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PRESENTATION

Operator

Welcome to the third quarter 2016 Innophos earnings conference call. My name is Hilda, and I will be your operator for today.

(Operator Instructions)

Please note that this conference is being recorded.

And now I would like to turn the call over to Mr. Mark Feuerbach, Vice President of Investor Relations. You may begin.

Mark Feuerbach - *Innophos Holdings, Inc. - VP, IR*

Good morning, and thank you for joining us today for Innophos' third quarter 2016 results conference call. Joining me on the call today are Kim Ann Mink, President and Chief Executive Officer, and Han Kieftenbeld, Chief Financial Officer.

During the course of this call, management may make or reiterate forward-looking statements made in our October 27 release regarding financial performance and future events. We will attempt to identify these statements by use of words such as expects, believes, anticipates, intends, and other words that denote future events.

These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

We caution you to consider the important risks and other factors as set forth in the forward-looking statements section and in Item 1A, Risk Factors, in our Annual Report on Form 10-K as filed with the SEC that could cause actual results to differ from those in the forward-looking statements made in this conference call.

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. Reconciliations to the most directly comparable GAAP financial measures are provided in the tables in yesterday's press release and in the appendix of today's presentation.

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 October 28, 2016, 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.

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

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

Thanks, Mark, and good morning, everyone, and thank you for joining us today.

Beginning on Slide 4, it's now been 10 months since I joined Innophos. When I began I said that I was honored and excited to be leading this company. Today that statement could not ring more true. There is more work to be done, but I'm so very proud of the progress that we've made so far this year.

We're strengthening our foundation with a new, energized management team who brings required new skill sets, innovative ideas and external best practices. We're also making significant headway in realizing our vision: to transform Innophos into a market-oriented growth company, a company that delivers a diversified set of value-added, innovative and technology-based ingredient solutions in phosphates and beyond, and whose solutions are deeply aligned with megatrends across the food, health and nutrition markets.

The three strategic pillars of our transformation, namely operational excellence, commercial excellence, and strategic growth, are at the core of realizing this vision. We're making very good progress in finalizing our strategic growth roadmap to set the course for the Company in the years ahead.

In addition, we know that sustainable growth can only be achieved on a stable foundation. We're relentlessly focused on getting the core business fit by executing against our operational excellence and commercial excellence initiatives.

Turning to Slide 5, by continuing to focus on cost reductions and productivity initiatives, we delivered a very good quarter that was highlighted by our best adjusted EBITDA this year, solid earnings and strong cash generation, all despite ongoing market headwinds and top line pressure. Han will cover the quarterly financials in more detail, but first I'd like to note two recent business developments and provide an update on the progress we've made against our three strategic pillars.

As highlighted on Slide 6, we're very pleased to announce that we have entered into a two-year tolling agreement for our GTSP business with a company trading in chemical and agricultural fertilizers effective December 1. This agreement will enable us to reduce GTSP earnings volatility by providing us with an outlet in the market for our GTSP.

Equally as important, it will reduce the need for us to expend valuable resources on managing this noncore product line and market. As you may recall, identifying the appropriate solution for our GTSP business was one of our key strategic priorities in 2016. We are thrilled to have this agreement in place, as it reflects the management team's commitment and ability to deliver on what we promise.

Moving to Slide 7, I'd like to highlight organizational changes that we recently made to further strengthen our foundation and streamline our reporting structure in support of our transformation. The first relates to our nutrition business, where we offer bioactive mineral ingredients and botanical ingredients to our customers.

This business, which was created by bringing together three industry-leading suppliers, is an integral part of Innophos' growth strategy, and therefore needs to align with our strategic goals and processes. To achieve this, we've made two important changes.

The supply chain, purchasing and customer service functions of the nutrition business have joined the broader corporate supply chain and purchasing organization, led by Amy Hartzell, our VP of Supply Chain and Purchasing. This will allow us more effectively to leverage best in class work processes across all business units, increase operational efficiencies and respond more quickly to changing market conditions.

Further, the sales, marketing and technology functions for the nutrition business now report directly to Sherry Duff, Chief Marketing Officer and VP of Technology. This will ensure a sustained focus on growth through market leadership, innovation and customer responsiveness.

Moving on to the second organizational change, we have de-layered our specialty phosphate commercial organization, and the Head of Global Sales is now reporting directly to me. As the specialty phosphates business continues to face challenging market conditions, we believe that this closer reporting relationship will provide better visibility into our markets and customers, ultimately allowing us to better serve our customers' evolving needs and capitalize on market opportunities. As we move forward, we are committed to making meaningful changes to enhance our business and provide a strong foundation as we begin the fourth quarter and prepare for 2017.

Now let's move to an update on our three strategic pillars. We remain laser focused on getting our business fit to counteract market pressures and, concurrently, pave the path for growth well into the future.

As shown on Slide 8, in operational excellence, we are focused on driving operational efficiency by making investments and improvements in our supply chain and manufacturing processes. Now, since we launched our operational excellence initiatives in Q1, we've made significant headway against this pillar.

We brought on seasoned executive Amy Hartzell to lead the development and implementation of a fully integrated, end-to-end global supply chain and operational improvement program. We implemented initiatives to optimize raw material sourcing and reduce inventory overhang.

We analyzed product demand and variability to facilitate improved forecasting and planning. And we developed a company-wide spend map to establish a clear link between spend data and company financials.

In Q3, by focusing on raw material sourcing, cost optimization and inventory management, we achieved a $3 million increase in our identified procurement savings pipeline and a $17 million reduction in inventory for the quarter. We've now identified a procurement savings pipeline in the range of $13 million to $15 million from both direct and indirect spend categories, up from the prior range of $10 million to $12 million that we reported last quarter.

This supported the sequential increase in earnings. We expect 75% of these savings to be recognized in our 2016 P&L, with the remainder rolling into early 2017.

Now, our success in driving out costs to benefit our bottom line is, in large part, the result of our efforts to infuse an ongoing commitment to operational excellence into the culture here at Innophos. Our company-wide short-term incentive program is now aligned with both EBITDA and working capital, ensuring that all employees understand how they affect these measures and, in turn, their compensation.

Moving on to commercial excellence on Slide 9, with this pillar we're striving to identify, understand, and meet the complex and ever-changing needs of our customer base. By doing so we aim to maximize our value selling, drive top-line improvement and effectively manage our margins.

We've completed customer and market segmentation analyses that have resulted in a more strategic approach to service levels for all customer-facing functions of the business. We also continue to evaluate our pricing strategy, to be more disciplined in better selling our value proposition and our go-to-market strategy to ensure we have the most effective approach across our products and sales professionals.

One of our top priorities in this area is reorganizing our sales force away from the generalist model that has historically been in place at Innophos and toward a more market-centric model. This new structure will position us to better serve our clients and ultimately drive top and bottom line growth.

We have the final blueprint for this structure in place, and the organizational changes that we made this quarter are the first step in executing this plan. We are currently evaluating how we can best reposition the talent that we have on board while also actively recruiting talent to fill the gaps that exist. We expect this restructuring to be largely headcount neutral.

Now let's turn to Slide 10 to discuss the final pillar, strategic growth. We're very excited about our progress in advancing our strategic roadmap for growth. This plan, which we expect to have finalized by year end, will be focused on how we can most effectively capture both organic and inorganic growth opportunities.

Now, as we noted last quarter, through our work to date two conclusions are already apparent. First, while our core phosphate business is a proven cash generator with further potential for earnings and profitability improvement, we do not expect this business to deliver revenue growth above GDP for Innophos.

While this means that we must identify new growth areas for the Company, which I will expand upon in a moment, I do want to emphasize that we remain committed to servicing our customers with market-leading core specialty phosphate products, and we are confident in our continuing ability to secure access to the key raw ingredients needed to do so.

Moving on to our second conclusion, which is that our focus on strategic inorganic growth through M&A is very important for our company. That was my assessment early on and one that has been reinforced and supported by the significant amount of data-driven analysis and research that we have done this year.

We're actively developing and evaluating a robust, prioritized list of target acquisitions. While we continue to refine our final M&A criteria, today I'd like to provide additional clarity on the types of inorganic opportunities that we are considering.

Strategically, we're evaluating opportunities that will extend our presence and capabilities in attractive high-growth food, health and nutrition market segments. We are especially interested in opportunities that more deeply align Innophos with industry megatrends such as energized aging, health and wellness and clean labels.

We are looking for portfolio additions that will expand our capabilities beyond phosphate but that still build upon our expertise in the science and technology of ingredient formulations. We believe this will allow us to be more meaningful to our customers and better implement solution-based selling deeper and more broadly across key accounts.

Financially, we're targeting transactions that are bolt-on in nature and deliver meaningful revenue synergies. We continue to refine the financial criteria for M&A and look forward to sharing more specifics in the quarters to come.

Our focus for the balance of the year is to finalize the strategic growth plan so that we are prepared to begin executing against it as early as the first half of 2017. With that, I'll now turn the call over to Han to review the quarter in more detail. Han?

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Thanks, Kim Ann, and hello to everyone joining us today.

Before I discuss our financial results I want to remind everyone that our adjusted EBITDA financial measure excludes stock-based compensation, translation and restructuring expenses. In compliance with the updated SEC guidelines we are providing corresponding GAAP measures in our report today. Please refer to our press release and SEC filings for the GAAP to non-GAAP reconciliations.

Now, on Slide 11, we are proud to our performance this quarter, as our continued focus on cost actions was instrumental in mostly offsetting sales softness in our core markets, resulting in strong earnings delivery in both absolute dollar terms and as a percentage of sales. Before I take you through the details, I would like to note a few highlights.

As a result of our cost reduction efforts, in spite of sales being down 7% from last year, we delivered 151% increase in net income, and a 13% increase in adjusted net income, compared to the third quarter of 2015. In addition, we grew diluted EPS sequentially and year over year on both a GAAP and adjusted basis.

Adjusted EBITDA this quarter was consistent and strong and the highest it has been in the past eight quarters on both a margin and an absolute basis. Also, our performance this quarter was 12% ahead of the average of Q1 and Q2 of this year.

This strong performance was largely driven by our specialty phosphate segment, where we achieved an operating margin of 13% and an adjusted EBITDA margin of 19%, up 392 basis points versus the same quarter last year. Cash generation was once again strong, with operating cash flow of $40 million and free cash flow of $33 million in the quarter.

Now turning to Slide 12, I would like to provide context for our sales revenue performance. Sales of $186 million were down 7% versus prior year, with reductions seen in both direct and indirect sales channels.

The year-over-year variance was driven by 5% unfavorable volume and mix and 2% lower average selling prices. This reflects our proactive efforts to prune sales of lower margin, less differentiated products; the continued soft demand in end markets; and price competition from oversea imports, particularly seen in technical applications.

[Ninety-one] (corrected by company after the call) percent of sales, or $169 million, was from our combined specialty phosphate business, including nutrition, and 9%, or $17 million, was from GTSP and other. Gross margin of 22% of sales improved year over year by 319 basis points due to favorable input cost and continued cost discipline and manufacturing cost along with mix improvement. The procurement savings pipeline from both direct and indirect spend previously mentioned by Kim Ann had a positive impact this quarter.

Moving on to third quarter earnings on Slide 13, net income for the quarter was $14 million, up $8 million, or 151%, from the third quarter of 2015. Net income as a percent of sales was 7%. Unlike prior quarters, we had no material year-over-year effects from planned maintenance stoppages during Q3.

Adjusted EBITDA for the quarter was $34 million, up $3 million compared with Q3 of last year. Adjusted EBITDA margin in the quarter was 18% of sales, up 291 basis points versus the year prior.

Let's take a closer look at drivers for the quarter. The unfavorable impact from lower sales volume and mix of $3 million and lower selling prices of $5 million were offset by the favorable Fx from lower input costs and lower manufacturing costs.

More specifically, we fully capitalized on our procurement initiatives held by generally softer markets, which resulted in a favorable $7 million impact on input costs in the third quarter. Q3 manufacturing costs were favorable by $1 million, and SG&A were down $2 million from a combination of procurement actions reducing indirect plan spend, focused cost management and restructuring benefits.

Favorable foreign exchange effects on our fixed costs added another $1 million improvement in adjusted EBITDA year over year, bringing the total adjusted EBITDA improvement to $3 million for the third quarter.

Slide 14 presents the performance by segment. I'd like to remind you that the Company's current segment reporting breaks down to Specialty Phosphates US/Canada, Specialty Phosphates Mexico, and GTSP and Other. Let me start with revenues by segment for the quarter.

Specialty phosphate sales of $169 million declined 9%, or $17 million, versus Q3 of the prior year, with US/Canada at minus 12% and Mexico showing a 3% increase. The shortfall in specialty phosphate sales was mostly driven by an 8% decline in volume for lower margin, less differentiated applications.

GTSP and other sales were up 24%, or $3 million, versus the same quarter last year, as favorable sales volumes were offsetting the effects of low market prices, which remained weak and reflect the lowest market pricing levels seen in six years.

Moving on to adjusted EBITDA by segment for the quarter, the specialty phosphate business generated adjusted EBITDA of $32 million, up $4 million year over year and consistent with performance seen in the first and second quarter of this year. Importantly, specialty phosphates adjusted EBITDA margin improved year over year by 392 basis points, to 19% of sales, due to mix improvement and strong cost discipline.

GTSP and Other generated adjusted EBITDA of $2 million, which is down $1 million compared to the same period of last year but reverses the $2 million loss recorded in the second quarter of 2016. I would like to emphasize that the GTSP tolling agreement is expected to reduce this exact type of quarter-over-quarter earnings volatility.

Now turning to Slide 15, net interest expense in the quarter of 2016 was $2 million, in line with expectations and flat both sequentially and year over year. Our effective tax rate for the third quarter was 31%, which is below the prior year. Due to higher taxable income in lower tax rate jurisdictions, we now expect the full tax rate to be in the 32% to 33% range for the year.

Capital expenditures in the quarter were $7 million, 65% of which was for maintenance capital and 35% for growth. This level of expenditure was consistent with the 2016 capital program, which is mostly centered on upgrades in our plants.

For the full year 2016 we now expect capital expenditures to be in the $34 million to $36 million range. This is below our prior projections of $40 million due to timing on certain projects that will fall into 2017.

We paid $9 million in dividends during the quarter and $28 million in total for the first three quarters of 2016, which represents a strong payout ratio of 74%. And, finally, in the third quarter net debt reduced to $166 million, a $23 million sequential decrease, largely driven by a $17 million sequential reduction in inventory.

Now turning to Slide 16, Q3 diluted EPS was $0.69, compared to $0.28 a year ago. Adjusted diluted EPS for third quarter was $0.75, 14% ahead of the $0.66 that was recorded for the same period in 2015. The EPS bridge from the right-hand side of the page takes a closer look at the elements that drove the $0.09 favorable variance in adjusted diluted EPS on a year-over-year basis for the quarter.

In aggregate, operational items were up $0.11 per share versus prior year. This included a year-over-year decline in selling prices for a total of $0.24 per share and unfavorable impact of $0.16 from lower volume and mix. These were fully offset by the favorable impact of cost savings, for a total of $0.41 per share.

The transactional effect from Fx amounted to a favorable $0.10 as a result of the weak Mexican peso against the US dollar. Nonoperating results contributed an unfavorable $0.02 per share, primarily in taxes due to higher pretax income versus the prior year.

Moving to Slide 17, I will review our cash performance, which was once again very strong. For the third quarter of 2016 cash generated from operations was $40 million, and free cash flow was $33 million, similar to the $35 million recorded in the second quarter of 2016. Free cash flow was driven by strong adjusted EBITDA delivery along with working capital reductions.

Principal uses of operating cash flow this quarter were capital expenditures of $7 million, dividends of $9 million, and $30 million of debt repayments. With our solid balance sheet and our ability to generate free cash flow on a recurring basis, we remain committed to maximizing shareholder value through a balanced capital allocation strategy.

This includes executing on our near to midterm priorities of investing in strategic growth and continuing to support our dividend program. We continue to evaluate our options for other uses of cash, including share repurchases, although we have no specific plans at this time to launch a share buyback program.

Now turning to Slide 18, I will conclude with a discussion on our outlook for the fourth quarter and full year. Overall we are expecting Q4 net income and adjusted EBITDA to be somewhat softer compared to Q1 and Q2 of 2016, as we anticipate seasonably weaker Q4 revenues. We anticipate the headwinds that we have experienced year to date to continue into the fourth quarter, with the expected shortfall in sales to be largely offset by the results from our cost actions.

For the full year, we continue to expect specialty phosphate volumes to decline by 6% to 8% compared with 2015, primarily due to reduced sales in lower margin, less differentiated products, weakened markets due to soft consumer demand and industry consolidation in packaged foods, along with price competition from both European and Asian imports.

Market prices for phosphate rock and sulphur declined moderately in the third quarter and are expected to remain at current levels in the fourth quarter. We expect to see the impact of reduced cost from our procurement initiatives to continue into the fourth quarter. We continue to review opportunities to establish a more fit for purpose organization, and we remain focused on cash delivery.

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

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

Thanks, Han. This quarter's performance is a true testament to the culture that we're cultivating here at Innophos, a culture that is embracing the transformation that is underway, delivering results and displaying a commitment to excellence, transparency and accountability. This is demonstrated by the progress that we've made against all of the 2016 objectives that I outlined at the start of the year, as shown on Slide 19.

We said we would implement our operational and commercial excellence initiatives, and, as I reviewed today, we've made excellent progress here. We're on track to solidify our long-term strategic growth plan by the end of the year, as promised.

Through our focus on working capital we've continued to deliver strong cash generation, which has allowed us to achieve our objective of continuing our dividend program. We've delivered $3 million per quarter of benefits from our 2015 restructuring program and continue to look for other cost reduction opportunities, as evidenced by the further restructuring booked in the current quarter.

And, finally, I'm thrilled to say that we have found a long-anticipated strategic solution for our GTSP business, as we set out to do at the beginning of the year. I am very, very proud of these achievements. It reflects our strong team and the hard work through this organization.

We've made excellent progress in defining our direction for strategic growth and advancing our initiatives around commercial and operational excellence, the three strategic pillars of our transformation. We're confident that we're taking the appropriate, decisive steps to strengthen our competitive position and improve profitability while solidifying future growth prospects and ultimately driving shareholder value.

I look forward to keeping you updated on our progress as we move through the year. Thank you for listening this morning.

We'll now take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Francesco Pellegrino, Sidoti & Company.

Francesco Pellegrino - *Sidoti & Company - Analyst*

Congrats on a great quarter and the new tolling agreement.

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

Oh, thank you.

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Thank you.

Francesco Pellegrino - *Sidoti & Company - Analyst*

I know this has been something that you guys have been working on quite some time. I know the GTSP part of the business isn't really a core part of your business.

Just trying to dig a little bit deeper, as I understand that it's going to help reduce the earnings volatility for the segment.

When I start thinking about the Company transitioning from an industrial commodity manufacturer to more of a performance-critical and nutritional specialty ingredients producer, I'm just trying to understand what this new agreement's going to bring. Like how much higher can the new tolling agreement EBITDA margin be going forward as compared to where I guess your adjusted EBITDA GTSP margins have been?

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

All right, I'll take that question. Again, as you commented, it's going to enable us, this agreement, to reduce GTSP earnings volatility.

I think if we go back to numbers, as examples, if you look at the last five years we lost $20 million, $20 million of operating income, on GTSP. Had the new contract been in place that would've been largely neutralized, just to give you a sense, put in dollars and cents example.

Equally important, earnings volatility would have been significantly diminished in this quarter. You wouldn't have seen the EBITDA loss of $2 million such as we had in the second quarter, followed by a positive EBITDA of $2 million in the third quarter. That's a $4 million swing from one quarter to the next.

Francesco Pellegrino - *Sidoti & Company - Analyst*

The $20 million operating loss, though, for the segment, doesn't that include like restructuring expenses, because don't you roll that up into GTSP and Other?

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

No, no, no.

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

No. We'll have Han further detail that.

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

No, that's adjusted out. That's on a --

Francesco Pellegrino - *Sidoti & Company - Analyst*

Oh, is that your adjusted? Okay.

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Yes, yes, yes, that's on a like-for-like basis, Francesco. But I think the important takeaway is that latter point that Kim Ann made. It's making sure that we don't expend valuable resources on this market segment, which we have to do because we have to market it. Now we have a partner that takes care of that. That's one.

And particularly you look at the sheer numbers on the slide between this quarter and last quarter alone on this very, very small segment for us -- I mean, remember, only 7% of top line -- we had a $4 million swing. And that's what we're really trying to address.

That's been a concern. It's been a concern of us as management. And that should really be neutralized.

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

The only other thing I would add is that talking about the GTSP business over the years has really plagued us with our investors, many of you on the phone really categorizing us as a fertilizer market. And, as I have said, that is something we are not.

Francesco Pellegrino - *Sidoti & Company - Analyst*

It makes sense to me. And I guess maybe just transitioning over to what the Company is becoming, the specialty phosphate Mexico margins, last quarter the EBITDA margin was 23%. This quarter it jumped to 39%. But you held -- prices mostly were flat year over year and volume sales were up just 2%.

So I guess what I'm trying to back into is, given how impressive the margins were for that segment, how much of it was due to lower input -- like maybe a proportional breakdown, how much of it was due to lower input costs and how much of it was due to maybe greater operational efficiencies?

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

Great question. I'll ask Han to detail that for you.

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Yes, so just put it maybe a little bit in total company context in terms of dynamics, because you're right to kind of make that observation, I think let's start off with Mexico, but there's a point to make on the US/Canada, obviously, also, as kind of a comparison. You look at what we've reported, and if you look at our input costs, you remember that slide, you saw $7 million in the quarter, you saw $14 million year to date.

That is significantly accrued towards the Mexican business, and why is that? A lot of these raw materials, particularly if you think about rock and sulphur, as an example, where we've had the procurement initiatives along with some of the markets coming off, that has particularly benefited the Mexican business.

The other thing I will say from a sequential basis, if you were looking at that, too, we had a maintenance stoppage cost in the second quarter, well over $2 million. We didn't have that in Q3. So, again, that's helped to improve margins, too, on the Mexican business.

Now, then if you, on the reverse side, look at the US business, we did have some maintenance stoppage this time which we didn't have the prior quarter, so, again, sequentially somewhat disadvantaged in that sense. The other thing is if you look, and Kim Ann commented earlier on the significant sequential reduction in inventory, $17 million. Of that, the vast majority, $15 million, was in the United States.

Now, you will also see that our sales, our top line, came up a couple of percent sequentially. So basically in the middle of that is throttling back production, and with that you get somewhat fixed cost absorption challenges, if you will.

And that obviously has manifested itself in the US/Canada. So kind of I'm trying to put it all together between the different dynamics so you get that kind of comparative notion between Mexico and US/Canada and why their performance might be what it is.

Francesco Pellegrino - *Sidoti & Company - Analyst*

Just one other thing I wanted to touch on, given that your outlook for the rest of the year for specialty phosphate volumes are expected to decline by 6% to 8%, given what we have seen already through the first nine months, to get to the midpoint of that 6% to 8%, so to get to 7%, it looks as if if you have volumes fall by about 5% between the US/Canada and Mexico, we get to about a volume decline of 7% for the year, but it looks as if a majority of the issues are going to be in the US and Canada as you continue with the culling of the high-volume, low-margin business.

It should perform a little bit better sequentially from the third quarter into the fourth quarter. Is that correct? Just maybe a little bit more color on what the fourth quarter implied guidance is.

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

Yes, absolutely. So our specialty phosphate year-on-year volumes are consistently down for the first three quarters of 2016, which is exactly what you said, with negative comps of 7%, 8% and 8%, respectively, so we do expect the fourth quarter and full year 2016 to be in that 6% to 8% range that we've noted.

Q4 will be our weakest quarter, as we had indicated. But from a year-on-year perspective, we will be making up some ground.

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Right. Right. And maybe the part to emphasize, and I think you got this, Francesco, but maybe for the wider audience on the phone, is we are talking volumes here. As you've seen in our analysis consistently we're breaking out a volume and mix component along with a price component, but the 6% to 8% is particularly speaking to the volume decline year over year.

Francesco Pellegrino - *Sidoti & Company - Analyst*

Perfect. That's it for me. Thanks again, guys.

Operator

Mike Sison, KeyBanc Capital Markets.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Nice quarter. What are your thoughts on pricing going forward? When do you think that'll start to stabilize? And do you think your cost structure is now better positioned to compete with the Europeans, given the stronger dollar these days?

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

Yes, you know, with regard to visibility into pricing pressures for specialty phosphates moving into 2017, Mike, the market remains competitive with the strength of the US dollar against the euro. Chinese competition is still out there, more so as with the technical-grade phosphates versus the food and health area.

So looking out to 2017 we do expect that pricing pressures will continue. We are continuing with our operational excellence. More to come on that, Mike. As I indicated, we have increased our procurement pipeline savings between $13 million and $15 million. Initiatives continue, and we'll talk more about that in the fourth quarter. So that has not stopped, and that will continue to offset those headwinds.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay. And then when you think about the integration in the nutrition business, it sounds like you're kind of at the beginning stages of that, and what's left to do there, and do you think that's a part of the business that can grow longer term?

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

Yes, we've just started to begin some of that integration into the core business, if you will. And specifically when you think about the supply chain, purchasing and customer service, it's really about best practices. Okay? So that's from a corporate standpoint, more of the operational side.

But from a market-facing, innovation, marketing function, that is why we've moved nutrition away from what used to report up to someone who also had the specialty phosphates piece, to really put it in an environment to really stress that marketing and innovation and market facing. I've had the wonderful opportunity over the last month to meet most of our nutrition customers. It's really about growth through innovation and marketing.

And the market segments that we serve are growing above GDP, and we really need to get that business better structured, if you will, in order for us to leverage those growth areas. So I do continue to think that it is an important leg of the stool we call Innophos.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay. Great. And when you think about 2017, I know it's a little bit early to maybe give specific outlooks for 2017, but maybe could you walk through some of the positive earnings drivers that you qualitatively see as you head into next year? And what are the areas that you can push on your own to grow earnings in 2017?

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

Han, do you want to take that?

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Yes, I think there's a couple of things. I think 2017, I think we've got to think about it as we're obviously -- Kim Ann has spoken quite a bit about the strategy and how we're shaping that and where our thoughts are on that, but particularly another year of transition. We're getting fit and fitter.

So we'll move from some of the programs into much more of a mentality of continuous improvement. So when you talk about earnings drivers, I fully expect us to continue, and I think Kim Ann commented particularly on the specialty phosphates, the core part of the portfolio, that we still believe to have some runway in terms of continuing to make some of those improvements and support. So that will continue to be a focus and where we believe we should get some better returns, if you will.

Then on the -- I think on the go to market side really we're looking very carefully at all the opportunities, hence where we've been pruning and so forth. But then we like to also think that 2017 we're going to stabilize some of the markets and how we're at, and then really getting to the more value-added kind of conversations with our customers.

So that's kind of, from an overall shape and from an overall optics how we're thinking about it. But, again, just to put things in perspective, Kim Ann has commented that we see the core business as a GDP business. That's only fair.

You asked about nutrition. We see that as an opportunity for us. The growth opportunities are bigger. But we're obviously coming off a smaller base. And then through the continuous improvement efforts on operational excellence right across all the support functions we believe we're going to put ourselves in a better cost and a better competitive position.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Great. Thank you.

Operator

Larry Solow, CJS Securities.

Larry Solow - *CJS Securities - Analyst*

Just could you just characterize -- you've done a pretty good job on it, but just on the specialty phosphate markets, it sounds like things are really just pretty stable. You've been 7% to 8% volume down the first three quarters, and it sounds like similar numbers in Q4, perhaps.

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

Yes.

Larry Solow - *CJS Securities - Analyst*

As you look out -- I know most of or a lot of the volume declines have been your own initiative. As you look out into 2017 do you think you've completed most of that exercise or are there other programs that you may end up walking away from?

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

Yes, as we go into 2017 effects from actions taken to date to prune lower value business, we'll continue into Q1 with that. So, yes, Larry, you'll see that in 2017. I think combined with that I think we will also see packaged foods expected really to face those continued pressures, as well, although we're starting to see some stabilization there, although that will continue.

As I already commented, pricing pressure, I think that we talked about that is prevailing in the near term, that will continue, but especially as it relates to that technical-grade phosphate. So I think the importance here is about the quality of this business, that, yes, we've been very proactive and hence why the earnings improvement.

You'll continue to see that in 2017 with further proactive actions, if you will, from our part. And then I think after Q1 you'll start to see some stabilization. We'll start to really hit that sort of baseline of where we should be.

And you're starting to see we've been very consistent. We told you what we thought it would be. We achieved that, and it continues to be at that level.

Larry Solow - *CJS Securities - Analyst*

And without getting into exact specifics, just in terms of the volume decline, is it fair to say it's probably been about half and half your initiatives of walking away from the lower margin stuff and just the declines in the business, in the industry, or is it even more skewed towards your initiatives, maybe --

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

Yes, right now if you kind of think about the things that are impacting our numbers, yes, a third of it I would say is due to our proactive initiatives.

Larry Solow - *CJS Securities - Analyst*

Okay.

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

Another third is really due to the competition that we're seeing, particularly from the Chinese competitors, quite frankly. And the other part is, as I talked about, is the weakness in the overall market. Again, the packaged foods that we're seeing, you've seen earnings releases from the large food companies just in the last week or so, so that's consistent with what we see, because we service that market as a food ingredient/additive company.

Larry Solow - *CJS Securities - Analyst*

Got it. Just lastly, or as I try and connect some of your -- just on your Q4 guidance, I realize Q3, obviously, was a little bit inflated by the GTSP and I think $32 million plus you had another $2 million on the charge there.

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

Right.

Larry Solow - *CJS Securities - Analyst*

Right, so that $34 million, I see how it comes back to $30 million if you sort of flatten out GTSP. And then seasonality would hurt that. But then you had some less maintenance expense, I would think, in Q4, and some of your cost cuts in Q4 are probably higher than Q1.

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So the way I look at it is I would think your Q1, Q2 relative to Q4 may be slightly higher, but it sounds like you're saying that they're somewhat higher, that that'll come down. So I'm just trying to connect those dots.

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

Yes, Han, can you comment on that?

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Sure I can, yes. I think the way we're thinking about it, Larry, so it's a very relevant question, but the shape of Q4 is if you think back and you look at last year, Q4 2015, and we look at around just over $170 million in revenue, or $171 million, we think about it in two pieces.

You already mentioned 7% in volume. We still see another 2%, 3% in price. So call that 10% just as a round number. So if you discount that that gets you kind of what we kind of forecast, what we expect is to be the ballpark number for revenue for the fourth quarter.

And then if you work with around, and you've seen that in our numbers, if you work around 17% of EBITDA for the total business, then you're in the right place. And that's why we said, that's the guidance we gave qualitatively, that we believe that it's a continuing trend, but given that top line shape we believe to be a little softer than on the bottom line, that is, than what we've seen in the first and the second quarter. So hopefully that gives you a bit of numbers to work with there.

Larry Solow - *CJS Securities - Analyst*

Absolutely. Absolutely. And just last question, just on the M&A front, you guys obviously just getting started there and looking for external growth, pricing in this environment, I don't know how far you're -- how deep you're into it, but, I mean, has -- will pricing -- do you see that to be a challenge in terms of what you're looking to pay, willing to pay?

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

We're very well aware of what the multiples are going for in the specialty ingredient area, particularly as it pertains to food, health and nutrition. Our specialty phosphate business generates great cash. Our gross debt leverage is at 1.7 right now. Our net debt leverage is 1.4.

Banks are supportive up to 4 for acquisitions. We don't intend to go that high, but we've got the support. And we know the direction we want to take this company in.

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Yes. And I think the thing we've commented on previously is that, and Kim Ann kind of laid it out with a comment around strategic and financial criteria, which we're continuing to develop, but one of the things we've said is the word disciplined. We'll look at this in a very disciplined manner. We'll definitely look and see, those opportunities that are bolt-on in nature.

As Kim Ann said, importantly, we have the support from our banking partners, and we have a strong balance sheet, strong cash generation. So we feel comfortable and good about getting the support and having an ability to add the right kind of business to our portfolio, but being aware of what is out there from a multiple perspective.

Larry Solow - *CJS Securities - Analyst*

Absolutely. Great. Thanks. Appreciate it.

Operator

Chris Shaw, Monness Crespi Hardt.

Chris Shaw - *Monness Crespi Hardt - Analyst*

I'm going to ask more questions about, I guess, sort of the volumes and all. I mean, one question I had, I know you gave some color on it and breaking it out, but that one third that sort of you're proactively leaving, is that mostly like PPA business? What sort of product was that exactly? I know you said it was sort of commodity, not specialty, but what --

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

Yes, so it's more of the tech grade, Chris. So it's really the areas that are things like STPP, it's things in horticulture, it's some of the acid piece of it. So it's really where we're seeing, quite frankly, the profitability that is low.

So we're really trying to, again, change the quality of this business, predominantly focus on our food, health and nutrition markets, where we believe we can grow, so improving that profitability. So, again, we've proactively chosen to prune more of that side of the business, again, with an eye to change the mix.

Chris Shaw - *Monness Crespi Hardt - Analyst*

That makes sense. Were those sales not even cash positive in a way? I mean, were they not contributing at all, or was it just that you need to move resources around that are better served elsewhere?

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

Yes, they were cash positive. But for us it's really about reallocating the right resources on the right things. Okay? So when we talk about our specialty phosphates core business, we've got a lot of great things going on from an applications development standpoint. But we can't be everything to everyone. So it's really about reallocating those resources on the higher value, more differentiated applications in our current business.

Chris Shaw - *Monness Crespi Hardt - Analyst*

Are those low-margin products we're talking about, were they also the ones that are mostly impacted by the imports, by China products?

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

Yes, exactly right.

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Exactly. That's where the correlation is. Yes.

Chris Shaw - *Monness Crespi Hardt - Analyst*

And then you talked a little bit, I think this might've been a comment around sort of looking longer term, or out to 2017, that the phosphates, especially phosphates into packaged foods, could stabilize. Just what gives you that kind of color? Have you been talking to the customer, or are there some other trends you've been looking at?

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

No, there's -- well, there's actually, Kim Ann referenced it. There's a lot of information out there. I think if you look at the large players globally even, you look at Unilever, you look at Nestle, you look at Dannon, or Dannon, as we say in the US, I guess. Very, very recently again, with their earnings coming out, with their longer term, because they typically all have like 2020, 2025 kind of commitments that are out there.

And if you look, they've all basically adjusted their outlook downward. And that includes actually some of the very much the emerging territories. And, as you know, we're probably very much in the mature economies, particularly here in North America.

So we see that. That's public information that's out there. There was actually a great article on that just recently in The Wall Street Journal just Sunday, I believe, which set that out.

So they've stabilized at a lower level, I would say. So where they've had, including, as I said, emerging territories (inaudible) been in a 4% kind of frame, they're now in a 1% to 2%. So that's data that's out there, and that's one.

Two is yes, indeed, talking to our customers and getting that feedback and input. We're getting close to them and understanding what they're looking for.

And I think just as a little bit of color -- I've said this before, I believe -- that's why you see a lot of those companies, again, investing in more -- in newer, in smaller companies, newer technologies in terms of health and wellness trends and so forth. So everybody's looking for that growth opportunity. And that's why we think we're then well placed to kind of dial into that.

Chris Shaw - *Monness Crespi Hardt - Analyst*

You sort of hinted at it there with the answer, thank you, but you talked about being in more exposed to the mature economies, and so vis-a-vis the maybe the M&A or growth strategy you guys have laid out to go into sort of different products or adjacent products, would it make more sense to try to do a bigger push in emerging markets with the sort of current product slate?

I mean, I feel like that's -- I know the past management was trying to do that on some smaller scale. But, I mean, why hasn't that either paid off, and why is that a focus relative to maybe buying in some new technologies and some new products?

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

I think it's two pronged here, so it's not either/or, quite frankly. I still maintain, and our data-driven analysis has shown, that we really have to start to branch out, yes, in adjacencies, but in those subsegments where there's growth and where the folks in those subsegments actually value the value benefits that you would bring and absolutely will pay for.

That notwithstanding, in our specialty phosphate business, we've not talked about it, we'll talk about it more in the coming quarters, geographic expansion is still part of our overall strategic review, and we'll formulate those actions in this regard with that new strategy that we'll be rolling out. We've established a legal entity in Brazil and we've added commercial resources there. We've added some commercial resources in EMEA, quite frankly.

We have a new general manager which was hired just in the last year or so in China, in the last couple of years. So we might not have spoken a lot about it, but we are starting to get some momentum on that.

But Chris, stay tuned. We'll be talking about that when we roll out our strategic plan for both the core business as well as how we're going to grow inorganically.

Chris Shaw - *Monness Crespi Hardt - Analyst*

Great. Then one just quick one, the Mexico margins from the quarter, are we expecting it to be sort of over 30% going forward on a run rate?

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

Han, why don't you take that question?

Han Kieftenbeld - *Innophos Holdings, Inc. - CFO*

Okay. So I think as we look ahead to the very near term, I think we'll be operating at those levels, given where we're at from an overall supply chain and input cost perspective. If you look sequentially we've been in that -- this quarter was high, but if you look back to the first quarter we were somewhat lower 30s, and then in the second quarter were mid-20s. But we expected to be not as high as where we've been maybe in the third quarter, but definitely in the -- in the near term, I'm talking, in the low 30s.

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

Yes.

Chris Shaw - *Monness Crespi Hardt - Analyst*

Okay, great. Thank you.

Operator

Francesco Pellegrino, Sidoti & Company.

Francesco Pellegrino - *Sidoti & Company - Analyst*

Just given the direction of everything you're seeing with the packaged goods and market business being a little bit soft and the culling you guys are doing of the high-volume, low-margin business, do you have any insight into your end market customers? I know that 2015 40% of your business was between like food and beverage. How much -- like could you give us a little bit of a breakdown, like how much of that is like into food service and how much of that is into like retail guys that sort of use that in packaged goods?

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

Yes, so based on 2015 results, 52% of our revenue was in the food and health area, the food being the predominant piece of that 52%. So you're starting to see that shift more towards that area.

Most of that is with -- the predominant piece of that food area is baking, and I think we've talked about that in the past, the other pieces being dairy, meat and beverage and meat area, poultry and also seafood. It is predominantly going into food companies, quite frankly, consumer food companies.

Francesco Pellegrino - *Sidoti & Company - Analyst*

Is it fair to say that a lot of the high volume and low margin business that you're culling is the food service producers?

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

No, the high --

Francesco Pellegrino - *Sidoti & Company - Analyst*

Even though it's such a small part. No?

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

Yes, no. The volume that we're pruning is really the volume that is technical grade. And when I say that that means non-food, non-health.

Francesco Pellegrino - *Sidoti & Company - Analyst*

Okay.

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

So we tend to throw that term around, and we apologize, but that's really what that is. So, again, where the competition is coming from Chinese competition, okay, and, again, it's lower value, but not in the food and health area. Hopefully that clarified it.

Francesco Pellegrino - *Sidoti & Company - Analyst*

Perfect. That's it for me. Thanks again.

Operator

We have no further questions at this time. I would like to turn the call over to Ms. Kim Ann Mink for closing remarks.

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

Thank you, Hilda, and thank you, everybody, for joining us today. I look forward to updating you on our progress on our fourth quarter earnings call early in the new year. Thank you. Have a great day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. We thank you for participating. You may now disconnect.

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