no. It's actually quite the opposite. Let's say if the rates stay the way they are, you're not going to see any impact in the course of 2015. The reason why we incurred those losses actually in the third and the fourth quarter -- we incurred \$2 million in the third quarter and we incurred \$3 million in the fourth quarter for a total of roughly \$5 million -- was that in the second half of 2014, the dollar started to strengthen quite significantly across the board, whether it's of course the two currencies we are exposed to which is the Mexican peso and the Canadian dollar but also of course versus the euro and literally across the globe against every single other currency.

And those were a type of 20%-ish strengthening numbers. And I hope we have peaked out in the fourth quarter and all these losses are now behind us. I can say that going into 2015, as of now there is only marginal improvement of what we have seen as compared to the fourth quarter.

So you certainly should not -- unless you expect the dollar to, whatever, go par against the euro or something like that, unless you expect these type of trends. But if you remain in the ballpark of where we are -- where we were in the fourth quarter for 2015, those losses will not reoccur.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Got it, okay. And then last one, Randy, when you think about your operating margin outlook, you hit it this year. It's going to be a little bit lower in 2015. Longer term, given commentary on pricing, where do you think the right profitability level for this business should be as you go beyond 2015?

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

I think -- just let me add some of what we see in the margin size thing, and that was the cost increase with some of the reset of one of our supply contracts there, which resets annually. I think that's in a backdrop of what we've seen as far as relatively stable raw material cost.

So I think with some continued improvements and mix, we would want to be pretty close to that margin in the 14 to 15 percent range.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay, great. Thank you.

Operator

Christopher Butler, Sidoti & Company

Christopher Butler - Sidoti & Company - Analyst

I apologize if I missed it, but the PPA difficulty, is that done at this point or is there anything lingering into the first quarter?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

No, that's pretty much done as far as the supply issue, but we do have the carryforward of some costs that are in inventory which Robert had talked about that would be roughly \$2 million hitting the first quarter on the cost side.

Christopher Butler - Sidoti & Company - Analyst

Got you, understand that. And then as we look at the ports on the West Coast, you had indicated that it hurt your ability to export. If those get up and running, is that a net positive for you, or does that mean that you're going to see more imports coming in that increase the competition?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Chris, I think we would certainly see a net positive for our exports to the Asian market there. I think what we were running through the third quarter was a 7% improvement in our geographic expansion or export business there. And then with the decline we saw in the fourth quarter, we netted out a 2% improvement year over year for that business.

Christopher Butler - Sidoti & Company - Analyst

And you had talked about some of the investments in your capital spending plans for 2015. Are there any plans to tighten the belt to help offset some of this competitive pressure on your margins?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

I think if you look at belt tightening, with the \$35 million that we projected, 70% of it is on the maintenance side, as Robert had talked about. And the remainder is continue to make improvements and debottlenecks to support the business. And I think through those improvements and debottlenecks should improve -- help improve our profitability.

But I think also if you look at what we are doing in the business, and maybe indicative of where we were successful in Coatzacoalcos, we do have an overall quality and improvement effort across the Company, which we are continuing to drive process improvements not just in the plants but across the entire system, which with those improvements hope to improve our capability of efficiency and performance going forward.

Christopher Butler - Sidoti & Company - Analyst

I appreciate your time.

Operator

Chris Shaw, Monness Crespi.

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

Just sort of looking at the end markets again, sort of the -- definitely the food and beverage, kind of your core key US and Canada markets. You definitely identified a slower market that's happened in the second half and should continue 2015.

But it does seem like in a broader sense, if you look at some of the products you're going through -- soft drinks, sports drinks, some of the baked goods and process food ingredients -- I would think just from the anecdotal stuff you see written up that there's been a shift away from that and maybe it's more wholesome organics and stuff like that.

Do you see the sort of volume trends we are beginning to see in those businesses, the demand trends as something that is maybe cyclical? Or do you think eventually is going to be a longer-term sort of decline -- or maybe not even decline, just a very -- heading to a period of slower growth for a while? I mean, is it basically imagining it's a longer-term issue or shorter-term?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Chris, that's hard for us to really gauge. I think where we have seen some of the slowdown based on some published data and some reports from customers, I think certainly in the areas of the cereals, the baking mix, the deli meats and soups, there's been some certainly softness in that volume. And it seemed in the fourth quarter some even further softness, and whether that cycles back, difficult to say. I think we are predicting more flat from here at least as it relates to the US, and we are talking US.

I think that puts more emphasis that we have to put on the innovation and working with our customers more closely so that they can come up with new products, new offerings out there in the marketplace and support that effort. And then also in some of the geographic areas where there is a greater growth rate as people adopt some of the Western type of food products.

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

To that end, how quickly can you sort of maybe choose or really ramp up maybe your expansion internationally? And I mean, there is obviously a ton of opportunity out there given your concentration in North America. So is there something you can do to really double the efforts to expand geographically?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Double is difficult. I think where we are investing certainly on the innovation side, we have increased the resources and capability not just in the US but outside the US as far as supporting some of the local developments. I think we started up the blend operation in China; and with the new GM that we put in place there, we expect more returns there.

But I think also, as we try to leverage some of the nutritional products and even the launches that Robert mentioned before on those three products that we announced with the third quarter results, trying to accelerate some of those in the market. So it's an increased focus area for us and where we hope to get some success here.

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

One way I guess also would be speaking you just mentioned nutrition, but maybe do it additional M&A, which you mentioned. But I'm just curious what the pipeline looks like. What are the opportunities out there right now? Do you think there could be an increased M&A coming down the pike?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Well, we are still active in the M&A. I think we've been pretty prudent in our look at the M&A to make sure there's a good strategic fit to complement or support the growth just in the core as well as some of the adjacent areas. And I think we're going to continue to look at that and see where the opportunities are and make sure that we've got the right value for those opportunities, and have that be a part certainly of where we want to go in the future. Where we think that, too, can bring long-term shareholder value for us.

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

If you allow me just one more quick one, I thought in the past that the Mexican operations when the peso dropped actually enjoyed a cost benefit. Are you going to see any of that in margins, or did I read that wrong from past reports?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Robert, do you want to address that?

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

No, you are right on that one. On the P&L side, on the cost side, we actually do see the benefit. What we are calling out here on the call was the translation which was balance sheet driven. So the foreign currency-denominated balance sheet accounts, there is quite a few of those. Once those get revalued, you take the hit on the translation line in the P&L. That's why we called it out here. But you are absolutely right: on our fixed costs, we would have that benefit come through. Yes.

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

Okay, great. Thanks, guys.

Operator

Rick D'Auteuil, Columbia Management.

Rick D'Auteuil - Columbia Management - Analyst

Yes, just a couple of questions. The status of the China customer issues that were, I guess, prevalent about this time last year and I think dissipated as the year went on, are those largely behind you this point?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Yes, Rick. And that has to do with import regulations that our customers were realizing. And that's been -- they've been able to overcome that obstacle.

Rick D'Auteuil - Columbia Management - Analyst

Okay. And what -- what's the status of your facility there? Is that ramping per your expectations or a little slower or --?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

It's ramping up slower than my expectations. But I think with the addition of the new general manager as well as what we are looking at from a business model, we've had some recent good success there. So we expect that to continue going forward through the year.

Rick D'Auteuil - Columbia Management - Analyst

Okay. And then, I think you called out INNOVALT as a potential source of growth in fiscal 2015 as it was in 2014 after coming off a weak 2013. Can you get more specific on maybe looking at the domestic and then the international markets and the growth expected in that product?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Sure. With the domestic, the first half was light. So I expect that the continued spending to go on there, I think, with the -- I guess the highway bill that had been put in place back in May for the spending.

And then we are continuing to work on some of the approvals of some of the states. There's still between five and 10 states that either limit or restrict the use of INNOVALT, and we're working hard to get those approved. He had some success over the past couple of years, so we expect to continue to push to get those approved and reversed.

Robert mentioned the new product that we have, L-Vis. That's a unique product that we are offering out there. We expect to gain from that, and that's both domestically as well as internationally.

And I think also, that's pretty much the domestic. But expanding on that for the international, we are continuing to take both the new products as well as the performance as well as having some success both in Latin America and the Mideast on the export market for the INNOVALT product. So even though it's not a food product, it's a real good technology for us that we are continuing to expand on and leverage for some growth here.

Rick D'Auteuil - Columbia Management - Analyst

Okay. Just to get more specific, so it sounds like you still have easy comps for the first half of this year on the domestic side and would expect pretty good growth off of those weak comparisons. Right? Is that what you said?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Yes. Right, that's a good way to summarize it.

Rick D'Auteuil - Columbia Management - Analyst

And then the back half of the year, still growth off what was an improving situation in the back half of 2014?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Yes. I would hope that both on the new products and the geographic expansion and continuing to improve the performance here, we have some continued growth there.

Rick D'Auteuil - Columbia Management - Analyst

Okay. I know those margins are pretty good there. As we saw when business declined, they had an outsized effect on the margins. So is pricing -- your flexibility or ability to price in that segment stronger than maybe on the food side?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

I think it is a unique product. And we are -- we do have technology associated with it. So we continue to try to sell there on value.

Rick D'Auteuil - Columbia Management - Analyst

Okay. All right. Thank you.

Operator

Richard O'Reilly, Riviere Associates.

Richard O'Reilly - Riviere Associates - Analyst

Two quick questions. On the PPA contract reset, what drove that? Is there an index that the contract is tied to or what? Can you give some background on that?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

It's based on a number of factors that we don't share, but it is a reset tied to some formula.

Richard O'Reilly - Riviere Associates - Analyst

Okay. So it's possible that a year from now when it gets reset, it could be set lower. So in a way, you could recover some of the cost a year from now.

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

(inaudible)

Richard O'Reilly - Riviere Associates - Analyst

Okay, fine (multiple speakers).

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

It depends on those factors, right.

Richard O'Reilly - Riviere Associates - Analyst

Okay, fine, okay. Second question is on the stock buyback plan for this year and the dividends, that's, I don't know, at least \$160 million. And I guess I'm just wondering where the cash is coming from for all that. Can you elaborate?

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Yes, Robert, do you want to comment on that, please?

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

Well, at a high level your \$160 million are pretty accurate -- \$125 million for the share repurchase and then roughly \$42 million for the dividends. Where the cash is coming from, I mean, in easy words you could say our leverage is so low that we have ample room for maneuverability in our balance sheet to get those two programs going.

And then despite the headwinds we were describing here during the call, our cash flow generation is a great asset of our portfolio. We continue to monitor and focus on that area.

So our cash flow generation in 2015 is certainly going to be as strong as it was in 2014, and that will help us to drive these type of cash returns to our shareholders as well.

Richard O'Reilly - *Riviere Associates - Analyst*

Do you guys talk about some sort of leverage ratios that you would like to get to long-term?

Robert Harrer - *Innophos Holdings, Inc. - VP and CFO*

Not really. What we have shared in the past, we said we certainly wouldn't be uncomfortable with a range between 2 -3 times. But going to those ranges would require for us to find the right M&A target and generate additional EBITDA with that target. We would not go that route just with financial engineering.

Richard O'Reilly - *Riviere Associates - Analyst*

Right, okay. So obviously -- okay, if you found a target, the buyback would be put on hold until you got yourself back down to some more comfortable ratio. Okay. I think that's it, then. Thank you, guys.

Operator

Rick D'Auteuil, Columbia Management.

Rick D'Auteuil - *Columbia Management - Analyst*

Just a follow-up. Earlier you referred to some pricing pressure from international competition given the strength of the dollar, and you specifically called out maybe the more commodity-related products. As you assess your product portfolio, what percent would you say fall into that category?

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

Richard, I think where we have probably more pressure in that area would be in the phos acid, which is less differentiated and some of the STPP and the business there. Robert, maybe you could expand on that?

Robert Harrer - *Innophos Holdings, Inc. - VP and CFO*

Rick, overall when you look at total Company and then you say specialty ingredients is what is the value pricing element and the rest is GTSP, STPP related. You look at roughly 35% on the less differentiated product roughly, roughly.

Rick D'Auteuil - Columbia Management - Analyst

That includes -- that's not just in the specialty, that's companywide, then.

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

That is companywide, and that includes GTSP.

Rick D'Auteuil - Columbia Management - Analyst

Okay. That's helpful. I appreciate that. Thanks.

Operator

And we have no further questions at this time. And now I would like to turn the call over back to Randy Gress for final remarks.

Randy Gress - Innophos Holdings, Inc. - Chairman, CEO and President

Well, I would like to thank everyone for joining us this morning and their interest in Innophos. And look forward to sharing our progress after we complete the first quarter and issue those results. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.