

INNOPHOS 4Q15 RESULTS CONFERENCE CALL

EDITED TRANSCRIPT

CALL HELD FEBRUARY 23, 2016

CORPORATE PARTICIPANTS

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

Kim Ann Mink *Innophos Holdings, Inc. - CEO and President*

CONFERENCE CALL PARTICIPANTS

Larry Solow *CJS Securities - Analyst*

Curt Siegmeyer *KeyBanc Capital Markets - Analyst*

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

Mike Sison *KeyBanc Capital Markets - Analyst*

Adam France *1492 Capital Management - Analyst*

PRESENTATION

Operator

Welcome to the Q4 2015 Innophos earnings conference call. My name is Cynthia and I will be your operator for today's call. (Operator Instructions). Please note that this conference is being recorded.

I will now turn the call over to Mark Feuerbach. Mr. Feuerbach, you may begin.

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

Good morning and thank you for joining us today for Innophos's fourth-quarter 2015 results conference call. Joining me on the call today is Kim Ann Mink, Chief Executive Officer. Kim Ann will start with comments on her initial views of the business as Innophos's newly appointed Chief Executive Officer. I will then provide details on our financial results, and further comments on our outlook for 2016. Kim Ann will then conclude with some final remarks before we open up the call to your questions.

During the course of this call, management may make or reiterate forward-looking statements made in our February 22 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 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.

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 February 23. Also note that 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 obligation to update these statements.

Now, I would like to turn the call over to Kim Ann Mink, CEO of Innophos. Kim Ann?

Kim Ann Mink - *Innophos Holdings, Inc. - CEO and President*

Thanks, Mark, and good morning, everyone, and thank you for joining us today. As you are aware, I recently joined Innophos as CEO and President. Although the Company is facing a challenging industry environment, I joined Innophos in part because I strongly believe in the common core of our Company: ethics, integrity, innovative spirit, and perseverance. And perhaps, most importantly, I believe in this Company's future and what we can achieve by channeling our intellectual capital and resources in the right areas, and maximizing the value of our business. I am honored and excited to be leading this Company.

I bring to Innophos 25-plus years of experience across a wide range of roles and breadth of markets in specialty businesses in the chemical industry, most recently at the Dow Chemical Company, which I believe has equipped me with what is required to get Innophos back on track. My experience has taught me that significant value can be created from driving operational discipline while simultaneously maintaining a strong customer and market-centric approach and focus on innovation.

I look forward to bringing a new perspective to the Company and the opportunity to do things, yes, a bit differently. Going forward, it will be about both productivity and growth as the means in which business is done at this Company, pushing to address the key business goals and strategic priorities.

Now, with so many competing priorities as the new CEO, I know that I must be laser-focused on constructing a roadmap for the strategic direction of Innophos, while at the same time identifying the value creation levers that will drive sustainable improvement in the Company's financial performance, all built on the right organization, founded on the right talent, the right structure, and right processes.

Now, although I have only been at the helm for two months, I've spent much of this time immersing myself in the business details and getting familiar with the current management team to accelerate my assessment on how we operate today. As I am two-thirds of the way through my plan for my first 100 days, I'd like to share my initial insights, as well as key areas and critical actions upon which I'm focusing as we pen a new chapter in Innophos's journey.

In my review of the Company to date, as shown on slide 4, I have identified three critical areas of improvement and where changes are very quickly needed: operational excellence, commercial excellence, and strategic growth. These areas of focus will serve as a good framework today. And as we progress through the coming months, we will be sure to share with you more details and specifics on how we will execute these changes.

Now it's clear that our Company needs to become more flexible and agile when market conditions change. In the past, quite frankly, our inability to quickly adapt to a low-demand environment has hurt us. Going forward, we will work to improve, in part, by driving operational excellence, or, as I like to say, getting the business fit.

Looking through my operational lens, then, I recognize that we must break down the remaining functional silos within this Company to eliminate competing goals and objectives. This will lead to better alignment between our financial commitments, our supply and demand plans, and working capital projections.

To this end, to promote shared accountability of our Company's performance, I will be rolling out a clear and meaningful corporate scorecard, based on a shared common set of financial metrics. We already have the wheels in motion for this scorecard, the metrics for which will include volume, EBITDA, working capital, expense, CapEx, and ROIC. And we are very excited for full implementation across the business very, very soon.

Going forward, our dashboard of scorecards will be a critical tool embedded into our revitalized executive sales and operations planning, or ES&OP business management process. Establishing a more routine and robust integrated business management process founded on cross-functional collaboration and data-driven decision-making, will ensure a balanced demand and supply that is fully integrated with financial planning. Such diligent management operational reviews will be focused on measuring progress, areas for improvement, and swift course correction.

Further, in the supply chain area, I firmly believe we at this Company need a higher level of visibility, a visibility into our full supply chain to help us drive better inventory management, reduce supply chain costs and risk, and ultimately improve customer satisfaction. Done properly, this will enable us to respond more quickly and effectively to changing market conditions. Developing a more nimble and transparent, fully integrated, end-to-end supply chain process is critical going forward.

And finally, in the area of manufacturing, we will be implementing a number of lean manufacturing initiatives to drive efficiency, reduce costs, and increase utilization.

Now briefly turning to the commercial excellence pillar, here we are evaluating a number of ways to improve the infrastructure behind our commercial operation. This includes looking at our customer base by segments to allow for better, more meaningful alignment of our product and service offerings with customers' needs and preferences. This will also help us evaluate our sales channels to ensure we have the appropriate go-to-market strategy across our products and sales professionals.

Further, it is clear that pricing plays a very critical role in driving our performance, and should be a strategic capability. This requires the right process and discipline so that we can be more decisive, and take swift actions to better manage our price and margin. In an effort to drive improved pricing performance that is sustainable over time, we are therefore working to strengthening our pricing activities by establishing purposeful decision processes grounded on robust tools to ensure that we are capturing the value we deliver to the market.

Finally, it's imperative that we also develop the appropriate strategy that will serve as the cornerstone of designing our plans for future growth and profitability.

Going forward, it's important to properly manage our current product portfolio; strategically invest in our innovation to develop new, complementary products that address higher-value market needs; as well as evaluate adjacent markets for growth opportunities.

In addition, from an internal perspective, having a clear strategy and vision is important to an organization, because it provides a sense of direction. Simply put, if there is not clarity around direction, people will not know where to go. So as a leader, I want to motivate my employees about the future, capturing both their hearts and minds, and creating a strong followership of this growth journey.

Now, to successfully grow in its targeted markets, however, a company must both understand and effectively communicate its value proposition. I view marketing as an essential ingredient, and key enabler of such growth. Quite

frankly, marketing at this Company has historically played a very limited role in strategy and market decisions. Marketing, however, is only part of the recipe for growth. The other key ingredient is R&D, which is an integral factor in developing new competitive advantages. Therefore, developing a robust marketing organization that dovetails with R&D will be crucial to ensuring a sustained focus on growth through market leadership, innovation, and customer intimacy.

And underlying all three of these pillars is a foundation, a foundation based on building a strong management team and organization to help move Innophos significantly down a transformational path, where we are thinking and acting based on where we're going, and not where we're coming from. As such, this transformation will be bolstered by thoughtfully introducing external talent into key positions to quickly bring required new skill sets, new ideas, and external best practices.

So where do we go from here? On slide 5, I have outlined my immediate priorities and next steps in our journey, including the implementation of identified operational and commercial excellence initiatives. In addition, we will also finalize our restructuring efforts, which are largely complete. And, as previously reported, we anticipate an annual cost savings of \$13 million, 75% of which will materialize by the start of 2016. That said, we continue to seriously and actively evaluate the business for additional cost reduction opportunities.

Now, as part of my initial review of Innophos, I have also taken a look at what can be done with the GTSP business. Although we continue to look at ways to minimize the effects of GTSP performance on our business, including toll producing for a fertilizer company, it's my belief that we haven't moved fast enough on this project. It is therefore a key priority for me in 2016 that we find the appropriate solution for our GTSP business going forward.

Further, the Board and I have determined that we will continue to support the dividend at current levels. The business continues to generate significant cash flows in spite of the challenging environment, and our balance sheet and liquidity remain strong. As always, that Board will continue to evaluate our capital allocation policy on a quarterly basis, at a minimum, to ensure we are investing in the highest risk adjusted return alternative.

And finally, to identify our longer-term strategic priorities and key business goals, I am honored to be working hand in hand with my strong Board of Directors, whose knowledge base will help set the tone for strategic decision-making, and was recently complemented by the deep experience and valuable perspective of our two new Board members, Peter Thomas and Bob Zatta. I look forward to sharing with you more details on this effort in the coming months.

Now, before I turn it over to Mark to review our financial performance in greater detail, I would like to touch on the market environment on slide 6. We anticipate that underlying demand through most of the markets that we serve will remain soft throughout 2016. As a result, we expect our volumes overall will be relatively flat with 2015 levels. In addition, although we expect that increased pricing pressure will impact our margins, we are working to minimize the impact as much as possible. This includes maximizing the benefit of favorable raw material cost to help offset these headwinds.

Now, although the market environment is challenging, we are taking clear accountability, and collaboratively working across all functions and geographies to overcome the challenges we face, through increased efficiency and more decisive and swift, aggressive management of cost controls, price volume and margin, and innovation growth. Really, it's about taking responsibility for controlling what we can control.

Going forward, we are committed to making meaningful changes to drive operational excellence, commercial excellence, and strategic growth. Getting it right in these critical areas of focus will ensure that the Company operates at its full potential.

I will now turn it over to Mark for additional detail on financial results in the quarter and on our 2016 outlook. Mark?

Thanks, Kim Ann. Moving to slide 8, we see net sales of \$171 million for the fourth-quarter 2015, which consisted of \$166 million from Specialty Phosphates and \$5 million from GTSP and Other. This represents a 12% or \$24 million decrease compared to the same quarter last year, resulting from very weak demand, particularly in the export, food, asphalt, and fertilizer markets, coupled with unfavorable customer mix and continued competitive pricing pressures due to the strong US dollar, which began in the fourth-quarter 2014 and continued throughout 2015.

Diluted earnings per share for the fourth-quarter 2015 were at a loss of \$0.24 per share, which included management transition expenses of \$0.41, approximately half of which was accelerated non-cash stock compensation; \$0.12 for increased specialty phosphate inventory reserves; and \$0.07 for a supplier revision of 2014 costs. Excluding these items and \$0.04 of translation income, fourth-quarter EPS would have been \$0.32 compared to an adjusted EPS of \$0.65 for the fourth-quarter 2014.

Just to add some color to the increased inventory reserves, this relates to specialty phosphate products that do not meet food, beverage, or pharma product grades, and are typically sold into the fertilizer or feed markets. Due to the significant deterioration in both demand and selling prices within those markets, which resulted in higher year-end inventory levels, increased obsolescence and net realizable value inventory reserves were required, with obsolescence accounting for the majority of the charge in the quarter.

For the full year, our net sales were \$789 million, a 6% decrease compared to 2014. Specialty phosphate sales declined 4% year-over-year, from \$762 million to \$733 million. GTSP and Other sales were down 27% versus the prior year, totaling \$56 million for the fiscal year 2015.

Diluted EPS for 2015 was \$1.29, which included management transition expenses of \$0.39, restructuring charges of \$0.28, translation expense of \$0.13, increased specialty phosphate inventory reserves of \$0.11, and a supplier revision of 2014 costs of \$0.07. Excluding these items, 2015 EPS would have been \$2.27 compared to an adjusted EPS of \$3.11 for 2014.

Slide 9 shows the sales results of our specialty phosphate segments. US and Canada Specialty Phosphates recorded fourth-quarter 2015 sales of \$128 million, down 8% from the prior-year period due to 5% lower prices, almost entirely due to unfavorable customer mix; and 3% lower volumes due to very weak market demand, particularly for food and asphalt markets. Full-year sales of \$569 million were down 4% compared to the prior year on 3% lower selling prices due to increased pressures from European competitors on the strength of the US dollar, and 1% lower volumes.

Mexico specialty phosphate's fourth-quarter 2015 sales of \$38 million were down 2% from the prior-year period due to 1% higher volumes but 3% lower prices, as competitive pricing pressures continued. Full-year Mexico specialty phosphate sales of \$164 million were 2% below the 2014, on lower selling prices due to competitive pricing pressures.

Operating income results for our specialty phosphate segments are shown on slide 10. Total Specialty Phosphates generated \$8 million of operating income for the fourth quarter, down \$15 million versus the prior-year quarter, primarily due to the US and Canada segment, which I will discuss momentarily.

Operating income margin was 5% for the fourth quarter, below the 11% expectation, and down 830 basis points year-over-year, due primarily to lower average selling prices, higher raw material costs, and \$3 million of increased inventory reserves due to the deteriorating market conditions.

Fourth-quarter operating income for US and Canada Specialty Phosphates was \$3 million, down \$13 million versus the same period last year. Operating income margins in the segment were 3% for the fourth quarter, down 940 basis points

year-over-year, with 530 basis points due to lower average selling prices from poor customer mix, and the remainder due to the previously mentioned higher costs for raw materials and inventory reserves.

Operating income for Mexico's Specialty Phosphates in the fourth quarter was \$5 million, a decrease of \$2 million compared to the same period last year, due to lower selling prices and unfavorable product mix within specialty ingredients. Operating income margin was 13% for the fourth quarter, down 500 basis points versus the prior-year period.

For the full year 2015, Specialty Phosphates generated \$71 million of operating income, which was \$39 million below 2014, primarily due to the US and Canada segment, which I will touch on in a moment. Operating income margin was 10% for the full-year 2015, a decrease of 480 basis points compared to the prior-year level.

Full-year 2015 operating income for the US and Canada Specialty Phosphates segment was \$48 million, a decrease of \$33 million versus the year-ago period, with lower selling prices accounting for more than half of the variance. The remainder of the year-over-year variance is due to higher raw material costs, increased inventory reserves, and increased cost of goods sold due to changes in fixed costs in inventory. Operating income margin was 9% for 2015, down 530 basis points compared to 2014.

Operating income margin for Mexico's Specialty Phosphates was \$23 million for full-year 2015, down \$6 million compared to the prior year, due to lower selling prices, higher raw material costs, and higher planned maintenance outage expenses. 2015 operating income margin of 14% was 340 basis points below 2014.

Turning to GTSP and Other on slide 11, we generated \$5 million in revenues in the fourth quarter, down 68% or \$11 million year-over-year, due primarily to lower volumes amid the weakest fertilizer market demand conditions in two years. For the 2015 full year, GTSP and other revenues were \$56 million, which were \$21 million below 2014, again due to weak fertilizer market demand.

Excluding management transition expenses and restructuring recorded in Other, GTSP and other recorded breakeven operating income for the fourth quarter despite the effects of a \$1 million lower of cost or market reserve, and recorded \$1 million of operating profit for the full-year 2015, up \$5 million versus 2014.

On slide 12, we see that our effective tax rate for the fourth quarter was 17%, and the full year was 34%. The fourth-quarter rate was considerably below expectations, due primarily to a revision of deferred tax liabilities for deconsolidation adjustments for Mexico tax reporting purposes. We expect an effective tax rate in the range of 32% to 34% for 2016.

Depreciation and amortization was \$9 million for the quarter, flat with the year-ago period, and full-year 2015 of \$38 million was \$3 million higher than 2014.

The balance sheet items on slide 13 show net debt decreased sequentially by \$5 million in the fourth quarter of 2015, to \$195 million. Gross debt was reduced by \$73 million during the quarter, primarily due to advanced payments from foreign entities in conjunction with a cash repatriation program optimizing foreign tax credits and enabling \$266 million of future cash returns to the United States.

We are opening up tax returns for some previous years in order to recapture the noted foreign tax credits. This will result in some interest penalties that were recorded in the fourth quarter, but those were mostly offset by a tax benefit also recorded in the quarter, resulting in only a modest effect on EPS.

Slide 14 shows capital expenditures of \$10 million in the fourth quarter and \$32 million for the full year of 2015. Approximately 75% of the full-year capital spending was for maintenance and the remaining 25% was for strategic growth initiatives. The majority of the strategic growth investments were focused on automating packaging at Port Maitland, increasing capacity at Nashville, and improving capabilities at Coatzacoalcos.

In 2016, we expect approximately \$40 million in capital expenditures due to additional requirements to support the manufacturing portion of the restructuring program, and continued investment in the capability of Coatzacoalcos.

With our solid balance sheet and our ability to generate free cash flow on a recurring basis, we remain committed to continue to maximize shareholder value. In the fourth quarter, we generated free cash flow of \$14 million, having paid \$9 million in dividends on top of the \$5 million reduction in net debt. For the full-year 2015, we returned more than 6 times our full-year net income to our shareholders via dividends and share buybacks.

Before I discuss our outlook for 2016, I would like to give a quick update on where we stand in respect to the restructuring, on slide 15. We have begun realizing the savings from our restructuring efforts, and are in line with the 50% realization expected in the fourth quarter, recording a \$1.6 million sequential cost reduction. As we mentioned last quarter, 85% of this restructuring was booked in the US, and 15% in Mexico. We still expect 75% of the \$13 million annual savings to materialize at the start of 2016.

Now, moving on to slide 16, on the 2016 outlook, it's clear that 2015 was a very tough year, particularly during the fourth quarter, in terms of the market conditions in which we were operating and the persistent headwinds, which we have discussed on our calls each quarter. Many of these headwinds are expected to continue into 2016.

Specialty phosphate volumes are expected to decline 1% to 2% for the full-year 2016 compared to 2015, due to some STPP reformulation that will affect our Mexico segment. Full-year 2016 specialty phosphate margins are expected to improve from the 10% recorded in 2015 to a range of 11% to 12%, driven by savings from the restructuring program and favorable raw material costs, which in total are expected to exceed continued pricing pressures and expected volume declines.

Market phosphate rock prices were flat sequentially in the fourth quarter, but have declined approximately 12% in the first quarter 2016. We saw sulfur market prices decrease sequentially by 20% in the fourth quarter, and settle another 14% lower for the first quarter of 2016, given the continued weak demand in fertilizer markets. We expect a reduction in 2016 of \$4 million on our annual supply contract that reset on January 1, 2016, recouping two-thirds of the increase experienced in 2015 compared to 2014.

Due to the current weak fertilizer market conditions, we expect GTSP and Other to record an operating loss between \$1 million to \$2 million in the first quarter of 2016.

Now back to you, Kim Ann.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Thanks, Mark. So, in conclusion, turning to slide 17, Innophos has a leading position in many product markets, and serves top-tier customers. Despite the challenges we are facing in the industry, our financial performance remains relatively stable, and our cash flow generation strong. We will continue to return value to shareholders through our dividend as well as other avenues, according to our disciplined capital allocation strategy.

Now, although there is much work to be done, I continue to be very excited about what the future holds. With renewed focus and energy, I am confident that we will take this Company to the next level as an industry leader and growth-oriented company, one that is able to quickly make well-informed decisions with seamless execution, providing value for all of our stakeholders.

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

QUESTION AND ANSWER

Operator

(Operator Instructions). Larry Solow, CJS Securities.

Larry Solow - CJS Securities - Analyst

Kim Ann, welcome to the Company. Thank you for your comprehensive overview and your thoughts. Just one question I had -- I realize you've only been there a couple of months, or maybe even a little bit less than that -- surprises? What's the biggest surprise you've seen from an outsider, and now an insider, maybe on the positive side and on the negative side?

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes, no, thanks, Larry, also for welcoming. And I look forward to talking to you in the future, as well. From a positive side, I talked about the perseverance. The folks at Innophos really would like to see us turn this ship around, so that's very, very exciting to see that. I've got a group of very excited and passionate people who want to not have another call like this again, discussing such a fourth quarter.

Larry Solow - CJS Securities - Analyst

Right.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

I think from the side -- and it really goes in with the things I was talking about. From an operation excellence piece, I think there's a bit more gaps than I had thought there would be. But those things, some of which are low-hanging fruit. So I come in very actually excited, and would like to look at it more as opportunities than major challenges. Because I know how to do this. And getting the right best practices and some external talent coming in, I know we can make an impact there. And I am very excited about talking to you about this when we announce our first-quarter earnings in the spring.

Larry Solow - CJS Securities - Analyst

Okay. Yes, that (multiple speakers) my next question. My next question was, without giving an exact timeline or anything, but just thoughts on when some of these initiatives might start coming into play.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes, no, Larry. Great question. We are making a decision this week, actually, with bringing in some external experts into the Company to help us with that. So I've already done my evaluations of the various experts out in the industry. As you can imagine, there are many. And I have a lot of tentacles out there with the various companies I've worked for. So, some good people to help us, and we will launch even deeper dives, effective March 1. So I feel confident that by the end of -- by the next time we meet, we will have some more specific details to share with you, Larry.

Larry Solow - CJS Securities - Analyst

Okay, great. And just one more last question, just on the quarter, and more importantly the outlook. Obviously volume has been lackluster for several years, and that's mostly a macro thing. Hopefully we can change that, inevitably. I think what drew us to the story several years back was the pricing power, or some pricing power you guys had had. Clearly that's not so much the case today.

Just trying to break out -- is there still an ability for you to -- I know last year, there was some price increases in certain of your more proprietary markets. Is that ability still there? And then obviously the offset is some of this more strong dollar-related and foreign competitors coming in. But how do you view those hand-to-hand as you look out to 2016?

I realize it's a moving target. But prices declined, I think, 5% in the quarter, which was ahead of the 3% for the year. Do you see those similar declines in 2016? Or do you think maybe we can slow that down a bit, at least?

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes, I think the pricing pressures will continue. But as I talked about on one of the pillars that I'm focusing on the commercial excellence, we really need to make pricing excellence a strategic capability. And it is something that I think we have taken our eye off the ball a bit. Value-based pricing seeks to really, truly -- we need to optimize revenue and profitability. And we need to better understand -- and that goes hand-in-hand with customer segmentation -- on really understanding what the customer is willing to pay for, based on the value of our offering.

That needs to be very closely linked and dovetailed with the right tools to ensure that our commercial organization is looking at things, whether it's competitive analysis reports, waterfall analysis. There are some areas that we've got to improve, Larry. That's not going to take away the pricing pressures that we're going to feel with some of the competitors. I can't necessarily control that, but what I can control is what I'm doing to offset that. And I'm hoping to have more further details in our first-quarter earnings release about what we're doing there, because I do believe we can improve there.

Larry Solow - CJS Securities - Analyst

Got it. Okay, great. Thanks so much.

Operator

Curt Siegmeyer, KeyBanc Capital Markets.

Curt Siegmeyer - KeyBanc Capital Markets - Analyst

Welcome, Kim. Just had a couple questions, one on the cadence of the margin improvement for Specialty Phosphates. You guys expect 11% to 12% margins. And you mentioned some of the tailwinds that you expect to help get you there, in addition to the restructuring. But how should we think about that in terms of the raw material benefit sort of mismatch with pricing? How does that lag work its way through over the year? Should we expect a snap-back pretty quickly? Or how do we think about that, first half versus second half?

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes, I will start with that. Going into 2016, we're seeing a slight change with our raw materials, which is a good thing. In the US, our PPA contract is reset for January 1, and we expect a \$4 million cost decrease on this, recouping two-thirds of the 2015 increase.

Rock is fairly stable sequentially, and in the fourth quarter, and has declined approximately 12% in the first quarter. And then we are seeing some further decreases in sulfur, as well. So that is going to be critical that we reap the benefit of that.

Quite frankly, Curt, we also have to take a hard look at our controllable expenses to even further offset some of the pricing pressures, to ensure that our margin -- that we stay in front of that. And that's really with a sense of urgency. And we're also looking at our working capital to determine if we can release some additional cash there.

And, Mark, if you want to add anything further?

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

Yes, the only thing I would maybe add, I think Curt asked about the lag as well, too. So, our lag is -- typically it takes about a quarter from the time we spend the lower price to obtain the raw materials to when we actually get to see it in the P&L.

Curt Siegmeyer - KeyBanc Capital Markets - Analyst

Okay. About do you guys think about the long-term margin potential any differently in this business? Or how do you think about that? And then one other follow-up I had on the GTSP, just any additional color maybe you might be able to provide in terms of the options and how you guys think about those now, pros and cons of each, going forward?

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes. Well, as far as the margin potential going forward, I think really focusing on that marketing piece, and really trying to shift the mix that we have to those higher-value segments. And you'll see some of that in the coming quarter as we start to launch some new products in some higher-value, more niche applications.

Now, as far as GTSP, we continue to look at ways to minimize the effects. We hear you. We hear the market asking about that. Again, I don't believe we have moved fast enough for that, and we are looking for a solution. It's a key priority for 2016.

Now, I think it's important to mention, though, and I think all of you know on the call, GTSP is a co-product stream of our PPA operation in Mexico. It does provide an outlet for low-grade acid and gives us a good cost position for PPA. So really what we're trying to do is look at ways to reduce the GTSP earnings volatility. And that really is focusing on structuring the business perhaps as a tolling operation. So, we hear you. We know we've got to do something there. We want to do something there.

Anything to add, Mark?

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

No, I think that you summed it up very well, Kim Ann.

Curt Siegmeyer - KeyBanc Capital Markets - Analyst

Perfect. Thanks.

Operator

Chris Shaw, Monness, Crespi.

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

Welcome aboard, Kim Ann.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Thank you, Chris.

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

I had a question on the outlook for Specialty Phosphates. You guided to, I think, a 1% to 2% volume decline, which is attributed to STPP in Mexico. A couple questions around that, then. Does that suggest that US-Canada specialty phosphate volume is going to be pretty much flat for the year? And, if so, what gives you confidence in that, given that I think they were down a little bit in 2015, and I think they were flat in 2014, despite an easy comp over some of the plant issues from the year before?

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

Chris, this is Mark. So, you're right; if you look at the product lines that make up the Specialty Phosphates, the STPP is the piece that's driving that potential 1% to 2% decline, which then implies that we should be fairly flat on both the Mexico and the US and Canada, other Specialty Phosphates, which would be the purified phosphoric acid or the specialty ingredients.

We certainly are not expecting to have a repeat of the type of demand environment that we saw in the fourth quarter here. We saw some really pretty significant, wild swings. One in particular, the INNOVALT going into the asphalt markets, those volumes were actually down 61% year-over-year.

And that, of course, was due to a lot of uncertainty about whether the Highway Trust Fund would get replenished. That was getting bounced around throughout most of the second half of 2015, and actually didn't get resolved until December. But, thankfully, they've put in a new five-year funding program, so that should really support some increased business in that regard.

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

Maybe what I'm thinking of more in general is the demand from your major food customers. And I know there's a trend for consumers to move away from more processed food or food with more additives. Is that something you are seeing in volumes, or is that just creating a more flat environment? Or are you actually seeing declines from some food partners who are having to reformulate? I see -- General Mills, at least they're suggesting they're moving all of the natural flavors, natural coloring. I don't know how that impacts preservatives at all. But what are you guys seeing on that end?

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes, I can take that. Food manufacturers, they continue to recognize the nutritional value, the long safety record and performance benefits of phosphates. I think you would imagine, baked goods without phosphates won't look or taste the same, due to the phosphate key properties and functionality. And FDA continues to include many phosphates in their list of substances that may be used as ingredients in processed products labeled as organic.

So, being pragmatic, though, the organic, natural push certainly has some effect on our growth rates, with one source indicating that organic is capturing 55 basis points of a 70 basis point population growth market. But we are seeing pockets of growth on innovative products in some export markets. And we do expect to support future innovation growth with investments and technical service and commercial development, as well as geographic expansion.

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

For organic -- to qualify as organic, some of your -- the phosphate products actually do qualify for that? I wasn't sure about that.

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

Well, that's the headwind that's out there. So, folks looking for organic or for clean label is what puts some of the pressure on our customers' products. You can sell an organic product, though, that includes some phosphates in it, yes.

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

Oh, I see.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes, yes.

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

Then moving on to -- it didn't seem like you guys bought back any shares in the fourth quarter. And I just trying to get a -- you bought a significant amount for the full year. But I don't -- at this point in the year, maybe Kim Ann's thinking on the share buyback going forward. I know the dividend is important, so maybe that becomes a priority. But just curious of your thoughts.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes, sure. Just talking about our capital allocation strategy first. Management and the Board believe the current level is manageable, given the strong cash flow generation of the business, with respect to the dividend. And we don't see a reason to adjust that piece. As I told you, we will be doing a deeper dive in our strategic reviews to see if any changes are warranted, but our capital allocation priorities still remain the same.

So our first priority for capital allocation remains investing in support of growth objectives. And as we have demonstrated through regular dividend payments, we also believe that cash returns to shareholders are an important complement of our value creation strategy.

With that said, from a buyback program, we think we achieved the desired outcome with our 2015 program, putting the balance sheet to work and increasing our net leverage from 0.7X in 2014 to 1.8X today, when adjusting EBITDA for restructuring and management transition costs.

We are always looking at our capital allocation priorities to maximize shareholder returns. But as the new CEO, I want to do a deeper, strategic review before I make a decision on any other buyback programs.

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

Okay. Great. I guess I'll get back in queue. Thanks.

Operator

Mike Sison, KeyBanc.

Mike Sison - KeyBanc Capital Markets - Analyst

Welcome on board, Kim.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Thanks, Mike.

Mike Sison - KeyBanc Capital Markets - Analyst

I missed a little bit of the beginning of the call. But when you think about operating margins for Specialty Phosphates, I think it ended the year at 10%. The business has been pretty steady, in the mid-teens, for quite some time.

So, from your outside perspective, when you think about 2015, how much of that was maybe self-inflicted, to some degree, and fixable? And how much of that is the external environment, which, for what it's worth, has played a lot of havoc with several chemical companies this year?

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

You're right.

Mike Sison - KeyBanc Capital Markets - Analyst

So you're not alone (laughter). But just your perspective from that end.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes. The headwinds were very strong. So I see them. I come from the chemical industry, as you know. I feel them, and live it every day. And we all bear the cross, don't we? So, I think where we have a bit of a gap is how we can control our own destiny. And those are the pieces that I'm really trying to focus on, again, really tightening our belt from a cost perspective, really tightening our belt from an efficiency and productivity perspective. Working that back into the DNA of the Company, if you will, just as a way we do business in good times and in bad times.

So, again, I said in the beginning, it's about both productivity and growth, not either/or. Quite frankly, when external markets are tough, some warts can show. And those are the things that we found gaps in, and we're very excited about making sure we no longer have those gaps in 2016.

Mike Sison - KeyBanc Capital Markets - Analyst

Okay. And then maybe philosophically, I know your time at Rohm and Haas, running specialties, was well documented. So if you think about the Specialty Phosphates business, what you see in it that makes you feel that it's a good specialty business that you can maybe get back on track? What are the characteristics that you, from the outside, appreciate?

Kim Ann Mink - *Innophos Holdings, Inc. - CEO and President*

Yes, sure. And now that I'm on the inside, I continue to appreciate it, as well. Yes, I think what I saw in the business is that, over time, this Company has actually shifted its mix to more of the specialty ingredients. And you've seen that. I actually looked historically on how that mix has changed, and they've made great progress. And I think we can continue to do that.

But what we need there -- and I mentioned this earlier in the call -- it will be about applications development and really understanding not -- when we talk about markets, it's really down to the market segments and the subsegments, to ensure that we are playing in all of the right segments in food ingredients, food, pharma. And I think that will be important.

I've seen this in other businesses, where perhaps a business might get a bit stagnant; you stick with the tried-and-true applications. Yes, those will ultimately, though, mature over time. And we are seeing that. But I think it's that constant reinventing ourselves. That's just for the core business. When we get that, we need to get that more fit and into higher-value market segments. That notwithstanding, concurrently we need to continue to look at adjacent markets where we leverage our technology and then expand our basket of tools.

So again, it's really about making sure we reinvigorate marketing, tech service, and R&D. Again, a lot of new applications development with some of our existing technology.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay. And then if I were to just ask a little bit more directly on some of the headwinds, the stronger dollar has put the Europeans and Chinese in a little bit better position in Specialty Phosphates. And it's been a challenge for you and some competitors, in terms of being able to price accordingly.

When you think about the cost savings program that you have initiated this year, will that get you back in the game, where you can compete a little bit more effectively in some of those products as you head into 2016 and maybe 2017?

Kim Ann Mink - *Innophos Holdings, Inc. - CEO and President*

Yes, I believe so. And you'll hear more about that when we do our earnings call, later in the spring. But I believe so and all the reason why we're doing this so quickly. We need to do this.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay. And last question, I apologize, but ICL was pretty positive on their call, regarding the long-term prospects for Specialty Phosphates, thinking it's a nice growth industry. When you think about your business 3 to 5 years from now, what type of growth, off-the-cuff, do you think the industry can provide?

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Yes, right now, we're really going to be looking at some of that much more deeply in our strategic review. Which again, within the next week (technical difficulty) starting a much deeper dive with some external experts. So I will be able to talk about that in the coming months.

Mike Sison - KeyBanc Capital Markets - Analyst

Okay, great. Thank you, Kim.

Operator

Adam France, 1492 Capital.

Adam France - 1492 Capital Management - Analyst

I had a couple of accounting questions here; just want to make sure I'm understanding everything. When I'm looking at your full-year Specialty Phosphates margins mark of 9.7%, does that include this 12 cent Specialty Phosphates obsolescence, and net realizable value inventory hit in there?

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

That does, yes.

Adam France - 1492 Capital Management - Analyst

Okay, do you know that number was, on a pre-tax basis?

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

It was a little over \$3 million. I think it was \$3.3 million.

Adam France - 1492 Capital Management - Analyst

\$3.3 million, okay. And then with respect to interest expense in 2016, you mentioned being at \$2 million lower. Are we working off of the full-year 2015 number that has those penalties that you mentioned, or without those penalties? How should I think about that?

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

The \$2 million reduction is just the value of that \$73 million that we repaid that would adjust out. There was approximately another \$1 million of interest penalties in 2015, as well, that certainly wouldn't repeat itself.

Adam France - 1492 Capital Management - Analyst

Okay. So looking at your -- let's just keep this simple here. We had \$7.5 million. So you are saying there's \$1 million in penalties in that \$7.5 million. And then are we doing \$2 million beyond that, as well, so we're all the way down to \$4.5 million? Is that --?

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

Probably the best way to do it -- since the interest was ramping up during the year, as we were borrowing to do the buybacks -- would be to take the fourth quarter and pull \$1 million out for the cash repatriation program. And then whatever that number is, annualize it and subtract the \$2 million for the interest savings that we'll get.

Adam France - 1492 Capital Management - Analyst

Very good. Thank you for your help.

Operator

And we have no further questions at this time.

I will now turn the call over to Kim Ann Mink.

Kim Ann Mink - Innophos Holdings, Inc. - CEO and President

Thank you, Cynthia, and thank you all for joining us today. And I really look forward to updating you on our progress on our first-quarter earnings call in the spring. Thank you.

Operator

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