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PRESENTATION

Operator

Greetings, and welcome to the Innophos Second Quarter 2018 Earnings Conference Call. My name is Cheri, and I'll be your operator for today's call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mark Feuerbach. Mr. Feuerbach, you may begin.

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

Good morning, and thank you for joining us today for Innophos' Second Quarter 2018 Results Conference Call. Joining me on the call today are Kim Ann Mink, Chairman, President and Chief Executive Officer; and Han Kieftenbeld, Chief Financial Officer.

Please turn to Slide 2. During the course of this call, management may make or reiterate forward-looking statements made in this morning's press release regarding financial performance and future events. We will attempt to identify these statements by use of words such as "expects," "believes," "anticipates," "intends," "estimates" and other words that denote future events. These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We caution you to consider the important risks and other factors as set forth in the Forward-Looking Statements section and in Item 1A Risk Factors in our annual report on Form 10-K as filed with the SEC that could cause actual results to differ from those in the forward-looking statements made in this conference call.

Also, I would like to remind you that during the course of this conference call, management will discuss non-GAAP measures in talking about the company's performance. Our adjusted EBITDA financial measure excludes stock-based compensation, currency translation, severance, value chain transition expenses, fair value inventory adjustments 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 numbers set forth in the press release and via webcast available on the company website. In addition, please note that the date of this conference call is July 30, 2018, and the presentation for this call can be found on our website at www.innophos.com in the Investor Relations Events section.

Any forward-looking statements we may make today are based on assumptions that we believe to be reasonable as of this date, and we undertake no obligation to update these statements.

Please turn to Slide 3. During the call today, management will be reviewing our second quarter 2018 financial performance and 2018 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 - *Innophos Holdings, Inc. - Chairman of the Board, President and Chief Executive Officer*

Thanks, Mark, and good morning everyone and thank you for joining us today. The second quarter was defined by solid top line growth and several meaningful strategic advancements. In addition, our adjusted diluted EPS would have increased 14% year on year had we not done our Mexico annual maintenance stoppage in the current quarter, which was earlier in the year than we had planned, as I will touch on in a moment.

Now our Food, Health and Nutrition, or FHN segment, demonstrated strong growth as we continue to capitalize on the stability of our legacy business and strength of our acquired businesses. We remained laser focused on executing against our Vision 2022 strategic road map to transform Innophos into a leading specialty ingredients solution provider serving attractive FHN markets as well as select industrial markets.

Now as part of this effort, we made significant strides in advancing our multi-faceted value chain repositioning program with the completion of new milestone supply agreements along with internal strategic manufacturing optimization actions. Combined, these efforts will sustainably lower our cost structure and meaningfully bolster our efforts to deliver a 10% improvement to our adjusted diluted EPS by the end of 2019.

We continue to generate bottom line benefits through our Operational Excellence initiatives, proactively improve pricing through Commercial Excellence efforts and make outstanding progress driving organic and inorganic growth through the advancement of our SPARC new product development platform and the integration of our recent acquisitions.

Now before Han reviews our second quarter performance, let me expand on some of the strategic accomplishments. Turning to Slide 5. We've made excellent progress executing against our three strategic pillars, which continue to serve as an important framework for Innophos to deliver sustainable and profitable growth for our shareholders. Through our Operational Excellence initiatives, we continue to deliver benefits and drive continuous improvements.

In the area of Commercial Excellence, our commercial organization has been successful with further proactive price increase efforts. By leveraging our 3-in-the-box model that aligns sales, technology and marketing, our team has continued to drive customer intimacy, engage in deeper, more meaningful discussions with customers and provide specialty solutions that address industry trends, all of which are proving to be increasingly important as we manage our customer relationships in this current inflationary environment.

Under strategic growth, we are delivering both organic and inorganic growth. We are on track to achieve our $4 million of acquisition cost synergies this fiscal year and are confident in our ability to capitalize on cross-selling opportunities, both of which will meaningfully improve the margin profile of our acquired businesses. Our M&A pipeline remains active as we focus on opportunities that increase Innophos' presence in attractive FHN markets and align with our disciplined financial and strategic criteria. Now with our strong balance sheet and Integration Management Office or IMO, we are confident in our ability to deliver shareholder value from additional acquisitions.

To accelerate organic growth, as we shared last quarter, we introduced an enterprise-wide new product development process that we call SPARC, which stands for Stage-gate Process: Assess, Research and Capture. With SPARC, we are generating a robust, well-vetted new product development pipeline that is focused on consumer trends, aligned with specialty high-growth FHN markets and leverages our science and technology capabilities that were strengthened with last year's acquisitions.

We have had excellent early momentum with the SPARC program, including the launch of several unique products in support of our customers' new product introductions that respond to important consumer trends such as health and wellness, energized aging and clean labels, and further support benefit platforms such as immune health and sports and recovery. For example, we developed a delicious lactose-free, gluten-free, soy-free shake using plant-based proteins for a major multi-level marketing firm. In addition, we introduced a new organic, plant-based protein product for a major marketer in the sports nutrition and dietary supplement space. These products respond to consumer demand for organic, clean-label, plant-based protein sources in convenient, readily-dissolvable powdered products.

Further, some of our new product launches have incorporated value-added process technology to optimize product uniformity or enable high-speed encapsulation. For example, we launched a new custom herbal blend that we developed for a large multinational CPG company in a customized mineral product for a global supplier of dietary supplements.

Turning to Slide 6. We've made important progress executing against our strategic value chain repositioning and manufacturing optimization program, a multifaceted initiative to diversify our supply base, achieve an improved sustainable cost structure and defend our market leadership position in our cash-generative phosphates business. As recently announced, we completed milestone supply agreements with Nutrien to advance this effort. This included a new 3-year PPA supply agreement to replace the previous long-term supply agreement that was set to expire in July 2018, and a new merchant-grade acid, or MGA, strategic sourcing arrangement. As part of our new MGA agreement, we negotiated a $20 million payment from Nutrien, which over time will offset the value chain transition expenses that we anticipate to incur through Q2 of 2019. In accordance with prevailing accounting standards, the income from this payment will accrue to the P&L over the term of the agreement, mostly benefiting 2019 through 2021 earnings.

We also made significant progress advancing our program to increase the self-sufficiency of our internal MGA supply from our Coatzacoalcos, Mexico facility. Combined with our Geismar deep well capital investment, these efforts will enable Innophos to utilize multiple MGA sources, increase our internal PPA supply, reduce our dependence on any single supplier and lower our overall cost structure.

To support this strategic program, Q2 included $4 million of value chain transition expenses and $3 million to support the annual maintenance stoppage at the Company's Mexico facility, which was completed earlier in the year than planned to prepare operations for the new supply agreements.

Now in the near term, there will be a negative impact to our GAAP earnings as specific value chain transition costs will be incurred ahead of the full $20 million benefit accruing to earnings. We steadfastly believe in the long-term strategic importance of these initiatives and in their ability to deliver a significant return for Innophos, our shareholders and our customers.

And finally, demonstrating our commitment to be a socially responsible corporate partner, it is important to note that Innophos will no longer indirectly participate in a raw material supply chain which sources phosphate rock from the Western Sahara region in Africa, an area from which the company has not directly purchased raw materials for more than three years.

With that, I will turn the call over to Han. Han?

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

Thank you, Kim Ann, and good morning everyone. Please turn to Slide 7. Before I review the details of our financial performance, I would like to note a few highlights. In Q2, we achieved revenue growth of $28 million or 15% compared with the prior year quarter as we continue to benefit from FHN's organic volume growth, strong contributions from acquisitions and notable progress with proactive pricing actions in the legacy business.

We have made significant progress with implementing our value chain repositioning program. As Kim Ann noted, the specific value chain transition costs, which are being excluded from adjusted results due to their project-based nature, are expected to be incurred ahead of the full benefit of the $20 million accruing to earnings, which, at this point in time, is expected to be amortized evenly over the 36-month contract. As a result, we now expect that there will be a negative impact to our GAAP earnings over the course of the transition period.

In Q2, there was a total of $4 million or $0.17 per share of value chain transition charges related primarily to the purchase of intermediate product in the open market to bridge supply, along with downtime in selected production units as we transition to our new supply chain structure. Separately, in Q2, as a result of the Mexico annual maintenance stoppage, there was a total of $3 million or $0.10 per share of charges, which are included in our GAAP and adjusted results.

On a GAAP basis, Q2 net income and EPS were down, impacted by the specific value chain transition charges as well as the Mexico annual stoppage expense. Adjusted EBITDA increased year-over-year and, when excluding the Q2 Mexico annual stoppage expense, improved sequentially. Adjusted diluted EPS was $0.55. Excluding the charges for the annual stoppage, adjusted diluted EPS would have been $0.65, up 14% versus prior year.

Operating and free cash outflows were mostly driven by the capital expenditure and working capital investments related to the value chain repositioning and manufacturing optimization program. Our working capital continued to operate at the low level of 22% of sales despite these investments.

Now let's turn to Slide 8 to take a closer look at the quarter details. Sales of $207 million in the quarter were up 15% due to 12% higher volumes and 3% higher average selling prices. Growth from acquisitions was 17%, partially offset by volume declines in the legacy Other segment.

On a year-to-date basis, our sales improved by 19% versus 2017, reflecting the benefit of our acquisitions and proactive pricing programs that have offset input cost increases. Q2 gross margin was 18%, down 421 basis points from the prior-year quarter due largely to the increased weighting of newly acquired businesses as well as the impact from the value chain transition and annual manufacturing stoppage charges.

Moving on to earnings on Slide 9. Q2 net income of $6 million was $5 million lower than the prior year due to the impact from the value chain transition costs as well as the higher D&A and interest charges.

Adjusted EBITDA of $31 million was ahead of the prior year, despite the aforementioned Mexico plant maintenance stoppage. Volume/mix was up significantly due to acquisitions, although it was partly offset by a decline in volumes in the Other segment.

Selling price increases offset higher raw material costs and the SG&A and manufacturing cost increases were primarily due to the inclusion of acquisitions. The effect from FX was flat year-over-year. Let me note that on a year-to-date basis, the company's adjusted EBITDA is 10% ahead of the same 6-month period last year.

Moving on to Slide 10 to review our performance by segment. FHN Q2 sales of $126 million represented 61% of total company sales and were up 36% overall, with 34% due to the contributions from acquisitions and an additional 2% from both price and volume growth in our legacy business.

FHN Q2 adjusted EBITDA margin of 15% was 509 basis points below 2017, due primarily to the effects of the maintenance stoppage and dilution effects from the lower-margin acquisitions.

IS Q2 sales were down 1%, with selling price increases nearly offsetting volume declines. The IS Q2 adjusted EBITDA margin of 16% was a 229 basis point improvement over the same quarter last year due to proactive price increases.

Other Q2 sales were $14 million, down 27% compared to the same period last year, primarily due to the timing of co-product shipments and generated 11% in adjusted EBITDA margin. To the point of timing of shipments, for the first half of 2018, Other sales were down just 2% versus the prior year.

Now turning to Slide 11. As previously indicated, net interest expense of $3 million in the second quarter was up $2 million due to higher debt levels as well as leverage related to the 2017 acquisitions, along with higher interest rates. Our effective tax rate of 24% was down year over year due to settlement of state income tax examinations in the current quarter and lower U.S. federal tax rates.

Capital expenditure of $20 million in the quarter was up 161% from the same quarter last year, with the majority of spending directed at the strategic value chain and manufacturing optimization investments.

We paid $9 million in dividends during the quarter, and our annual dividend rate of $1.92 per share was maintained.

Finally, in the second quarter, net debt of $318 million increased due to the $151 million spent on the 2017 acquisitions plus 2018 working capital and CapEx for value chain investments. Our Net Debt to Adjusted EBITDA ratio was 2.5x.

Now turning to Slide 12. On a GAAP basis, earnings per share of $0.31 was down 45%, primarily due to a $0.17 per share impact from the value chain transition charges and a $0.10 per share impact from the annual maintenance stoppage at the Company's Mexico facility. Q2 adjusted diluted EPS was $0.55, down $0.03 or 5% year-over-year, primarily due to the annual maintenance stoppage in Mexico.

Moving to Slide 13. Q2 cash from operations, which was $16 million, and free cash, which was an outflow of $3 million, were both down from the same period last year due to planned working capital and CapEx investment in the strategic value chain and manufacturing optimization initiatives.

Average working capital was 22% for the first half of 2018, down 90 basis points from the prior year half despite increased working capital needs to support the value chain repositioning and manufacturing optimization program.

Now turning to our outlook on Slide 14. For full year 2018, we are reiterating revenue growth guidance of 12% to 14% and adjusted EBITDA growth guidance of 15% to 17%. As previously indicated, we are making targeted capital investments throughout 2018 in support of our strategic value chain repositioning and manufacturing optimization program -- an important initiative we expect to meaningfully improve earnings, free cash flow and return on invested capital in future years. We now expect the impact from the specific value chain transition charges to lower 2018 GAAP earnings as these transition costs will be incurred ahead of the $20 million accruing to earnings.

Overall market conditions and the competitive landscape are expected to be similar in H2 compared with H1 of this year. During the first half of the year, selling price increases have been effective in offsetting input cost increases. In response to the operating environment continuing to show cost inflation, the company continues to take further price increase actions.

The company anticipates the effective tax rate to operate in the 28% to 30% range given the geographical mix in earnings. Free cash flow is expected to modesty decrease versus prior year, principally to support the strategic value chain repositioning and manufacturing optimization program.

Finally, we continue to diligently work through the multifaceted value chain repositioning and manufacturing optimization program and expect full benefits to materialize in H2 2019. The program is estimated to deliver adjusted diluted EPS improvement of 10% by the end of 2019.

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

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

Thanks, Han. And before we open the call up for questions, please turn to Slide 15 as I highlight a few key points. Our performance this quarter was defined by solid top-line growth and strong momentum as we advanced along our Vision 2022 strategic road map to establish Innophos as a leading specialty ingredients provider. We've made great strides in advancing our multi-faceted strategic value chain repositioning and manufacturing optimization program. And we remain confident that the actions that have been set into motion position us well for 2019 and beyond by diversifying our supply base, delivering an improved sustainable cost structure and strengthening our market leadership position in our cash-generative phosphate portfolio.

Looking ahead, we remain focused on executing against our strategic value chain and manufacturing optimization program, advancing our strategic growth initiatives, capitalizing on pricing initiatives and continuing our drive for Operational Excellence. With a clear strategic vision, a track record of delivering on our plans and the financial strength to achieve our goals, we are confident that Innophos is positioned to deliver double-digit revenue and adjusted earnings growth in 2018 and long-term sustainable growth for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Brett Hundley with The Vertical Group.

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

I have a couple of questions on pricing and the M&A market, but first, I have a number of questions on the Mexico plant maintenance that hopefully, we can move through pretty quickly. So I understand the reasoning that you gave for putting that in place during Q2. Does that confirm that there won't be any future stoppages during the remainder of the year?

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

That's absolutely correct, Brett.

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

Okay, okay. And then related to that, when a plant maintenance -- I'm going to use the word, abruptly, I'm sure it's not abrupt at all, but when a plant maintenance stoppage like this kind of more abruptly occurs relative to what you guys probably like to plan for, is there any hit to the top line? Was there any effect during the quarter related to that?

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

No, not at all. And just to reiterate, Brett, we had the stoppage -- was part of the manufacturing optimization program but was not expected to have a significant year-on-year effect on full year earnings, and we maintain that. And just to reconfirm, we decided to complete the stoppage in the second quarter when we had enough confidence that we would be signing the Nutrien agreements. Our original plan called for the action to take place over multiple quarters, but we really balanced short term versus long term. And knowing the importance of the sustainability and the profitability and cost structure of our cash-generative phosphate portfolio, we thought it best to take that in the second quarter and ensuring that we get the improvement and the positive impact sooner rather than later. I hope that further reconfirms.

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

Yes, for sure. That makes sense. And I don't want to put you in too much of a corner here, but how important were the Nutrien agreements insofar as realizing your anticipated 10% improvement to EPS by fiscal '19 year end? Are they a big portion of that target? Less meaningful? Can you couch that for me at all?

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

Yes, they are very important. And hence, the reason why, starting in Q3 of last year, we started to talk about the value chain repositioning, just how important that was and how complex it was, multi-faceted, but to the importance of really the foundation of the legacy business. As you can imagine, prior to signing, we couldn't really go through the granularity of all the details that led up to the signing of those agreements, 8-K events as you saw, very confidential, but we did not want that to be a surprise once we signed those agreements. So very, very critical, and this was something that I think was very important for our company to do for the long-term sustainability of that cash-generative business.

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

Okay. And Han, you guys are excluding the near-term costs related to this from your adjusted results. As it relates to the future cash payments of $20 million, which I think you said are going to run through the P&L, will they be excluded from adjusted results as well?

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

Yes. So Brett, we are looking at that in terms of how they'd best be presented as part of GAAP and the adjusted results. And we'll make that decision later in the year in terms of presenting that because obviously, that impact, as we said in our remarks, is predominantly in 2019, '20 and '21.

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

And we will be very transparent with you, Brett, as we go along as we learn more about that.

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

That's great. That's really helpful. I just had two other questions for you. The first one was, if I remove the Mexico stoppage from your results, your FHN margins were just a touch light relative to what I had expected, and I could have been over-modeling there for sure during the quarter, especially relative to the year-end, but I wanted to ask you a question as it relates to pricing. In your press release and in your prepared remarks this morning, you were talking about the need to take further pricing relative to what the raw material environment is doing, and you guys have been very proactive with regards to pricing. I'm wondering if you're starting to play a little bit of catch-up and if there's a lagged impact there or if, in fact, you guys remain very real time with your pricing. So that's my first question. And then just my last question is related to the M&A market. It's clearly important for you guys. Inorganic growth is a big part of what you're looking to accomplish going forward. There's been some more deal making in the ingredient sector at large multiples here recently, but we're also aware of failed deals that occurred, too. And I wanted to ask you, Kim Ann, if there's -- if you think there's a willingness of sellers to come back to the market, sellers that may have failed to get a deal done. Do you see any willingness of sellers to come back to the market and renegotiate?

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

Okay. Let me start with the pricing. Now the proactive selling price increase program that we've been talking about, January 1, June 1, very effective in offsetting input cost increases through the first half of 2018. We've gotten a lot of momentum, and do not take our statement that we're going out for more because we're lagging. I think because of the things that we have done in the Commercial Excellence space, that has provided us improved -- an improved value proposition and has allowed us to continue to take advantage of the various dynamics in the market. So we continue to make progress with our pricing actions and have confidence in the thoughtful approach our commercial team is taking. And we have been covering it, and so it's very real-time. We have been covering all of the input costs and feel very confident along that trajectory. Did that answer your question, Brett?

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

That does. And then do you just have a comment on the M&A piece?

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

Absolutely. We are actively pursuing our M&A agenda, as I commented, and continue to evaluate opportunities, again, using our disciplined financial and strategic fit criteria. So I do think we have very active discussions going on, things do pass my desk. But again, we are disciplined, and we're not going to buy something for the sake of buying something. But that said, I do see a willingness for sellers to come back to the table, and that's really represented in the current activity that we are going through right now. So feel very -- just continue to feel confident that we can hit that trajectory of our Vision 2022.

Operator

Our next question is from Larry Solow with CJS Securities.

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

A few follow-ups to quote some of Brett's questions. Just can you just clarify, on the $20 million payment from Nutrien, I assume that's -- and I guess you'll get a piece of that in '19, that's not part of sort of that 10% growth in EPS by the year-end '19, right? I assume that's separate?

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

Larry, that is -- you're reading that correctly. That is separate.

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

Okay. I mean, obviously, the whole value chain repositioning is part of it but not that payment itself. Okay, great. And just...

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

Correct.

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

Okay, great. Excellent. Just a little more color just on the top line growth. It seems like the Other piece, which, I guess, is predominantly GTSP piece (co-product sales), was down otherwise. And I know pricing in that was up a lot. I hate to harp on that piece by itself, but just maybe a little bit of color on why the volume in that piece was down so much. And then more importantly, just trying to -- do you have a way to sort of back out what Novel and NutraGenesis contributed? And -- because I guess if I do my math, it looks like on the FHN piece, sales were about flat organically? Is that right? Maybe up a little?

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

Yes, they were up a little, Larry. So if you look at -- kind of if you peel the onion a bit, you see that actually, volume is up a little bit, low single digits in FHN. You see that pricing is up, too. And then if you peel away kind of the impact from acquisitions, that was around in the low 30s percent kind of how they contributed. So if you look at some of the detail that is included in the press release, you see that on balance, the underlying business was up both on volume and price.

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

Yes. I think I would just like to add to that. So when you think about the revenue from the acquisitions was $30 million in the second quarter, that's up 14% from the run rate revenues acquired. So the Q2 performance reflected that combination of market growth that we love to talk about as well as some sales synergies, which we also love to talk about, and that new product development, which is becoming increasingly more meaningful for us. So did want to just note that, Larry.

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

So the acquisition contributed $30 million, but that number last year was really $26 million or whatever. So that is -- or plus or minus, just...

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

That's absolutely right. So we really are on track to achieve the annualized contribution plus market growth that we expect. So if you remember, the markets we serve with our acquisitions are growing at 6% to 8% on average. I just -- did want to just do that math for you.

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

Right. No, that's great. And just on the Other segment, again, I don't want to harp on it too much, but that sort of volume decline that's I think 30-plus percent, is that just timing or anything in there that -- I know it's sort of you've -- it's obviously not core and you're totaling it now, but just any color on that?

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

Correct.

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

Yes. You got to really look at it, yes, so there is a bit of timing around this piece, Larry, you're right. And if you look at it over the 6-month period, actually, you see it's pretty even. So Q1 was actually up, you may recall, Q2 was down, as you've seen, but for the first half, in all, we were pretty even.

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

Okay. So as a whole, it looks like your full year guidance, obviously, you haven't changed that. And I know you were looking for sort of -- I think you started the year at 45-55 split, and now I think it shifted a little bit more towards the first half last quarter, but now it looks like it's probably back to sort of that original expectation if you add in the maintenance impact of this quarter. Is that sort of fair to say?

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

You're right. In the first half, we delivered $63 million, and that was -- that's exactly right per the guidance in the beginning of the year. And that exactly represents 45% of the expected annual total adjusted EBITDA. So we do expect then, to deliver on our guidance for 2018.

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

And have you -- has your cash flow or your CapEx expectations changed at all for the year? And I know you expect them to be down a little bit on the free cash flow side, but has that actually changed or is that sort of where it was?

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

No, it is consistent with where it was pretty much, Larry. We have -- I made some comments around the capital expenditure, too in the guidance, and that is consistent with what we've previously said. So yes, we expect overall free cash flow to be in line with previous guidance.

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

Okay. And just lastly and just to summarize, it sounds like your end markets, obviously a little bit of improvement over the last couple of years and now seem to be sort of stable. Is that a good way to sort of characterize them?

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

Sure, yes. So in the legacy business, if you will, broadly speaking, we are seeing that stabilization, and we had talked a lot about it going into 2017, and we started to see that in 2017. And now we're actually getting some -- as we've discussed over the last two quarters, some volume growth and obviously our pricing ability.

Operator

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

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

You guys mentioned your free cash flow outlook is for a modest decline year over year due to the value chain repositioning and manufacturing optimization programs. Are you able to quantify the impact of those investments or kind of what free cash flow would have looked like excluding that?

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

Han, can you address that?

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

Yes. So if you think about our capital expenditure this year, and I think we've previously guided that at somewhere in the mid-40s range, okay, so that's kind of the way you got to think about that. I would say that approximately 50% this year, just slightly north of 50%, is directly related to a lot of the value chain and manufacturing optimization initiatives. Now we're also obviously prioritizing that this year, and we're gearing our, kind of, engineering resources towards that. So as a result, the general maintenance CapEx is lower this year compared to prior years, okay?

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

Okay. And then just a follow-up on the FHN margins. It looks like the $3 million impact, if you kind of add that back from the plant shutdown, you're close to the 17% range. Has anything changed just in terms of the timing to get margins up to kind of where you guys think you can get them in terms of the dilutive effect of the acquisitions? And has the timing at all changed on that? Or do you still feel pretty confident in that margin...

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

Yes, we still continue to feel very confident. We expect the quarterly run rate to improve over time as we focus on the revenue and the cost synergies to enhance profitability. So the FHN adjusted EBITDA margins were at 15%, and we talked about the lower-margin acquisitions now accounting for 25% of the business. But we continue to be on a nice trajectory in improving that adjusted EBITDA margin as we committed to when we bought the acquisitions.

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

Great. And if I could just squeeze in one more quick one on FX. Has any -- with the sort of the changes relative to last quarter on where the dollar is, any impact we should note there relative to what you guys were thinking?

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

No, we've only seen a small impact this quarter, Curt. So nothing noteworthy.

Operator

Ladies and gentlemen, we have reached the end of our question-and-answer session. I would like to turn the call back to Kim Ann Mink for closing remarks.

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

Thank you, Cheri, and thank you all for joining us today. We look forward to keeping you updated on our progress as we progress in 2018. Thank you very much.

Operator

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