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Innophos Holdings, Inc. (IPHS)

Q1 2019 Earnings Call

CORPORATE PARTICIPANTS

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Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

OTHER PARTICIPANTS

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Larry S. Solow
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Innophos First Quarter 2019 Earnings Conference Call. My name is Robert and I will be your operator for today's call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]

It is now my pleasure to turn the call over to your host, Mark Feuerbach, Interim Chief Financial Officer. Thank you. You may begin.

Mark Feuerbach

Interim Chief Financial Officer, Innophos Holdings, Inc.

Good morning and thank you for joining us today for Innophos' first quarter 2019 results conference call. Joining me on the call today is Kim Ann Mink, Chairman, President and Chief Executive 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 that are 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, value chain transition expenses and the associated supplier Q4 2018 payment amortization, Mexico natural gas supply imbalance charges and M&A-related costs. Please refer to our press release, the appendix of today's presentation and our SEC filings for the GAAP to non-GAAP reconciliations.

We will make a replay of this conference call available for a limited time over the telephone at the number 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 April 30, 2019. 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, we will be reviewing our first-quarter 2019 financial performance and 2019 outlook, after which, we will open the call up for questions.

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

Kim Ann Mink

Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

Thanks, Mark, and good morning, everyone, and thank you for joining us today. Our first quarter performance was marked by our ability to deliver an adjusted EBITDA margin in line with last year despite a difficult year-over-year comparison on the top line. In addition, we continue to make solid progress executing against our Vision 2022 strategic roadmap and strategic pillars to build the critical capabilities that will transform Innophos' growth profile.

Notably, during the quarter, we advanced our efforts to transition to our lower-cost, multi-faceted value chain structure, continued to develop innovative solutions that enhance our position in attractive Food, Health & Nutrition end-markets and capitalized on our value-selling commercial model.

First quarter sales of $191 million were down 7% compared to the prior-year quarter as our pricing power and growth in several key categories were offset by several factors. This included the planned discontinuation of low-margin nutrition trading business, orders shifting out of the quarter due to customer timing and Midwest flooding, and softer-than-expected demand in certain Industrial Specialties categories related in part to indirect tariff impacts.

Now, GAAP net income for the quarter was $9 million or $0.44 per share, down from $11 million or $0.55 per share the prior quarter due primarily to severance costs and Mexico natural gas supply adjustment charges.

On this note, we continue to closely monitor the supply imbalance in Mexico's natural gas network and are proactively managing the situation where possible to mitigate the impact. This includes engaging with an energy consultant, assembling an energy reduction team and implementing several energy-reduction programs. The infrastructure projects in Mexico are currently on schedule for completion in Q3, providing better access to natural gas in the second half of this year.

Now, in Q1 we delivered adjusted EBITDA of $30 million, which was down $2 million or 7% year-on-year, but sequentially flat. Of note, this marks the fourth straight quarter of relatively stable adjusted EBITDA. Adjusted EBITDA margin of 16% was up 4 basis points compared with the prior-year quarter due to our cost management efforts implemented in the second half of 2018, continued success in capturing price increases and improved mix, all of which helped to offset the lower volume effects.

Now as Mark will expand upon later, today, we are reiterating our 2019 adjusted EBITDA guidance and resetting our revenue guidance. Although we continue to see growth in several served markets, as a result of the pockets of softer market demand that we began to see in Q1, we believe it is prudent to adjust our revenue guidance for 2019 to a range of 1% to 2% below 2018 revenues.

Even so, we are confident that by proactively managing near-term market dynamics and advancing our key initiatives under our strategic pillars, we will be able to deliver 2019 adjusted EBITDA growth of 1% to 3%.

Now, with that, please turn to slide 5, to take a closer look at some of our key strategic pillar achievements in Q1. In Operational Excellence, our transition to the new multi-faceted supply chain has advanced on schedule with several milestones completed in the quarter. The Geismar facility is now successfully operating under the new multi-sourcing structure put in place in 2018 to receive the key raw material, MGA, from our Coatzacoalcos facility as well as external sources.

Now, Geismar was able to optimize the processing of this new MGA supply mix and scale up to targeted run rates by the end of the quarter. Our Coatzacoalcos facility successfully scaled up MGA production to the targeted production rates and the overall supply plan for external sources of MGA is now fully in place.

We completed the transition of the multi-faceted supply chain in the first quarter as planned. We continue to expect to begin to capture the benefits of the lower-cost structure during the latter half of the year.

Now, as a reminder, this timing is due to our expectation that second quarter production costs will still be in inventory at the end of Q2. We remain on track to deliver adjusted diluted EPS improvement of 10%, which represents an estimated annual run rate of $0.25 to $0.27 per share by year-end. Now, beyond that, we remain committed to a continuous improvement culture across the organization to further optimize our operations and improve our cost structure.

Under Commercial Excellence, our commercial organization has continued to successfully leverage our value-selling model to capture pricing power and offset input cost increases from inflation and higher freight expenses.

Under Strategic Growth, we remain focused on advancing both organic and inorganic growth opportunities that strengthen Innophos' position as a value-adding, higher-margin ingredient solutions provider for high-growth FHN markets.

Now, on the organic side, we continue to deliver wins through our SPARC new product development program. Through a focus on collaborating with our customers in the Food, Health & Nutrition markets, our scientists and engineers leverage our ingredient knowledge and process technology expertise to develop products that support our customers' product claims and consumer demand.

During the first quarter, we developed several science-backed solutions to support healthy lifestyles. This included a customized selenium-based solution for inclusion in a new instantized micronutrient beverage product. This product has since been launched by a leader in the natural products industry to support healthy immune system and cardiovascular health claims.

For a customer's new dietary supplement launch, our formulators developed a nutritional ingredient blend and leveraged our processing technology to reduce the overall tablet size. The same processing technology was employed in the development of a new turmeric product supporting anti-inflammatory and anti-oxidant claims.

Now, these SPARC-driven efforts support our strategy to shift our portfolio mix over time to a greater level of higher-margin, higher-value branded ingredients and formulated solutions.

To drive our inorganic growth, we continue to actively evaluate M&A opportunities that meet our disciplined and requisite corporate strategic and financial criteria to strengthen our FHN platform.

Now, our focus in 2019 remains on executing on the key initiatives across our strategic pillars in order to deliver improved profitability and realize our Vision 2022 goals for sustainable top- and bottom-line growth.

So, with that, I will turn the call over to Mark. Mark?

Mark Feuerbach

Interim Chief Financial Officer, Innophos Holdings, Inc.

Thank you, Kim Ann. Please turn to slide 6. As Kim Ann noted and as shown here, our Q1 financial performance was marked by our ability to deliver adjusted EBITDA margin in line with last year despite a difficult year-over-year comparison on the top line.

Now, let's turn to slide 7 to take a closer look at the quarter details. Sales of $191 million in the quarter were 7% lower than the prior-year quarter as the 4% selling price increases were offset by three volume drivers. These included a 3% volume decline from the discontinued low-margin nutrition trading business; 6% lower volumes from order push-outs due to customer timing and Midwest flooding; and, a 2% decline from softer-than-expected demand in certain Industrial Specialties categories.

Q1 gross margin of 19% was up significantly from the sequential fourth quarter, but down 153 basis points compared with last year due to the impacts of the value chain transition and Mexico natural gas charges. Excluding the impact from these costs, Q1 gross margin would have been 20% of sales.

Moving on to earnings on slide 8, Q1 net income of $9 million was down 20% due primarily to severance costs and Mexico natural gas supply adjustment charges. As shown in the adjusted EBITDA bridge, selling price increases and SG&A benefits were offset by lower volumes and higher input and manufacturing costs.

As a result, adjusted EBITDA of $30 million was down 7% year-over-year. Adjusted EBITDA margin of 16% was up slightly year-over-year, reflecting improved mix and the continued benefits of price and cost actions.

Moving on to slide 9 to review our performance by segment, FHN Q1 sales of $115 million represented 60% of total company sales and we're down 9% overall, as the 4% improvement from price increases was offset by a 13% decrease in volumes. The volume decline was due largely to our decision to discontinue a portion of low-margin nutrition trading business and customer timing delays.

FHN Q1 adjusted EBITDA margin of 15% was sequentially similar to the last three quarters, but 173 basis points below the prior-year quarter due to increases in freight market rates and other input costs.

IS Q1 sales of $63 million were flat as a 4% selling price increase was offset by a 4% volume decline, that was impacted by Midwest flooding, and indirect unfavorable tariff impact on our international sales from competition redirecting mostly technical grade product. The IS Q1 adjusted EBITDA margin of 15% was up 61 basis points sequentially, but 167 basis points below the same quarter last year due to the noted indirect tariff impact.

Other Q1 sales were $13 million, down 16% compared with the same period last year on lower volumes due primarily to order pattern. Other adjusted EBITDA margin of 27% was up significantly from Q1 2018 due to improved product mix.

Now, turning to slide 10. In the first quarter, net interest expense of $4 million was up $1 million due to higher market interest rates. The underlying effective Q1 tax rate was 29%, in line with the prior year and expectations. Capital expenditures of $10 million in the quarter were $5 million lower due to higher payments made from accrued payables in the prior-year quarter.

We paid $9 million in dividends during the quarter and maintained our annual dividend rate of $1.92 per share. Net debt was $309 million in Q1, up $5 million year-over-year due to a small decrease in year-over-year free cash flow. Our net debt to adjusted EBITDA ratio was 2.5 times compared to 2.4 times last year.

Now, turning to slide 11. On a GAAP basis, earnings per share of $0.44 declined 20% due primarily to severance costs and Mexico natural gas supply adjustment charges incurred in the first quarter of 2019. Q1 adjusted diluted EPS was $0.57, down $0.03 year-over-year due to lower volumes.

Moving to slide 12, Q1 cash from operations was an outflow of $9 million and free cash flow was an outflow of $19 million, reflecting seasonal working capital effects that were more significant in the first quarter of 2019 due to decreases in accounts payable.

Now, turning to slide 13 to review our outlook for 2019. Starting with revenue, we continue to expect positive year-over-year revenue contribution from price increases and new product wins. These benefits will be offset by the discontinuation of lower-margin FHN nutrition trading business in 2018, lower co-product sales in the Other segment due to efficiency improvements, and indirect tariff pressure from competition redirecting mostly technical grade product to international markets.

Additionally, although we expect the impact from the timing of orders and Midwest flooding experienced in the first quarter to rebound over the next two quarters, we now expect a slowing demand that we began to see in select industrial markets in Q1 to affect our outlook for this year. As a result, as Kim Ann mentioned earlier, we are revising our revenue forecast to be 1% to 2% below 2018 revenue of $802 million to better align with the current market demands.

Despite the top line reset, we are maintaining our 2019 adjusted EBITDA guidance of 1% to 3% growth compared with the prior year, with phasing in the range of 42% to 45% in half one and 55% to 58% in half two.

In Q2 2019, Innophos will undergo and complete a planned annual maintenance shutdown on one of its production units at the Coatzacoalcos, Mexico facility. This will result in $3 million of maintenance and under-absorption costs, which were already reflected in the company's 2019 guidance.

From a GAAP and cash perspective, we continue to expect costs to be higher during H1. The anticipated non-recurring portion is expected to be adjusted for non-GAAP reporting purposes, such as value chain transition expense, which was completed in Q1 2019, and Mexico natural gas supply adjustment charges.

Capital investments are expected to be in line with 2018 to finalize the value chain and manufacturing optimization program that commenced last year. Average working capital is also estimated to remain in line with 2018. We continue to expect the effective tax rate in the 28% to 32% range.

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

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

Thanks, Mark. And before we open the call up for questions, please turn to slide 14 as I highlight a few key points. Now, although we expect to face some headwinds in 2019, including incremental softness in select markets, our overall base business remains stable and we're confident that we have the critical capabilities and strategic programs in place to deliver EBITDA margin growth this year. Now, we continue to advance the transition to our multi-faceted value chain initiative and as a result, we are on track to meaningfully reduce our cost basis as we move through 2019.

Through our Commercial Excellence work, we've established deep customer relationships and a strong commercial foundation that positions us to continue to proactively leverage our value-selling approach. And we also continue to have excellent momentum developing high-value new products through the SPARC program, which we expect to accelerate as we move through the year. And finally, we remain committed to pursuing inorganic growth initiatives through M&A to further shift our position over time to a value-adding, higher-margin ingredient solutions provider. And we do look forward to keeping you updated as we execute on our plan in 2019 and continue on our journey to deliver our longer-term Vision 2022 goals.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, Kim. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Brett Hundley with Seaport Global. Please proceed with your question.

Brett Michael Hundley
Analyst, Seaport Global Securities LLC

Q

Hey. Good morning, everyone.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Hi, Brett.

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.

A

Good morning, Brett.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

How are you?

Brett Michael Hundley
Analyst, Seaport Global Securities LLC

Q

I'm good. Thanks for asking. I just have a quick question to make sure that I'm clear on some things. So, it sounds to me like Midwest flooding is leading to somewhat of an unexpected incremental softness in certain business areas. And, also, that recovery is expected to take multiple quarters as opposed to maybe just one quarter. Am I hearing that right? And then, what's the connection between Midwest flooding and incremental softness over a longer-than-expected time period?

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Yeah. Thanks for that question, Brett. With that Midwest flooding, that specifically impacted some of our products that go into the fertilizer area. Typically – those orders, typically, would come in the mid-to-late March timeframe. So, right now, as we monitor the situation, it could just be pushed out mostly in Q2, but we see some spill over to Q3 depending upon when the farmers will do their fertilizing.

Brett Michael Hundley
Analyst, Seaport Global Securities LLC

Q

Got you. Okay. That's very clear. But within FHN itself, volumes there were a touch weaker than I would have expected. And it sounds like maybe you saw some incremental softness there. I know you said that your base phosphates business is stable. Were you surprised by anything on the FHN volume side? And can you also – to the extent that you can, can you give us some understanding of how Novel continues to perform?

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Okay. So, yeah, with regard to FHN, really that was more of an order timing. So, the Midwest flooding was really in the Industrial Specialties segment. So, we put that to the side, but for FHN, order timing was the bigger factor there. That was primarily in our nutrition business, some of which was due to order phasing in some of our larger branded ingredients and some was due to further destocking by our customers, where orders were just pushed out into the second quarter.

So, we've already begun to see movement, Brett, in the order book, including some sales that are already shipped in April, which is what gives us visibility and confidence that we'll see that.

Brett Michael Hundley
Analyst, Seaport Global Securities LLC

Q

Excellent. Thank you. And then, I just had a question on pricing. So, you guys have gone through multiple rounds with customers now. Where do you think you stand today insofar as being close to made whole on your raw material inflation? That's the first part of my question.

And then, as a follow-up, when would be the next discussion point, typically, between you and a customer assuming that raw materials remain static? So, I guess what I'm asking is like what's the normal course of talks in a stable non-inflationary environment? Would it be three months, six months? That color would be helpful too.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Yeah. So, we've actually more than covered our input costs to-date. So, that's – it's good news and we've been very proactive. I would also mention that we came out with another price increase in, effective March 1, and our competitors have followed. Just to give you a sense, Brett, we've captured $8 million in Q1 as far as price increases. So, we were off to a very good start.

Now, I think we've discussed in the past that we have increased the amount of some of our products, particularly in the phosphate area, and have put those into longer-term contracts and that has served us quite well. And we've just gone through a lot of the contract negotiations, particularly in the Food, Health & Nutrition business.

And in fact, we have seen some nice price increases in that area, as part of that $8 million that I just talked about. Typically, even in stable raw materials, we really don't index things to raw materials, which I think is the right way to go, because that commoditizes your business quite frankly. So, we really talk about our value proposition and the things that we're doing as a key supplier – as a key partner, if you will, regarding to our new product development, our quality programs and so forth and so on, our manufacturing optimization, all those things take time and money to be the best supplier we can possibly do.

So, typically, we are always reviewing that. Every two to three months quite frankly, we have those discussions internally and then decide how we move out and that's probably consistent with what we did in 2018, because it was pretty much once a quarter that we were raising prices. So, hopefully, that answers your question.

Brett Michael Hundley
Analyst, Seaport Global Securities LLC

Q

Yeah. It does. I actually think that that's a really important answer depending on what the raw material environment looks like in the coming quarters. So, I appreciate that.

Final question for me, probably your favorite topic now, Kim Ann, is M&A. So, your M&A strategy makes sense insofar as acquiring smaller entities at hopefully relatively more attractive multiples than what we've seen out there and then letting those assets flourish on your platform against what's a wide base of application knowledge, customer relationships, et cetera.

I think what I underappreciated in recent years was the quality or the fitness of these targets. So, I guess what I'm asking is, as you work down your focus list and meet with companies, are you encountering a lot of situations where the composition of the target is vastly different than what you see on the surface and, related, how can you get the investment community comfortable that Innophos can in fact deliver on its 2022 goals, because I think a lot of us on this side of the phone are working through the math and we're seeing a runway that's shortening a little bit. And so, if you can kind of talk to your ability to deliver and get us comfortable, I think that will go a long way in helping.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

So, clearly another acquisition in 2019 is going to keep us on track to achieving our 2022 target. When we put out our Vision 2022, if you kind of think about our target, that would be meaning maybe that $95 million of revenue per year starting in 2018. We already have started that in 2017.

So, the fact that we did not complete an acquisition in 2018 should not be interpreted as we fall off the track, and we were very active in 2018, extremely active, but also very disciplined. So, this was not about something we could not reach a final agreement. This is really about us deciding from a disciplined standpoint and because we do have disciplined criteria.

So, going back to your next question, while we feel our pipeline remains very active as we evaluate target acquisitions and we are actively pursuing that, we are remaining very disciplined, so that's why they call it due diligence. And if we feel that there is a weakness in the acquisition we're looking at, we feel we'd be remiss as us – on our part, to allow – to buy such an acquisition, I think that would be remiss for our shareholders.

So, that's how you should look at that, but I wouldn't say – I think the pipeline we're looking at, we continue to be – feel very comfortable and I think there are still many, many targets out there that could be actionable.

Brett Michael Hundley
Analyst, Seaport Global Securities LLC
Q

Thank you so much.

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

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Great. Good morning, guys. Thanks. Just a couple of a...

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.
A

Hi, Larry.

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.
A

Hi, Larry.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Hello. Just Brett asked a bunch questions in for me, but just a couple follow-ups. On the price increases, it seems pretty consistent on both the FHN and Industrial. Is that – and you mentioned that maybe it's perhaps a little leaning more towards phosphates, maybe they were a little bit behind the 8 ball. Are you seeing – just between phosphates and on the nutrients business, is the average increase is about that 4%-ish or is there a sort of discrepancy between the two?

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.
A

Yeah. Larry, I'll take that. So, yeah, we're seeing more success in the phosphates portion of the business at this point, but looking at the segment overall, you're right, the percentages look pretty much the same this quarter on a year-over-year basis.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Right.

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.
A

But as you know, we were raising prices all last year and we were more successful in the IS segment. In fact, in the fourth quarter last year, we had about a 6.5% increase in IS. And now, we're about 3.5%. So, some of that was due to the indirect tariff pressures that we're facing, some pricing headwinds in the international markets. And so, we saw sort of a little bit of a step-down there, but still positive, which is good.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

And I would...

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Go ahead, please.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

I would just add, Larry, is that I really felt and I think I've discussed this with our investors is that, when I came into the company three years ago, there really was not this philosophy of taking as – we weren't acting as a leader in the pricing area.

So, in the phosphate area, we really had ground to make up. So, I think our assertiveness has been very successful and I think that's why you've seen more activity or the numbers really indicate that. I think in the nutrition business, in many cases, while we have seen price increases, we were probably in a better position in that area to begin with because of the value selling there, if that makes sense.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Absolutely. It seems like the phosphates were – it sounds like were a little bit underappreciated historically, at least some of them. So, it looks you guys are shining a light on them a little better in getting a deserved price. Has the gap been, I assume, cut down a lot? Going forward, though, do you still see, and it's sort of a follow-up to Brett's question too, sort of a flatter or moderating rise on the raw materials, do you see room for price increases and is that more tilted still towards phosphate or there's still more room to sort of catch-up?

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

I think there's still more room to catch up, because we are making improvements every day and we are now – with our broader portfolio, we are able now to bring solutions to our traditional customers that only traditionally have bought phosphates. We're now bringing them a much broader portfolio, again becoming a more meaningful partner in this.

So, again, it's all about the value proposition. So, I really think there is more room there. And quite frankly, we will always – and we continue to look at the nutrition business as well because of the segments we're serving there that I think there's also some room there. And I think that's an important statement. So, it's all part of that Commercial Excellence. It's continuous improvement in all of those pillars I would say.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right. Okay. And you discussed and you qualified a little bit on the new product introductions that you referred to as SPARC. Can you just help us? I don't know if you can give us exact quantification, but sort of how much sort of these new products are moving the needle today and your expectation over the next couple of years or...?

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Oh, good question. And I know we're not at this point quantifying NPD. I had promised our investor community that towards the end of this year, we'll really look at a Vitality Index, because we owe you that, because we should show you that, to show that we are truly a specialty ingredient supplier.

And I'll just give you some comparisons. Look – so, looking at 2018 versus 2017, by leveraging the skills of now our broader technology organization coupled with what we now is a very disciplined new product development process, we grew our NPD sales, our new product development sales, by two-thirds and we're targeting nearly a 50% growth in sales from NPD in 2019 versus 2018.

So, we're really picking up momentum. And for me to report on our Vitality Index, I do need some history. And as you know, we put this SPARC new product development program in that 2017 timeframe and cleaned up the old pipeline that we had come into in 2016 and really have refreshed. So, I think we've been made – very good progress from a momentum standpoint. So, stay-tuned for fourth quarter where we'll be able to talk about that more, but definitely year-on-year, we're making strides.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Okay. And then, it sounds like, speaking of strides, obviously you're making great progress on your value chain initiatives.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Yeah.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Just on a quantifying basis, if we strip out sort of it and you guys have done that on your non-GAAP numbers sort of the transition costs, is this still the investments that are going in today? I realize it probably won't turn material accretive until latter portion of the year. But if we strip out the – or exclude sort of the transitions, is this still dilutive to your current performance or sort of neutral?

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.

A

Well, I would say it was neutral for the quarter essentially, because we're not only stripping out the costs that we incurred, but we're stripping out the amortization of the income from the Q4 payment we received from the supplier.

Larry S. Solow
Analyst, CJS Securities, Inc. Q

Right.

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc. A

I think there was a net about $0.5 million impact there. As far as getting the benefits coming through, we wouldn't have had any benefits hitting our first quarter P&L yet, because we really didn't go to the new process until very late in the fourth quarter.

So, anything that would have occurred in the first quarter is hung up in inventory right now. And as you know, we were fine-tuning the operations during that period as well. So, it really wasn't until the very end of the quarter where we sort of got up to speed and are now set going forward.

So, we'll see lower production costs in the second quarter. Those will be stuck in inventory still at that point and then, we'll start to see that benefit come out in the third quarter.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc. A

And just to reiterate though, we had a $1.6 million of expenses right in that first – in our first quarter, mostly offset for the supplier payment amortization, but we'll have no further charges this year.

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc. A

Yeah. Yeah. So, we're done with the transition. It's up and running and that's it for calling out any expenses.

Larry S. Solow
Analyst, CJS Securities, Inc. Q

Okay. Just two more if I may, just on the adjusted EBITDA by segment, looks like on the – the Other segment had a nice – at least, on a year-over-year basis, a nice move up, not so much sequentially, but year-over-year and your margins in that, which I believe are mostly just a co-product, the 27%, is that – and you mentioned – you called that mix on that. Is that tolling better? Can you just help us sort of what was driving that sort of upside in that segment?

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc. A

Sure. It's not the GTSP toll. That was fairly flat year-over-year. First of all, there is a comparison period here. The lowest margin quarter of the year was the first quarter last year and we ramped up as the year went on. So, if we were to look at it sequentially, we are up, but not – we aren't near the amount that we are year-over-year. So that's one point.

Second point, it really was improved mix, there was some low-grade acid sales in the prior-year quarter that were going into the fertilizer markets. So, there's less of that hitting the results in this quarter. And it's a small revenue number of only $13 million. So, the profit sort of gets exaggerated because of that. But it is improved mix, because we have some other tolls as well. Up in the U.S., there's a couple of contracts that we have and those tend to make more money than the big GTSP one. So, you're getting a blend of favorable mix from all of those factors.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Okay. And just last question on your guidance on the first half, second half EBITDA proportion. It sort of implies a EBITDA in Q2 of somewhere in the $24 million to $28 million – $25 million to $27 million a bit of a drop, is that – obviously I think you called out this maintenance expense, the biggest driver of the other things in there?

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.

A

Yeah. That's definitely the biggest driver is...

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Yes.

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.

A

...is the $3 million charge is there both for expenses and under-absorbed overheads that will flush out to the P&L, yes.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

And that's the planned turnaround.

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.

A

Yeah. Yeah.

Larry S. Solow
Analyst, CJS Securities, Inc.

Q

Right. Right. And then, you would say sort of the rest of business, I guess, you take out, would you agree to be flat to maybe slightly down is a good way to characterize it?

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.

A

I think the rest of the business should be performing similar to the way it did in the first quarter.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Yeah.

Larry S. Solow
Analyst, CJS Securities, Inc.
Q

Got it. Okay. Great. Thanks. Thanks a lot. I appreciate it.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.
A

Thanks, Larry.

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.
A

Thanks, Larry.

Operator: [Operator Instructions] Our next question comes from Curt Siegmeyer with KeyBanc Capital Markets. Please proceed with your question.

Curt Siegmeyer
Analyst, KeyBanc Capital Markets, Inc.
Q

Hey. Good morning, Kim Ann. Good morning, Mark.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.
A

Hi. Hi, Curt. How are you?

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.
A

Hi, Curt.

Curt Siegmeyer
Analyst, KeyBanc Capital Markets, Inc.
Q

Doing well. If I could, just on FHN, you talked a little bit about the destocking that you saw and some of the softness in the nutrition piece of the business, but you talked about orders bouncing back here in March and April. Would that imply – do you expect volume growth in that business over the remaining three quarters of the year or do you see anything from just kind of what you're seeing so far that that could still prevent that and maybe we should stay a little cautious here in the near term?

Mark Feuerbach
Interim Chief Financial Officer, Innophos Holdings, Inc.
A

Well, certainly, FHN is going to be impacted by the business that we chose to not – or to discontinue late in 2018. So, we're going to have that negative effect throughout the year, but, yeah, a lot of the timing issues that we saw in phasing on customer orders, we do expect that – to recover that over the next couple of quarters, but still over the year, we're going to have a negative comp because of the business we walked away from.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

It's primarily due to what we had already talked about in the second half of last year, Curt.

Curt Siegmeyer
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Okay. And then, on the tariff effects that you've called out, how did that impact kind of trend throughout the quarter? Did it seem to intensify or do you feel like it's kind of just stable in terms of the headwind or any risk there that you see going forward of that potentially getting worse?

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Yeah. Well, if you recall, when we came out with our guidance, we did in fact call out that the gains that we would get in revenues would be expected to be offset by these indirect tariff pressure from competition, again redirecting mostly technical grade product, i.e., that product being used in Industrial Specialties really to the international market.

So, rather than not the Chinese competition coming into the U.S., they're going into some of our other markets because of the tariff disputes. We do anticipate limited direct impact on our North American sales. Now, so, we had planned for some downside there. What we're talking about on this call, it has intensified a bit more, hence the reason why we did call that out and that's why we did see the weaker demand.

We do think we've got our hands – heads around this now, but they did – competition came in a little bit stronger, not only to affect some of our pricing, hence the reason why Mark called out about the margin compression for this quarter in Industrial Specialties, but it did play into the volume decline. So, it was just further weakening of demand that we had originally did not have visibility into, but we now do and that's why you see the lower guidance.

Curt Siegmeyer
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. That's helpful. Thank you.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

A

Yeah.

Operator: Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the call back to Kim Ann Mink for closing comments.

Kim Ann Mink
Chairman, President & Chief Executive Officer, Innophos Holdings, Inc.

Thanks, Rob, and thank you all for joining us today and we do really look forward to keeping you updated on our progress. Thank you.

Operator: This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.