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PRESENTATION

Operator

Greetings, and welcome to the Innophos Fourth Quarter 2017 Earnings Conference Call. My name is Michelle, and I will be your operator for today's call. (Operator Instructions)

Please note that this conference is being recorded. I would now like to turn the call over to your host, Mark Feuerbach, Vice President of Investor Relations. Thank you. Mr. Feuerbach, you may begin.

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

Good morning and thank you for joining us today for Innophos' fourth quarter and full year 2017 results conference call. Joining me on the call today are Kim Ann Mink, Chairman, President and Chief Executive Officer; and Han Kieftenbeld, Chief Financial Officer.

Please turn to Slide 2. During the course of this call, management may make or reiterate forward-looking statements made in this morning's press release regarding financial performance and future events. We will attempt to identify these statements by use of words such as "expects," "believes," "anticipates," "intends," "estimates" and other words that 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.

Also, I would like to remind you that during the course of this conference call, management will discuss non-GAAP measures in talking about the company's performance. Our adjusted EBITDA financial measure excludes stock-based compensation, currency translation, severance, fair value inventory adjustments and M&A-related costs.

Let me also highlight that our quarter four results were impacted by provisional nonrecurring charges related to the recently enacted U.S. tax reform. These charges also were adjusted for EPS purposes.

Please refer to our press release, the appendix of today's presentation and our SEC filings for the GAAP to non-GAAP reconciliations.

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 21, 2018, and the presentation for this call can be found on our website at www.innophos.com in the Investor Relations Events section. Any forward-looking statements we may make today are based on assumptions that we believe to be reasonable as of this date, and we undertake no obligation to update these statements.

Please turn to Slide 3. During the call today, management will be reviewing our fourth quarter and full year 2017 financial performance and 2018 outlook, after which we will open up the call for your questions.

With that, please turn to Slide 4 as I turn the call over to Dr. Kim Ann Mink.

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

Thanks, Mark, and good morning, everyone, and thank you for joining us today as we share an update on our 2017 fourth quarter performance and full year accomplishments as well as expectations for 2018.

2017 was a year of great progress for Innophos as we established and began to implement our Vision 2022 strategic roadmap to transform the growth profile of the company, increase our presence in attractive Food, Health and Nutrition end markets and develop innovative solutions that better serve our customers.

We swiftly closed on two strategic acquisitions, continued to strengthen the foundation of our organization with additional top-tier talent, delivered bottom-line benefits with our Operational Excellence initiative and advanced our efforts to be viewed as a partner of choice with our focus on Commercial Excellence.

As a result, we delivered 2017 sales and adjusted EBITDA margins in line with expectations. In addition, we realized the stabilization of base business selling prices and volumes. Looking ahead, 2018 will be an important step forward in our growth journey towards achieving our Vision 2022 goals.

We're excited to leverage our momentum coming out of 2017 as we put our strategy into action and position Innophos to deliver double-digit revenue and adjusted earnings per share growth for our shareholders in 2018.

Now before Han reviews our fourth-quarter and full-year performance, let me expand on some of our strategic accomplishments this year, including the significant progress that we made against all of the 2017 objectives we committed to at the start of last year.

Turning to Slide 5, I'm very, very proud of our organization's commitment to our three strategic pillars, a framework that I introduced in 2016, and that today is woven into the very fabric of everything we do at Innophos. As promised, during the year we completed Phase 1 of our Operational Excellence initiative, which delivered a total of $16 million in savings, and we're right on track to achieve $13 million of Phase 2 cost savings.

In the area of Commercial Excellence, we reorganized our global commercial team into market-focused verticals and hired key commercial leaders to drive changes. In addition, we have implemented a new customer engagement strategy with differentiated levels of service, and aligned our sales, technology and marketing into a 3-in-the-box model to drive customer intimacy.

Finally, in 2017 we were laser-focused on establishing and setting the course for our strategic growth plan, and we made meaningful advancements here.

Turning to Slide 6. In April, we launched Vision 2022, our strategic roadmap targeting $1.25 billion in revenue and a 20% adjusted EBITDA margin by 2022.

Vision 2022 is focused on establishing Innophos as a leading specialty ingredients solution provider to attractive Food, Health and Nutrition or FHN markets while we selectively defend and strengthen our position in the North American phosphate market.

Last quarter, we announced the pursuit of a strategic value chain repositioning and manufacturing optimization initiative beginning in Q4 2017. This program, which will be phased throughout 2018, demonstrates our continued commitment to further strengthen the competitive position of our cash-generative core phosphates product portfolio. Following targeted 2018 capital investments, we expect to meaningfully improve earnings, free cash flow and return on invested capital in future years, starting at the back end of 2018, with the full benefit materializing in 2019.

Turning to Slide 7 now. The other key component of the strategy is delivering growth through acquisitions that expand our business in attractive, high-growth FHN markets. In the second half of the year, we successfully closed and integrated two strategic acquisitions: Novel Ingredients and NutraGenesis. These deals are important steps toward strengthening our growth profile and creating a nearly $0.5 billion FHN platform with an enhanced branded ingredients portfolio.

The integrations of both companies are well underway, and we remain confident in our ability to deliver the $4 million of identified cost synergies from Novel. The combination of our expanded portfolio capabilities with our fully integrated nutrition customer-facing organization and our 3-in-the-box value selling approach is already strengthening our position as a partner of choice in desirable growth markets and delivering big wins. By building upon the expanded market access gained through these acquisitions and combining Innophos' process technology and formulation strengths with Novel's strategic sourcing capabilities, we've made excellent progress in growing our existing customer relationships and capitalizing on cross-selling opportunities. It is clear that our customers value the more differentiated valuated solutions that we now offer.

On the new business front, before year-end 2017, we closed on multiple significant new business opportunities with major brand customers in leading retail and online outlets. These wins expanded our business in several target growth end markets including dietary supplements, sports nutrition and men and women's health.

Delivering growth via further M&A remains a top priority for Innophos. Our team is actively engaged in identifying opportunities that meet our financial criteria and advance our strategic objective of expanding our presence in attractive FHN markets.

Our Integration Management Office is fully established with a deep bench of in-house talent in place and an intricate M&A playbook that covers every aspect of due diligence and integration. Finding the next right opportunity that meets our strategic and financial criteria is of the utmost importance, and we continue to take a methodical and strategic approach to the process.

We are confident that we have the balance sheet and internal resources to act swiftly and efficiently.

Turning to Slide 8. At the foundation of our successful execution on our three strategic pillars and Vision 2022 roadmap is advancing our organizational and cultural transformation. 2017 was another year of accomplishment as we strengthened the organization by acquiring external talent that brings new skill sets and expertise to Innophos. Earlier in the quarter, we named Eugenia Erlij as VP of Marketing, a newly created position that demonstrates our commitment to transform Innophos from a historical position as a product-driven company to a market-centric solutions provider. Eugenia has more than 24 years of global marketing experience and will play an integral role in advancing our brand and establishing Innophos as an industry leader.

In addition, we're very, very excited to have recently welcomed Nicolas Meyrial as VP of Commercial Sales for the Nutrition team. Nicolas is an industry veteran with a notable track record in formulating innovative strategies, capitalizing on new market opportunities and creating growth within the nutrition and personal care markets.

Further, Rob Sklans has joined our team as SVP and Chief HR Officer. Rob is a seasoned, well-rounded global HR executive with extensive experience in culture management, talent development and building organizational capability and has successfully led HR due diligence and post-merger integration of acquisitions.

Finally, we are committed to having a positive social impact as an organization. We believe in the importance and value of diversity in the workplace and we're honored to receive external recognition last year for our organization's commitment to diversity. We're also committed to giving back to our community as the champion of STEM education and are very proud of our ongoing support of organizations like the Chemical Education Foundation and the American Institute of Chemical Engineers.

With that, I will now turn the call over to Han to review our Q4 and full year 2017 financials as well as our outlook for 2018. Han?

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

Thank you, Kim Ann, and good morning, everyone. Please turn to Slide 9. Starting with highlights from Q4. We achieved revenue growth of $25 million or 15% as we benefited from the Novel and NutraGenesis acquisitions as well as the stabilization of both selling prices and base business volumes. Our FHN segment grew 29% in the quarter compared to prior year.

On a GAAP basis, Q4 net income and EPS were adversely impacted by $17 million of provisional non-recurring tax reform charges and $5 million of pre-tax purchase accounting and M&A-related expenses. Without the tax reform charges, Q4 GAAP EPS would have been higher by $0.89 per diluted share.

Even with the planned $4 million pre-tax maintenance stoppage cost that we have previously communicated, Q4 adjusted net income and adjusted EBITDA margin were flat and up 3%, respectively. We continued to benefit from our focus on lowering input costs and tight cost controls and delivered a $2 million benefit from the Operational Excellence Phase 2 program.

Our working capital continued to be managed at historically low levels, and our cash performance was, again, strong. Excluding last year's sizable working capital improvement, cash flow was on par with 2016.

Now let's turn to Slide 10 to take a closer look at some of the quarter details. Sales of $193 million in the quarter were up 15% versus the prior year on higher FHN segment volumes attributable to acquisitions as well as a stabilization of the base business. Selling prices were flat versus the prior year.

On a full year basis, sales were $722 million, principally in line with 2016 sales of $725 million, as we have previously indicated.

Q4 gross margin was 17%, down from historical levels due to previously announced Q4's maintenance stoppage cost. For full year 2017, gross margin of 21% was flat with 2016.

Moving on to earnings on Slide 11. Net income for the quarter was down $21 million versus the prior year. This was due to $17 million of tax reform charges and $5 million of pre-tax purchase accounting and M&A-related expenses. The tax reform charges were for a provisional estimate for a nonrecurring charge of $14 million related to tax on deemed repatriation of offshore earnings, so called toll charges, and a $3 million charge for the remeasurement of deferred taxes due to federal rate changes.

While the tax reform charges had no effect on our 2017 cash flows, the $14 million of toll charges will be payable over the next 8 years, with a $1 million cash payment expected for 2018.

Combined, the two tax reform charges impacted GAAP EPS by $0.89 per diluted share. Adjusted EBITDA of $27 million was up 3% year over year and yielded a margin of 14%, down 164 basis points compared with the prior year due to 221 basis points of maintenance stoppage effect.

Let me underline that selling prices and base volumes -- base business volumes stabilized during the quarter. Also, our Operational Excellence initiatives continue to make a contribution with $7 million of favorable input costs. We delivered $2 million of cost savings related to Phase 2 of our Operational Excellence program. The increase in SG&A cost was primarily due to the inclusion of the 2 acquisitions, and the effect from FX was flat year over year.

On a full-year basis, net income of $22 million was down 53%, and EBITDA of $104 million was down 10% compared to the prior year, due primarily to the aforementioned tax reform charges and maintenance stoppage costs. 2017 adjusted EBITDA was $120 million, with an adjusted EBITDA margin of 17%, largely in line with the prior year and with expectations.

Moving on to Slide 12. Food, Health and Nutrition Q4 sales of $116 million represented 60% of total company sales, and were up 29% versus the prior year, due largely to the contributions from acquisitions. FHN's Q4 adjusted EBITDA margin of 19% was strong and in our expected range.

Industrial Specialties Q4 sales of $64 million were up 4% on higher volumes, more than offsetting price pressure in technical grade products. Q4 margin of 4% were down from the prior year, due primarily to the maintenance stoppage cost. However, pruning actions taken in the second half of 2016 resulted in enhanced product mix and 52 basis points of improved adjusted EBITDA margin for the full fiscal year.

Other Q4 sales of $13 million were down 16% versus the prior year, primarily due to reduced volumes in the low-value fertilizer markets. Other margins were 21%, up significantly from the same period last year, benefiting from the GTSP tolling arrangement that was put into place in December 2016, avoiding margin volatility seen in prior years.

Now turning to Slide 13. Net interest expense of $2 million in the fourth quarter was flat with the same period last year due to the higher debt levels and leverage related to our two recent acquisitions, offset by lower applicable margins, continuing to benefit from the cost-effective credit facility that we implemented in December 2016.

Our effective tax rate was artificially inflated in the fourth quarter due to the impact of the tax reform. Excluding the tax reform effects, the rate would have been 17%, lower than expected and well below our typical range, due to favorable Mexico permanent items related to a change in exchange rates. Capital expenditure of $17 million in the quarter was up from the same quarter last year. This quarter capex included approximately 25% for investments to complete the Geismar deep well, 15% for initial payments for 2018 capital program equipment and 50% for maintenance.

We paid $9 million in dividends during the quarter, and our annual dividend rate of $1.92 per share was maintained. Finally, in the fourth quarter, net debt increased by $19 million to $281 million, due primarily to the $28 million borrowed for the NutraGenesis acquisition, which was completed in November.

Our net debt to adjusted EBITDA ratio was 2.3x.

Now turning to Slide 14. Q4 GAAP diluted EPS was a loss of $0.58, down 222% from the same period in 2016, due to a negative $0.89 impact from tax reform charges as well as $0.22 due to purchase accounting and M&A-related expenses. On an adjusted diluted basis, Q4 EPS was $0.52, flat with the fourth quarter 2016.

On a full year basis, GAAP EPS was $1.13 compared to $2.44 for 2016, and adjusted diluted EPS was $2.46 compared to $2.55 for 2016.

Moving to Slide 15. Q4 cash from operations was solid at $34 million, but lower than the same period last year due to a large working capital improvement and tax refunds in the prior-year period. For the current quarter, average working capital for the base business decreased by 5% or $8 million year over year and represented a 20% of Q4 2017 annualized sales.

Q4 free cash flow of $17 million was primarily used to fund the dividend and $8 million of debt reduction after borrowing $28 million for the NutraGenesis acquisition.

Full year free cash flow of $39 million was on par with 2016 when excluding last year's sizable working capital improvement.

Now turning to our outlook on Slide 16. We expect full year 2018 revenues to grow 12% to 14% due to the annualized contributions from Novel Ingredients and NutraGenesis, favorable growth in nutrition end markets and the stabilization of the base business. Due primarily to recently enacted tax reform, Innophos is lowering its estimated effective tax rate for 2018 from the typical 32% to 33% range seen in recent years to 27% to 29%. The revised tax rate takes into consideration our geographical mix in earnings. We are carefully reviewing all aspects of tax reform and how they may have further impact on 2018 financials.

Full year GAAP EPS is expected to more than double in 2018 when compared with 2017. Adjusted EPS and adjusted EBITDA are expected to grow by 10% to 14% and 15% to 17%, respectively. This includes an improvement in 2018 full year EPS of approximately $0.16 per diluted share due to the lower effective tax rate.

Adjusted EBITDA margin is expected to approximate 17% of sales, which is in line with the prior year. We expect 45% of our 2018 EBITDA to be earned in the first half and 55% in the second half. This reflects the phasing of the benefits of the strategic value chain repositioning and manufacturing optimization program as well as the integration of the acquisitions completed in 2017. We expect to only modestly increase the use of cash to make targeted 2018 capital investments to support the aforementioned program.

Our proactive selling price increase program that was implemented in Q4 2017 is well underway and expected to sufficiently offset the impact of forecasted input cost increases in 2018. We remain on track to realize $4 million of expected acquisition cost synergies in 2018, which we expect will enhance the FHN adjusted EBITDA margin profile. And finally, delivery of $10 million in Phase 2 Operational Excellence savings is expected in 2018. This compares with $3 million recorded in 2017.

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

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

Thanks, Han. And before we open the call up for questions, please turn to Slide 17 as I highlight a few key points.

In 2017, we made tremendous progress establishing and executing against our Vision 2022 strategic roadmap. As we turn into 2018, the focus is on leveraging this momentum and putting our strategy to action as we execute against our top priorities for the year ahead, which are to: remain steadfastly focused on capitalizing on inorganic growth opportunities and high-growth end markets; executing on our value chain repositioning and manufacturing optimization program; developing new and innovative science-backed solutions that leverage our recently acquired assets, deliver enhanced value to our customers and address growing FHN megatrends; and finally, completing our Phase 2 Operational Excellence initiative, while we continue to impart an overall commitment to continuous improvement.

We are confident that the actions we've taken this past year and those that are in our pipeline position Innophos to deliver double-digit revenue and adjusted earnings growth in 2018. With momentum at our backs, we remain very excited for the opportunities ahead for Innophos, our employees, customers and shareholders. We have a clear strategic vision, a track record of delivering on our plans and the financial strength to achieve our Vision 2022 goals, delivering sustainable growth for shareholders. We look forward to keeping you updated along the way.

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

QUESTIONS AND ANSWERS

Operator

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

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

Han, I wanted to work through some numbers with you first. So are you guys seeing material freight/logistics cost increases into 2018? And if so, would that be included in raw material input cost increases that you're trying to price for?

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

So the answer to the latter part of your question is yes. The part to the former part of the question is what we are seeing is some tightness. I think everybody is experiencing it, particularly on the trucking side, in terms of driver availability and equipment availability. I wouldn't call it material in terms of what we have included in our numbers. But yes, we do see a bit of an uptick, and we've seen that also through the second half of 2017. So I think that's fair, but I wouldn't call it material per se.

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

Okay. And the reason I asked that is part of a two-part question here. So if I assume that -- I mean, it sounds like the pricing actions that you've been taking, it sounds like you're either finding success with that or remain confident that you are able to price in this environment to recover the vast majority of raw material increases that you're seeing. And so if I assume that those pricing actions are indeed recovering most of your input cost inflation, and then I layer in the $10 million of incremental cost saves in 2018 and $4 million of synergies, those 2 figures combined represent well over 100 basis points of year-on-year margin improvement. Yet your EBITDA margin expectation of 17% for 2018 represents a relatively modest improvement year-on-year. So can you just help me bridge the two, and maybe talk about what might be some negating margin impacts in 2018 relative to some of the benefits that you're looking to deliver?

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

Yes. A couple of things I would say, Brett, is, obviously, with the price increases, I think your assumption is correct. In terms of we -- and we said it in the remarks, we are successful in kind of offsetting the raw material cost. So I think that's data point one. Data point two is looking at -- you're talking about the 17% as a percent of sales, right, EBITDA margin?

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

Correct.

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

There's a couple of things there. So you're right in terms of the year-over-year from Phase 2. Remember that what we said is an additional $10 million in 2018 compared to $3 million. So the year-over-year is $7 million, so just kind of we get the math right on that one as a point. The other thing I would point out, and with the acquisitions coming in with the full annualized effect, you will remember, and we spoke to it very clearly when we first announced, both the Novel -- particularly the Novel acquisition, is that it's currently operating at an EBITDA when we bought the business just around 10%, right? That full annualized effect obviously weighed into kind of our 17% that we've seen up until now. So you have to kind of think about that in that context. Obviously, what we also said is that we would continue to look to improve that EBITDA margin on the back of the synergies that we're seeing. So what we're seeing is, on average, for the combined NutraGenesis and Novel business is -- for 2018 is between 13% and 14%. So we're already improving 300 to 400 basis points from where we were. So that's a journey, right, and we said that very clearly. So I think, right, that is weighing into the 17%, just so you know. So I think that's going well.

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

And Brett, I would just stay in on the pricing, just sort of a shout-out on that. As we indicated, we're off to a very good start in price increases. We proactively went out in December, which was effective January 1, as we saw raw materials returning. But I need to just stress as well, more than half of our pricing power has been dictated by our Commercial Excellence initiative, which has been such a focus for us. And we're finally seeing it come to fruition through pricing strategies via buckets like contracting as well as our 3-in-the-box momentum, which really yield results to drive solutions to our customers. So it's driving value at our customers. So we have been very successful with our commercial team going out and obtaining those price increases. So we will more than offset those raw material increases.

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

Okay. And then, Kim Ann, if I can just sneak in 2 for you, and then I'll yield the floor. Number one, are you guys ready at this time to maybe put some quantification around your plant maintenance business optimization program and, either in dollar terms or percentage terms, talk to what level of improvement you believe you can drive with that program in 2019, either as it relates to earnings, free cash flow returns, that kind of a thing? So first question is, can you quantify the plant maintenance program into 2019 at this time? And then my second question for you just relates to kind of the overall message or the significance of the management appointments that you announced last night. And I guess, what I'm trying to understand here is, can you give us an understanding of how you've thought about maybe protecting from the company becoming too horizontal at the management level, but while also fostering the hiring benefits that relate to experience relationships, that kind of a thing?

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

Yes. The first question, yes, for competitive reasons, we're really going to wait and provide more granularity until the next quarter on -- this is regarding the supply chain and manufacturing plans for this year. But what I can say is the strategic capital program will address what I believe is a very well-orchestrated maintenance plan, along with targeted investments to improve our cost position. And they're modest investments, that -- notwithstanding with a very rapid and very good return. The majority of the planned capex is directed toward our phosphate plants and supply chain, again, with the idea of really maintaining our North American region leadership position in what is a cash-generative core phosphate business. So more to say about that next quarter, Brett. With regard to the announcement, yes, my philosophy up until now has really been that we have front-end loaded, quite frankly, the talent. We have a very aggressive Vision 2022 and growth plan, and I've been quite successful over the last 18 to 24 months bringing in new talent, and I think the shareholders have seen that impact. With the last few that I have named, clearly, I've been talking about marketing and technology and innovation. We've worked very, very hard over the last 18 months augmenting our R&D organization, naming a new VP of Technology, getting new scientists in. But clearly, technology and marketing go hand-in-hand. We lead with marketing, we lead with megatrends. We needed someone as the head of marketing who is a marketing professional, who has done this for many years. And as you can see in the announcement, Eugenia has done this for 24 years. She has done B2C, B2B, specialty ingredients, and we really needed to front-end load that. With regard to the nutrition, now that we're bigger in Nutrition with our acquisition, we really needed a market-focused approach to that, in addition to our sales organization that really focuses on the phosphate across Food and Health and Industrial Specialties. So as I said when we bought Novel, the human capital that came along with that is second to none in the commercial area. So that -- I really needed a leader for that sales team. Up until now, I had indicated that the prior CEO of Novel has stayed on as a consultant and has helped us with that, and now Nicolas will become the Head of Sales for Nutrition. And clearly, I'm very confident that we will proceed with our Vision 2022, and that's really planning for the future. Nicolas, you can see, brings a great experience with the likes of Naturex and Frutarom and has a track record of knowing the industry and that's a very important thing. The business model's a very high-touch model versus some of our other markets. And then Rob Sklans, we have had an interim CHRO up until now with the -- with Josh Horenstein, who is my General Counsel and he's done a great job bringing on Rob with -- who came out of a public CHRO position. He comes in -- hits the road running, and he brings just a wealth of experience, particularly with cultural transformation and organizational talent transformation, and that is critical, and with keen experience on acquisitions. So I -- we are -- that was my finishing touches, if you will, Brett, on my executive team. And I am positive that their impact will be felt in the next several months.

Operator

Our next question comes from Larry Solow with CJS Securities.

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

Just pretty encouraging to see just on the base business sort of some stabilization. But in your 2018 outlook, are you basically -- it looks like if I do the math, it looks like 2% to 3% organic growth. And I know you didn't specifically say that, but if I sort of back out what the acquisitions were driving or contributing. Assuming that's ballpark correct, is that growth coming from -- it seems like just the price increases with flat volume and a little bit of growth, obviously, on your acquired businesses, is that a good way to look at it?

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

Yes. Larry, I think you have to look at it, clearly, pricing is helping us there. But because of now the combination of the different acquisitions along with our phosphate business, we do have an opportunity now to come out with new product development, which would include our phosphate. And we've had some successes even in the fourth quarter with that. So if you recall, Larry, I said, at best, our phosphate business would see GDP at best growth. And so I promised you stabilization and, ultimately, that type of growth and we're starting to see that.

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

Maybe just an additional comment in terms of the buckets, Larry. So our base business, you've seen, we did $722 million this year. I think we also said that around acquisitions, we did $37 million, we brought in, in the tail end of the year. So you can figure out that the base business was around $685 million. So to Kim Ann's point, that's where we see traction, good traction on some of the price increases. But then if you look at the base business as the first bucket, then you look at the acquisition plus the annualized impacts that we will see obviously in 2018, right, then the third bucket is really the growth that we see in particular in those nutrition end markets, so for those acquired businesses. And I would put that around 10%, okay? And then you have other initiatives that includes pricing, it includes new product development, it includes kind of cross-selling that Kim Ann was alluding to between the different portfolios. And then those kind of buckets make up where we believe we will be in 2018.

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

Got it. And Kim Ann mentioned a little bit of an acceleration in new product development. I remember, if I think -- if I recall at the Analyst Day, you put up a number that was -- seemed pretty modest in terms of your expectations, the new product contribution over the next few years. Is the acquisition of NutraGenesis, does that sort of provide a little bit of like a hitting kicker, if you will, for new product development that maybe doesn't show up in the sort of $12 million in sales that they had last year?

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

Yes. I would say that, overall, you've got to look at all of our -- both the Novel and the NutraGenesis as adding to our new product development portfolio, and something will, again, we'll be able to give you more granularity in the coming quarters -- by next quarter. Just to give you a sense, I mean, I've talked about some wins already just to give you a sense of what we see. Now we're able to leverage the combined strength, things like strategic sourcing, formulation, process technology. We're able to leverage our excipient know-how from our phosphate business to develop more easy-to-swallow tablets for dietary supplements. So to give you an example, we closed on -- nearly just in the fourth quarter alone, we closed on nearly $1.5 million of new cross-selling opportunities across several existing customers for one product category only. On new blends, one opportunity, one new customer alone resulted in $1.2 million of new product sales during Q4 for a new custom-formulated product that includes both our phosphate excipients business and botanical ingredients. And we expect just that win to generate over $5 million in top-line business growth with that new customer in 2018. So we are starting to see that, and we are developing more -- we're really fine-tuning that pipeline. So more to update you on that. If you recall, during that Vision 2022 Investor Day, Larry, we had not done our acquisitions at that point.

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

Right, absolutely. Okay. And then just one more quickly: $4 million in cost synergies from Novel, maybe a little bit -- I guess, NutraGenesis gets a little tiny piece of that, too. I assume that part of that is sort of baked into your guidance, maybe half of it, and then you get the full realization next year? Is it that a good way to sort of ballpark it?

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

No, that's baked in. And we said that at the back end, and it's in the PR as well as in the remarks that we made.

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

So -- right. So the whole $4 million, you will have done it by the end of the year, where you won't get the full year benefit, right? Is that correct? Or you're baking in a full year $4 million? Then you'll have...

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

Yes, we're baking in $4 million, Larry.

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

Okay. So does that mean that you'll have a higher -- did you already do those cuts, then, I guess? Is that fair to say?

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

No, we started -- Kim Ann made some remarks that with the IMO, the Integration Management Office, we started very quickly after we closed the acquisitions and so that meant that we did work in Q4. And now we're heading into the new year we're starting to see some of those benefits. And we expect, again, back to your question on guidance, to deliver $4 million in this year.

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

Yes.

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

Fair enough. And then just lastly, outlook for capex, I guess, Geismar, that project is done, but it sounds like it will be a little bit more capital -- or a little bit at least for maintenance stuff, but it doesn't sound like too much though. Is it fair to say that capex will decline year over year?

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

No, we expect to approximate a high single-digit percent increase over 2017 in the use of cash for our 2018 capital program, which is really related to that value chain repositioning and manufacturing optimization, which we started to spend in Q4, as we had indicated during our Q3 call.

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

Right. So Larry, the way to think about it, as you can see in our numbers, we finished the year of '17 at $41 million. Kim Ann talked about high single digits. So you can do the math in terms of where we see 2018, given the various initiatives that we got underway.

Operator

Our next question comes from Francesco Pellegrino with Sidoti & Company.

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

I'm really appreciating the color that you guys are providing us with for 2018. Just want to jump in. I was doing a lot of the same math that Brett was doing. And maybe just instead of looking at it from a margin perspective because I like the way that you guys have sort of positioned thinking about the business in this bucket format and where you're going to start getting the EBITDA dollar improvement. If you could just bridge me to your 2018 guidance, only because I'm having the same issues with Brett. And I know there's a lot of this layering, there's a lot of these buckets we're accounting for, but the first thing, the $4 million that you were just discussing with Larry, that's included in the $10 million of Operational Excellence that you're anticipating for 2018, right?

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

No, those are separate. So the $4 million is really based on the acquisition synergies, and the $10 million that we're talking about, and again, that is Phase 2 Operational Excellence. Obviously, that was a program that was initiated in 2017. We've actually already realized $3 million in 2017. So the year-over-year is $7 million as an improvement, right?

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

Okay. Then -- okay. Then this is what I'm struggling with. So we're starting with the 2017 base adjusted EBITDA of $120 million. Your guidance implied that you're going to be growing EBITDA dollars by $18 million to $20 million for 2018. $10 million is going to be coming from Operational Excellence. We have about $8 million coming from NutraGenesis and Novel. That leaves about a maximum of $2 million of EBITDA out there associated with some bucket, but that doesn't include the $4 million that remains from -- that we were just discussing. It just seemed that this adjusted EBITDA guidance might be a little bit light. And help me what's going on with that.

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

No. So you're starting -- yes, you're starting with $120 million, you're right; the Operational Excellence savings year over year of $7 million, right, $10 million versus $3 million. We're talking about the synergies of $4 million that you have named, which were related to the acquisitions. Then we had, obviously, the EBITDA growth that we're getting from including a full year of those acquisitions, right?

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

Right, but you have some of that already included in the $120 million. So I'm just looking about the incremental contribution from those acquisitions.

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

Yes, yes, yes. Call it that.

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

Yes, so let's call it $8 million.

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

Call it $8 million, fair enough. Then we obviously have some EBITDA related to the growth that we're seeing, right? And I mentioned I think it was in response to a question from Brett, around 10%. So that's that. And then, obviously, we are making some investments, right? We are making investments in our talent, in our organization and some other things we're doing strategically. So there's always some costs there that you've got to take into consideration. And that gets you to the range that you have said in terms of the improvement year over year, okay? So you should be very close.

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

Yes, it definitely makes sense. The wildcard was just always that portfolio management and price erosion bucket. And it just seemed that the pricing actions that you're going to be taking in 2018, that might not necessarily be as much of a headwind as it might actually be a tailwind going forward. So wrapping my mind around that scene, as if that wasn't going to be that much of a drawdown for EBITDA. But then maybe when I start thinking a little bit more about these incremental expenses associated with 2018, maybe not getting that much leverage out of these new expenses going forward, as Brett had pointed to. Help me quantify just the higher expenses associated with just, rightsizing this business for really outsized growth for 2019 through 2022? And I get hires like cost money, but just bridging it has sort of been something that is a little bit of a head-scratcher.

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

Right. But I wouldn't want to overemphasize that point. I just wanted to make it -- help you out as it relates to the bridging. I think the important point is the earlier point you made, Francesco, which is related to the base business. And we made the point in both the press release as our remarks in terms of that stabilizing. And that is important. We underline that. And that is an important point. We said it very early in '17 that, that would happen towards the end of '17 and heading into '18. And that's what we're indeed seeing, and you can see it in the numbers, too. And so that's an important point because the erosion that you had just alluded to a moment ago is obviously -- was a historical pattern that we've had. And that is now being stemmed, if you will. So that's an important part of you bridging from A to B.

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

Got it. And I know Larry asked this, I'm not sure if I caught the answer. The organic growth that you're going to be capturing in 2018 looks -- at least I'm backing into, it looks like 2.5% to 4.5%, which looks pretty good. You guys have obviously said that a majority of that's going to be from pricing. Can you just help us sort of quantify a little bit better how much of that's going to be volume? You already told us about new business that you won of $1.5 million for the year. Is there any incremental color in regards to initiatives outside of pricing that sort of helps us understand how you're better positioned for a new business or incremental business with existing customers?

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

Yes. So again, breaking it out into two buckets: On the base business, the volume growth is limited. So you talked about the pricing aspect, we do see some cross-selling and NPD opportunities. Those are there, but that's new, right, because, again, as you've said earlier, the base business is stabilizing. That's the key message to take away, but we see some cross-selling and some NPD opportunities. Then the growth, which is a much bigger percent on the acquired businesses, right, is the inherent market growth that we've kind of marked out at around 10%. But then on top of that, we have NPD, new product development, value capture and some other cross-selling opportunities. So if you do the math around that, you get well north of 20%.

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

And Francesco, we are committed to, starting next quarter to really talk more about our NPD pipeline. And I think that's extremely important because I have always led with innovation, technology, and marketing [inaudible] ultimately really helped. And then now that we've got our organizations in place and we've got more tools and technologies in our tool belt, I wanted you to get a sense of some of these wins that we did a very short timeframe. Remember, we only had Novel since September and NutraGenesis since November. And now we're seeing combinations and solutions, formulated products that not only contain active ingredients from those portfolios, but also from our phosphates. So we'll be able to talk more about that. I wanted to give you a sense that we feel like we've turned the corner on that.

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

Yes. One last point I'd like to add, if I may, for a moment, it's important to understand that the program that we have talked about, be it on the value chain or be it in the full effects from the acquisition, that those will progressively impact the year, right? So what we do see is, as we think about the years into 2 halves, and we gave you guidance around the 45% and the 55%, but equally, even if you think about the nearby quarter, sort of first quarter the current quarter here, that we see progression of EBITDA impact in a positive way as the year goes on. So that is another point I'd like to emphasize.

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

Okay. Last question for me. When I back out all the noise in regards to the incremental tax charge that resulted in a higher income tax expense during the quarter, I backed out some of the one-time items, I'm getting a 17% tax rate for the fourth quarter. Could you just help me to...

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

Correct.

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

Yes.

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

Yes, correct. And I made a comment on that, so I can take you back to that. So basically, that was related to Mexico permanent items and the FX kind of impact on that. So I guess, indeed, your observation that the underlying rate for the quarter was indeed at 17%. So that was, if you will, abnormally low for us, given where we typically have been. But it was driven by these Mexico perm items.

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

And those Mexico perm items, that's not captured in the FX loss or gain that you report?

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

No, no, no. That's purely a tax item.

Operator

Our next question comes from Curt Siegmeyer with KeyBanc Capital Markets.

Curtis Alan Siegmeyer - *KeyBanc Capital Markets Inc., Research Division - Associate*

Could you comment a little bit further on the product mix impact on margins in the FHN segment? It seems like that's been kind of persisting for a couple of quarters now at least. So I was just looking to get a little bit more color on that, if you view that as transitory in nature or when that could potentially resolve itself and shift back?

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

Yes. Curt, I can start with that. We have talked about in the Q3 and Q4 timeframe that we had a bit of an impact in the health market associated with some of our sales in Venezuela and also some sales outside in the Asian market. That has started to pick up again. It was really something that was out of our control. As you can imagine, everybody was dealing with some Venezuela issues during that time. So that's really what impacted that. Because of the profitability of those sales, albeit small sales, it's a high margin.

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

Yes. And I think, Curt, just to draw your attention maybe to the slide that speaks to that, which is Slide 12 in our deck, where you see the FHN and Industrial Specialties broken out particularly. We've been relatively consistent at the adjusted EBITDA margin level. So again, this last quarter, we produced 19% EBITDA margin on the FHN segment. Q3 was 19%. Q2 was 20%. So we've seen and we've been, in the interest of transparency, kind of highlighted some of those dynamics that Kim Ann just described. But overall, the bottom line, the EBITDA margin performance has been pretty consistent over the sequential quarters.

Curtis Alan Siegmeyer - *KeyBanc Capital Markets Inc., Research Division - Associate*

Okay. And then I had one on the Industrial Specialties segment as well. It sounds like the pruning opportunities there have kind of exhausted themselves. Is it fair to say you're pretty much largely complete with -- completed that? And then I apologize if I missed it, but on the maintenance stoppage, I was just wondering what the cause of that was. And I'm assuming it wasn't already scheduled, so just a little more color there as well.

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

Yes. I'll start with the pruning. You're right, Curt. We're pretty much done with that. I mean, any good business, continuing, we're always going to look at the tail of our business, and if there's very low profit products there, we're always going to look to see really how we can improve on that. But overall, pruning is done, yes. Han, can you talk about the IS because, actually, that was a planned outage. And we had announced that in Q3, and this is consistent with what we said. And it's also related to the value chain repositioning and maintenance -- I'm sorry, manufacturing optimization.

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

Yes. Great. So very much so, Kim Ann is correct. We had actually guided on that and announced it as part of our Q3 PR, that we would incur $4 million in the fourth quarter in terms of maintenance stoppage expense. It is, indeed, related to the strategic program that we got underway. So we see that as in line with expectations. And also, price is there. As it relates to the EBITDA margin for the segment, that $4 million indeed landed in the IS segment, which you -- and we explained that a moment ago. I think in some of the remarks I made is $4 million, 4% was the EBITDA margin in the IS segment in the fourth quarter. If you back out that $4 million, you get close to 12% of EBITDA margin. We've typically guided, when asked, that we would see for that IS segment between 14% and 15%. So there were a few odd and little mix issues, if you will, but we are very close to that 14% mark overall if you take away that planned optimization or plant maintenance stoppage kind of expenses.

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

And Curt, one last item. We've proactively moved that up into Q4. As we are able to give you more granularity next quarter, you'll understand why we did that and why we're expediting that because of the overall impact from a positive standpoint what it will do on cash flow and earnings, and it will have a very rapid and nice return. So we thought it was most prudent to start that sooner rather than later.

Operator

There are no further questions at this time. I would like to turn the call back over to Ms. Mink for any closing remarks.

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

Thanks, Michelle. Thank you for joining us today, everybody, and we really do look forward to keeping you updated on our progress. Have a great day.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.
