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Transcript of Astec Industries
First Quarter 2013 Earnings Call
April 23, 2013

Participants

Steve Anderson – Vice President of Administration and Director of Investor Relations
Dr. J. Don Brock – Chairman and Chief Executive Officer
W. Norman Smith – President and Chief Operating Officer
David C. Silvious – Chief Financial Officer
Ben Brock – Corporate Vice President over the Asphalt Group and President of Astec Inc.

Participants

Morris Ajzenman – Griffin Securities
Jack Kasprzak – BB&T Capital Markets
Rich Wesolowski – Sidoti & Company
Tim Robinson – Susquehanna

Presentation

Operator
Greetings, and welcome to the Astec Industries First Quarter 2013 Earnings Call. At this time, all participants are in a listen-only-mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Steve Anderson. Thank you, Mr. Anderson, you may begin.

Steve Anderson – Vice President of Administration, Director Investor Relations
Thank you, Latonya. Good morning and welcome to the Astec Industries Conference Call for the first quarter ending March 31st, 2013. As Latonya said, my name is Steve Anderson and I am the Vice President of Administration and Director of Investor Relations for the company. Also on today's call are Dr. Don Brock, our Chairman and Chief Executive Officer; Norman Smith, President and Chief Operating Officer; David Silvious, our Chief Financial Officer; and Ben Brock, our Corporate Vice President over the Asphalt Group and also President of Astec Inc., our largest subsidiary company.

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In just a moment, I'll turn the call over to David to summarize our financial results, and then to Don to review our business activity through the quarter. Before we begin, I would remind you that our discussion this morning may contain forward-looking statements that relate to the future performance of the company, and that these statements are intended to qualify for the Safe Harbor Liability established by the Private Securities Litigation Reform Act.

Any such statements are not guarantees for future performance. They are subject to certain risks, uncertainties, and assumptions. Factors that can influence our results are highlighted in today's financial news release, and others are contained in our Annual Report and our filings with the SEC.

At this point, I'll turn the call over to David to summarize our financial results for the first quarter. David?

David C. Silvious – Chief Financial Officer

Alright, thank you, Steve, and good morning to everyone. Thank you for joining us this morning. Let me preference my comments at this time by saying that, you may recall, we sold American Augers in late 2012, during the fourth quarter, and therefore they're shown as a discontinued operation in the financial statements that were sent out. So my comments will address the line items as they're presented in the financial statements with American Augers removed out of each of the line items.

Sales for the quarter were $247.8 million versus $252 million in first quarter of 2012. That's a decrease of about 1.7% or $4.2 million. International sales for the quarter are $85.9 million compared to $96.9 million last year, that's a decrease of 11.4% or $11 million. The decrease in dollars for International sales was primarily in Australia, in Brazil, in the post-Soviet states. These decreases were offset by increases in Europe, in Africa, and in Russia during the quarter.

International sales were 34.7% of revenues in the first quarter of 2013, compared to 38.5% of revenue in the first quarter of 2012. Quarter-to-date, international sales decreased in each of the segments except for the Aggregate and Mining Group.

Domestic sales for the first quarter of 2013 were $161.9 million compared to $155.1 million in the first quarter of 2012. That's a 4.4% increase, or $6.8 million. Domestic sales were 65.3% of first quarter revenues this year, compared to 61.5% first quarter revenues last year.

Part sales for the first quarter of 2013 were $68 million compared to $72.8 million for the first quarter of 2012. That's a $4.8 million or 6.6% decrease. Part sales were 27.5% of revenues for the first quarter of 2013 compared to 28.9% for the first quarter of 2012.

Segment revenues for the first quarter of 2013 are attached to the press release as supplemental information. Also included with that segment of supplemental information is the quarterly detail on the sales and earnings of American Augers for 2011 and 2012. Some folks have asked for that, so we wanted to get that to you so you could use that information.

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Gross profit for the quarter was $58.6 million compared to $58.6 million last year. It was relatively flat there on the gross profit dollar line. However, the gross profit percentage actually went up 30 basis points to 23.6% from 23.3% last year.

SGA&E for the quarter was $40.4 million, which represented 16.3% of sales compared to $40.1 million and 15.9% of sales. That's about a $300,000 increase in dollar terms and a 40 basis point increase as a percent of sales. The increases were primarily concentrated in the payroll and benefits line items.

Operating income for the first quarter of 2013 was $18.2 million compared to $18.5 million for the first quarter of 2012. That's about a $300,000 decrease or 1.6%. Again, income by segment is attached to your press release.

Income from continuing operations, before income taxes, was $18.9 million compared to $19.3 million in the first quarter of 2012. That's a decrease of 2.1% or about $400,000.

The effective tax rate was interesting this quarter. As we had previously discussed in other conference calls, the first quarter 2013 tax rate was lower than the 2012 tax rate, primarily due to the R&D Tax Credit. You may recall that Congress did not enact the 2012 R&D Credit Legislation until early in January of '13, therefore the 2012 credit for the full year was included as a discreet item in our first quarter of '13 tax rate. In addition, the portion that was allocable to the first quarter of '13 for our projected '13 credit was also taken into consideration in the first quarter tax provision.

Net income from continuing operations for the first quarter was $13.3 million compared to $12 million last year. That's a 10.8% increase or $1.3 million.

And diluted earnings per share for net income for continuing operations was $0.57 compared to $0.52 last year; that's a 9.6% increase.

That income attributable to controlling interest has the minority interest that we have at Osborn and Brazil removed from that number gives you $13.2 million this year compared to $12.2 million last year. That's an 8.2% increase or $1 million.

And EPS for the quarter on that line item was $0.57 compared to $0.53 in the prior year. That's a 7.5% increase.

Our backlog at March 31 of 2013 is $276.5 million compared to $276.2 million March 31 of the prior year. That's basically flat. The international backlog this year was $109.2 million compared to $116.5 at March 31 of last year. That's a $7.3 million decrease, or 6.3% decrease. Domestic backlog this year is $167.3 million compared to $159.7 million last year. That's an increase of $7.6 million or 4.8%. Again, backlog by segment is attached to the press release.

Balance sheet remains very strong. Our receivables are at $104.6 million in March 31 of this year compared to $113.6 million last year. Now, that number does include American Augers. They were not removed – the accounting does not require you to

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remove them from the balance sheet for the discontinued presentation. But I have those numbers for you so you can compare those. With American Augers in there, it was a $9 million decrease. American Augers was $2 million of receivables in the prior year, so it's really a $7 million decrease on receivables.

Days outstanding are 37.1 this year compared to 38.1, so that has improved one day over March 31 of last year.

Our inventory, as it's presented, is $322 million this year compared to $313.4 million last year, an $8.6 million or 2.7% increase. The actual increase, without American Augers in the prior year, is $38.9 million, and that removes American Augers from the prior year.

Our turns are at 2.4 turns this year compared to 2.6 turns in the prior year. We have nothing owed on our $100 million credit facility. We have about $73.2 million in cash and cash equivalents on the balance sheet. Our letters of credit outstanding are at $10.3 million, resulting in borrowing ability of $89.7 million.

Capital expenditures for the quarter were $9.4 million. We're projecting somewhere in the tune of $40 million for the year, maybe slightly above $40 million for 2013. Our depreciation was $5.4 million for the quarter and we're projecting around $22 million for 2013 for depreciation.

That concludes my prepared remarks on the financials and I'll be around to answer questions.

Steve Anderson – Vice President of Administration, Director Investor Relations
Thank you, David. Don is going to provide some comments regarding the first quarter and also offer some thoughts going forward. Ben Brock and Norman Smith attended the Bauma Trade Show in Munich last week, and may share some observations about that. Don?

Dr. J. Don Brock - Chairman and Chief Executive Officer
Thank you, Steve. Here in the quarter, we continued to see flat revenues, as David had mentioned.

Our domestic customers tend to remain cautious. Their attitude this year was weakened by a very wet winter, particularly in the Southern states, kind of resulting in a late start of the paving projects. Many of them that I talked to said our backlogs are good not because of the volume of work, but because of being unable to do work. Ben talked to a customer this morning in Virginia who said it was about 30º up there today, so things are still slow starting, but this adds accumulated good backlog for them due to the fact that they're not doing the work.

International sales continue to be slow due to the fiscal problems in many countries. Fortunately, we've been able to backfill products going to other industries. As of April 1st, the U.K. did approve the R.O.C. credit for utilities that would burn wood pellets and change from coal fired plants to wood plants. We see this as a real opportunity for further growth in the wood pellet plant business. We see this product as filling the gap in our volume in the next few years as infrastructure continues to be somewhat slow.

In selling American Augers to Charles Machine Works Company and selling the Trencor utility line to Toro, we had certain supply contracts that we had to bill at basically just cost, and we are completing these contracts at year-end and here in the first quarter. We have tried to backfill and are backfilling these lines in the Loudon plant with the pump trailer lines and the vertical oil drilling rigs that we maintain from Astec Underground and from American Augers.

We've grown our sales force in this area and are obtaining orders for both pump trailers and vertical rigs. The market is interesting – we're doing better in vertical rigs in international and the pump trailers more domestically used in the service side of the business.

While our revenues were flat, our margins are improving. Our earnings increased, as David said, from $12 million to $13.2 million and our EPS went from $0.52 to $0.57 a share. While the earnings increase was benefited from the R&D Tax Credit carried over from 2012, we benefitted from 30 basis point improvements in margins from quarter one to quarter one and 260 basis points from quarter one to quarter four.

Our major focus in 2013 has been on, really, margin improvement, and even if our revenues remain flat, we think we have opportunities to start returning our margins to more normal levels. We enter the second quarter with a backlog of $276 million, which is flat from last year. We expect the second quarter to be similar to the first quarter. The visibility is difficult to see beyond one quarter.

We do see improvements in home building and commercial business, although somewhat slow. Infrastructure improvement related to oil and gas exploration and transportation of these products is improving, which should help the energy drilling and exploration to start growing again.

We expect highway spending to remain flat, but not down. We continue to receive new orders in addition to existing orders for wood pellet plants. Due to the size of these orders, our quarters are going to be lumpy. Also, on the first plant, our auditors have indicated that we will be unable to recognize revenues until the production guarantees of these facilities are met. We expect to have this plant running by the end of the third quarter and probably the end of the fourth quarter before we recognize the revenues.

We continue to have a strong balance sheet with no debt. We continue to grow cash, and for this reason, our Board of Directors has chosen to begin a $0.10 per-share, a $0.40 per year dividend as a cash return to our stockholders. This will not affect our flexibility in making opportunity acquisitions as they become available.

We're excited about the new products that we've developed over the last three years. We've invested a lot in R&D. Our ability to diversify with these products in the energy and mining industry will broaden our base in the infrastructure market. As the

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infrastructure markets improve, we will be well positioned to grow and take advantage of opportunities as they occur.

Although energy markets and mining continue to grow, and mining is slow, we see this as temporary and we expect to see the needs for our equipment in these markets to continue to increase. One of the biggest things, as I mentioned earlier, is we're drilling more oil and we cannot get it moved to where it needs to be moved. That situation has certainly helped adding more railroads and more roads, and particularly in those areas we see what the need of minerals and the number of population growth in the world. That could be a temporary lull, but mining could come back on a steady basis as well as energy.

With that, we'll be glad to answer any questions. This completes my remarks.

Operator
Thank you. We will now be conducting a question and answer session. Our first question comes from Morris Ajzenman from Griffin Securities. Please proceed with your question.

<Q> Morning, guys. Just on the wood pelletization plants with the Parliament approval, on the previous call, you indicated one, you said that you already sold one line, if approved, and now the Parliament has approved, has potential orders for additional $31 million. Can you comment on that or just comment on how this all plays out now that the Parliament has approved the tax credit?

Dr. J. Don Brock - Chairman and Chief Executive Officer
Ben, you want to answer that one?

Ben Brock – Corporate Vice President over the Asphalt Group and President of Astec, Inc.
Well, the customer is working on the finalization of their supply contract for more pellets. They anticipate giving us the go-ahead on an additional two lines by the middle of May at the latest; it could be sooner than that. We feel very certain that that will happen. That would be an add-on to their one-line plant.

<Q> Any thoughts or discussions now that, again, the tax cut's been approved, about additional orders elsewhere, conversations you had without being specific?

Ben Brock – Corporate Vice President over the Asphalt Group and President of Astec, Inc.

Yes. In the last two weeks, we've had multiple contacts from customers. Some are based in Europe looking to put in plants in the United States. Some are local to U.S. to just supply the pellets to Europe. They're in the size of the plant that we're supplying to Georgia. They would be 2- to 3-line plants, either 40 or 60 ton per hour plants, primarily in the Carolinas.

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Dr. J. Don Brock - Chairman and Chief Executive Officer
It's an interesting industry. They need a contract to sell the pellets, which that now is coming available very quickly. They need to make sure they have enough fiber to feed the plants, but the big gap seems to be in construction financing of these plants. They're big and permanent financing doesn't seem to be a problem, but if all of them that are talking came through, you can't build enough of them. But the real dilemma is getting construction financing that finance companies seem to be a little reluctant to come up with the cash to do that.

I think that will get fixed as more of these plants are successfully running. We feel like this first one we're building will be the only one offering a package plant that they look at and see and say yes, this is the real thing.

<Q> Thank you. One other question, unrelated, and I'll get back in queue. Aggregates and Mining for the quarter were basically flat – down very modestly. Give us the sense of what percentage of revenues is from mining and then separate that, just give us a flavor of how aggregate did in the quarter year-over-year?

Dr. J. Don Brock - Chairman and Chief Executive Officer
Actually, to answer the second question first, the aggregate industry in the United States has been such a delay in doing upgrades that that seems to be better domestically than it is internationally. On the mining side internationally, we've seen a slowdown in new projects, but there are a lot of them that are well on the way that are finished and that they're continuing to do.

The one good part about the products we build, they basically make a little rock or little minerals out of big minerals, and they wear them out. So it's something that's a sustainable business, even when the market is not that great. Mining is only about a third of that segment now, and we continue to grow.

The big capital expenditure of this year is on that plant in Brazil. The Brazilians want about 50% to 60% content coming out of Brazil. We think that will certainly help as we get that online towards the end of the year to grow more on the mining side.

<Q> Thank you.

Operator
Our next question comes from Jack Kasprzak with BB&T Capital Markets. Please proceed with your question.

<Q>Thanks. Good morning, everyone.

All
Good morning.

<Q> My first question is: The margin improvement overall, David mentioned, for gross margin, it looks like it really came from the Asphalt Group. I was wondering if you can talk about the margin improvement there on only modestly higher sales. And then, staying on the subject of margins, in mobile, gross margin was down. Are you

still being affected by the engine change over there, is that some lingering effect, or is there something else going on?

Dr. J. Don Brock - Chairman and Chief Executive Officer
I think first, on the Asphalt side, we have not seen commodity prices hit us as hard as they had been. Steel seems to be fairly flat, and, in fact, in some cases, dropping down a little bit. And frankly, on the Asphalt side of it - Ben, you could comment if you want to – we put a lot of effort into trying to improve our lean operations. We've done better. ..., I've accused the guys running these operations at Astec, Heatec, and Roadtec, that they have done good over the years and probably haven't made as many improvements, they really focus on that.

In both companies, we're seeing real improvements in our manufacturing. Roadtec is still lingering a little bit on the Tier IV. We're getting all those products out. We've introduced a line of four models of stabilizers that are beginning to sell quite well. Frankly, if you look at both of the companies, Jack, parts help us a bunch on margins and the equipment margins have improved enough, and most of the improvements have been in the equipment margins.

You want to add anything to that, Ben?

Ben Brock – Corporate Vice President, Asphalt Group, President, Astec, Inc.
Yes, I would agree with what you're saying. I think the other thing that helped us is our product mix was right. We did a lot of new products last year through this plant and having a core product in the first quarter definitely helped us. The self sufficient days really did work, too; that was part of the lean. Certainly not having as many new products in the shop did help.

Dr. J. Don Brock - Chairman and Chief Executive Officer
Some of the products going internationally need to be – it sounds pretty simple, but they need the asphalt plant to be a smaller, narrower width plant where they can be moved without permits. They came out with a new model of that and that's sold very well in Australia. The first ones had no margins in them and we're seeing that getting corrected.

<Q> Then I was going to ask about your comments, Don, on housing and commercial. We all look at the same statistics on housing starts and see the improvement, but, you know, it's been a long time since maybe you guys have felt a demand pull from the private sector. I mean, are we really, do you think, at the point where there's some sustainable demand in terms of for your equipment for projects like housing developments and commercial developments?

Dr. J. Don Brock - Chairman and Chief Executive Officer
We're seeing that kind of a different thing. If you look at that industry, if you go back into 2007 and that area, about a third of the people that got married, which is a million and a half weddings a year, a third of them went into apartments, a third of them went into 1,500 square foot houses, and a third of them went into 2200 square feet, and as you know, the big houses are the ones that have gone to heck.

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What we see from contractors that do site development work is that a lot of the big home builders bought up a lot of that land and have shrunk the size of the houses that they're building and the $150,000 to $180,000 homes are the ones that are selling. The apartments are selling. As a result, this has been a four or five year recession or depression, but they have used up more of the prepared subdivisions, as you could call them, than they would have normally done in what I'd call a classic market.

So we are seeing, or our customers are telling us they are starting to see more residential developments coming back. While the number – we're still at 900,000 starts, and that's a long way from a million and a half, but the homes that are being built are those midsize ones, as you know. That's the difference we're seeing there.

<Q> Right, that makes sense. Okay, that's it for me. Thanks, guys; appreciate it.

Operator
Our next question comes from Rich Wesolowski with Sidoti & Company. Please proceed with your question.

<Q> Thanks. Good morning.

All
Good morning.

<Q> 1Q is typically a seasonally strong bookings quarter for the company. Would you mind discussing how 2013's March quarter awards set you up relative to your annual revenue budgets for the year?

Dr. J. Don Brock - Chairman and Chief Executive Officer
You know, you can be optimistic on a daily or weekly basis, but we have seen somewhat of a slowdown in March in the asphalt side of it. In the aggregate side, we've seen it pick up fairly well. In fact, they're pretty pleased on the aggregate, not as much international as domestic, and there are a lot of projects out there, particularly international projects on the aggregate side – that are fairly substantial.

On the asphalt side, we're seeing a lot of prospects for third and fourth quarter orders, and it seems to be a lot of our customers are looking at finally replacing facilities, but most of them are looking at ordering in the third and replacing in the fourth. We did see a lull here right at the end of the quarter. Fortunately, the backlog is okay.

<Q> Right. Regarding the international mining area, I'm wondering if your confidence in your own sales is reflective of a broad market outlook that would be somewhat at odds with some of the other suppliers or rather confident that you'll be able to establish a position there with the new products even in a difficult market.

Dr. J. Don Brock - Chairman and Chief Executive Officer
You know, there have really been one and maybe two suppliers primarily to the mining industry around the world. The big one being Metso, and then Sandvik is also in it now, but F.L. Smith is in it somewhat but not directly as much competing with us. There seems to be a real want for a strong second or third supplier, and we've been a

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little surprised and pleased with their willingness to buy our products. There is somewhat in many mining companies a little unhappiness with the existing suppliers. We feel like we have good opportunities there.

Larger projects, we historically have not been in on as many of those, but we're in on them now, and we are being accepted into those.

<Q> Okay. Then lastly, you spoke a little bit about the wood pellet plants; I'm wondering what are the other new products that you've introduced over the last 18 to 24 months that you would expect to move the needle in 2013 sales? Thanks a lot.

Dr. J. Don Brock - Chairman and Chief Executive Officer
Yes. It is obvious due to the size of the wood pellet plants where you're looking $40 million to $50 million plants move the needle pretty good. It does make things lumpy. The other products like the stabilizers at Roadtec, the new models at Roadtec; we have a number of larger, bigger crushers coming out of Telsmith.

The one place we're still losing money, but we are beginning to see at least we have profitable products is at the Loudon facility where the pump trailers have been very, very well accepted in the market as being state of the art. They're much smoother, much quieter—you can run them up 15,000 psi with no vibration and others generally vibrate out of the trailer. We've applied some of our technology to those industries that they haven't seen before. On the vertical oil drilling rigs we're still very excited. In fact, we have one $15 million order going to Kazakhstan for a complete rig. Normally, we're just selling the drilling rigs. Now, we're selling and beginning to build everything surrounding the drill rigs; all the auxiliary equipment. Those could be sizable projects, and they still offer a tremendous advantage. Particularly, as natural gas comes back, we see a lot more opportunity in the shallow gas and oil markets for those.

<Q> I appreciate all the help and best of luck for the rest of the year.

Dr. J. Don Brock - Chairman and Chief Executive Officer
Thank you.

Ben Brock – Corporate Vice President, Asphalt Group, President, Astec, Inc.
Thank you.

Operator
Our next question comes from Jason Ursaner with CJS Securities. Please proceed with your question.

<Q> Good morning. This is Michael Laskin. I'm calling in for Jason. My first question in the asphalt segment, did the army accept delivery of their orders and was that revenue recognized?

Dr. J. Don Brock - Chairman and Chief Executive Officer
Ben, can you?

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Ben Brock – Corporate Vice President, Asphalt Group, President, Astec, Inc.
No, they haven't accepted. It feels like every call we get is to talk about Aberdeen Maryland and the proving ground, but it's just a slow go there. It's going well, but it's just slow.

<Q> Do you have any idea when that revenue might be recognized or is it still—?

Ben Brock – Corporate Vice President, Asphalt Group, President, Astec, Inc.
It will either be late this quarter or the first of the third quarter.

<Q> I got it. Understood. Have you seen any of the pricing issues related to your European competitor's stockpiling the tier three engines resolve itself?

Dr. J. Don Brock - Chairman and Chief Executive Officer
They still seem to have a bunch of them left.

<Q> Do you have any idea when you can expect them to run out?

Dr. J. Don Brock - Chairman and Chief Executive Officer
You know, we have seen a little stabilizing of the market there. They're not quite as competitive as they were. I'd say the competition is not as severe in the mobile side as it was last year. Our margins are improving in our equipment and—we've done two things; we've reduced our manufacturing costs or are reducing it and the prices are sticking a little better. While we're still seeing them bring in Tier III, we expect that to run out this year.

<Q> Okay. Thank you very much.

Operator
Our next question comes from Nick Coppola with Thompson Research. Please proceed with your question.

<Q> Good morning. Thompson Research Group. So, on the public infrastructure side, you know I heard your comments talk about the lack of a strong highway bill, and I remember in previous quarters you talked about how the bill was passed too late in the letting season for it to have a real positive impact. Now that we're getting in to the spring of '13, are you going to start seeing a real positive impact in DOTs having greater visibility even at flat funding?

Dr. J. Don Brock - Chairman and Chief Executive Officer
Nick, what I'm seeing in talking with our customers is that there was a knee jerk in highway lettings this spring because of the sequester question and the extension of the authorization bill. That's pretty well gone away, and there are some pretty good lettings going on right now in most states.

We're also seeing some states like Virginia, Indiana, and a lot of them divert some of the money that they have diverted out of the highway funds back in to the highway funds. The highway patrol was being paid in Indiana, for example, by the road fund.

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They have now put that back to the general fund. Tags and things like that, they're putting back in to road fund.

One of the interesting things in *Business Week* this week, the election in Los Angeles, the hot button out there is fixing pot holes. Both mayors are trying to say they're going to do a better job at fixing the roads than the other one is. They even have them out there with shovels doing some of the patching of the potholes themselves. It's very exciting to finally see that some of the politicians recognize the infrastructure is coming apart.

We see more improvement at the state level, and of course, the federal level is flat. The sequester didn't affect the highway trust fund that much. It affected only the amount that was being put in from the general fund, so it was about 500 million of the 40 billion.

<Q> Interesting. Then, what kind of impact are you expecting from TIFIA?

Dr. J. Don Brock - Chairman and Chief Executive Officer
What kind of factor from?

<Q> TIFIA?

Steve Anderson – Vice President of Administration, Secretary, Director of Investor Relations
Yes, on the TIFIA program has a good multiplier effect, so it's beginning to create some additional funds that just weren't there before. As you know, the fund can be used to help contractors achieve investment grade ratings; it's what makes financing easier. A lot of obligations have been incurred right now, and the awards are just now beginning to approach the job site. Not a big impact so far but it's a positive that hasn't been there in the past.

<Q> Okay. That's it for me. Thank you.

Operator
Our next question comes from Tim Robinson with Susquehanna. Please proceed with your question.

<Q> Good morning, guys, thanks for taking my call. I just wanted to touch base on your comments about expecting margin improvement even if the sales are flat, and I was just wondering if you were to rank the primary drivers that would result in the margin improvement, is it better absorption. Is it less pricing pressure in mobile? Better price cost etc?

Dr. J. Don Brock - Chairman and Chief Executive Officer
I think the major two drivers of that are were just not seeing the inflation in some of our components that we saw in the last year or so. While the government was saying we didn't have much inflation, we saw a heck of a lot of it over a year ago. That seems to have quieted down.

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Secondly, I think we continue to improve our manufacturing. Under-absorption is still a problem in a couple of the companies. As we've gone through our sucession planning, I told Ben Brock and Rick Dorris, I said, "This thing would be a piece of cake if you could get all 18 of the companies making money." It's usually about two or three of them is sick and where under-absorption is still in the Underground Group, and we have to back fill more products in to that, which we're doing to help that.

A good part of the products we have has decent margins in them. I'd say it's more the manufacturing improvement, if we get more volume through those plants, it will certainly take care of under-absorption.

<Q> I've got it. I was wondering can you give a sense for what drove the decline for part sales in 1Q and do you continue to expect part sales to be up on the year?

Dr. J. Don Brock - Chairman and Chief Executive Officer
Basically, the doggone numbers are confusing in that we sold the company American Augers, so theirs came out of it; but the other two parts, the underground, the utility lines and the Trencor line, we just sold the lines. As a result, if you would take the part sales primarily related to the utility line out of it, which is still in that comparison, it was flat. Part sales were basically flat.

<Q> I got you. Then, lastly, with regards to the timing of the pellet plant, just trying to get a sense, so when you get the order, is it generally installed one quarter later? Then, I guess, based on this current pellet plant, it sounds like there is a two-quarter delay before you can recognize revenue? Is that how we should look at it?

Dr. J. Don Brock - Chairman and Chief Executive Officer
This, again, the owner of the plant—the buyer of the plant for doing of the construction of the site facility, we will be erecting it, but they will be doing the site construction and the installation of the concrete and the building and some things like that. The weather down in South Georgia has been atrocious, and so they are probably two months behind.

<Q> Yes.

Dr. J. Don Brock - Chairman and Chief Executive Officer

We're going to be ahead of them. We're ahead of them on building the equipment. It probably has caused a two-month delay. We expect probably to have the plant running by the end of the third quarter, and very shortly after that we'll run the test on it to improve our performance, but the performance is just the tons per hour and the emissions out of the plant. We're very confident based on the prototype plant that we built here and all that we ran on it, but these two accountants sitting next to me and E&Y … are conservative.

<Q> I got it. That's it for me. Thank you very much.

Operator

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Our next question comes from Brian Rafn with Morgan Dempsey. Please proceed with your question.

<Q> Good morning, guys.

Dr. J. Don Brock - Chairman and Chief Executive Officer
Good morning.

<Q> Go back to a comment you made, Don—you certainly talked about the federal funding on the highway side being somewhat tepid and flat are you seeing any pockets in funding just from state DOTs? Is Texas or Florida better than maybe some areas in the Atlantic seaboard? Are you seeing any strong regional pockets from the state funding basis?

Dr. J. Don Brock - Chairman and Chief Executive Officer
You know you look at where the oil is and the minerals, so the center part of the county is doing better than the left coast and the right coast obviously. Although, California is slowly coming back and we're seeing a lot of those slowly coming back.

They're spending a lot of money in Texas. Texas is okay, but they are tearing up the roads. The problem is that the pipelines are full with all the oil we have so the pipelines are full, they're transporting a lot of it by truck, and there's just a lot of traffic when you're running those drill rigs and pump trailers and all that.

North Dakota really has infrastructure problems. The thing that is happening there is they are setting up more rail yards there and in Pennsylvania and New Jersey and starting to shift the Vulcan crew to the east coast, which there's a lot of infrastructure related to that, but state wide it's kind of spotty.

Virginia has more money than they've had in a while. Indiana continues a strong road program. We saw Kansas pass more money, and then, the legislature turned around and took it out. One of the biggest, biggest things is that the public can't trust the politicians to do what they say they're going to do. We could get more taxes for more roads or more user fees, if they believed, they wouldn't steal it.

I'm pretty well taking state to state and it's a mixed bag. There's probably 30% to 70% that's better. That's just a gut feeling.

<Q> Okay. Okay. When you look at demand for some of your asphalt equipment; you guys talked about how Los Angeles is fixing potholes. You know, we own Granite Construction and the heavy civil design build business seems to be actually doing pretty well. Is the offset in kind of that turn business declining the housing , industrial parts and that, is that being at all offset by a pretty robust heavy civil; some of these huge multibillion dollar projects?

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Dr. J. Don Brock - Chairman and Chief Executive Officer

Yes. A lot of it is. We've seen one big project in Florida that just recently went that they're doing a lot of design built projects that are pretty sizable. Now, they have asphalt in it, but what will really help our customer's profitability is as the commercial business and the residential comes back—I was just talking with Jack earlier—that fills the gap. That business is not as competitive historically as the highway business. The highway business generally gives them the volume, but the other smaller jobs are giving them the profit.

The thing that is happening that is a lot of the little people that did the private work haven't made it through this recession, and I think as it comes back more stable—maybe, stable is not the right word—but the people who own the asphalt plants probably will do better as we come out of this market, because they don't as much competition from the little guys.

The other thing that's going to be good is the fact that there is just certain pent up demand. There's a lot of this equipment wearing out and they haven't been able to replace it. I see the customers that I talk to; the thing that makes me feel good is a number of them are taking about sizable facilities for later this year to replace the old facilities to modernize or run more recycle and things like that.

<Q> Okay. Okay. You mentioned, Don, in the past, you've talked about that you're seeing some of your pavers—there's a pension to trade in equipment for you guys' used equipment, and then have the state of the art equipment, the highest efficiently, that type thing. If you see 2013 continue to be somewhat tepid, relative to the highway book, do you see those same guys continuing with that trade in?

Dr. J. Don Brock - Chairman and Chief Executive Officer

Yes. We do. The one part of a paving spread is you start all the way from the asphalt—from the crushing plant to the asphalt plant to the truck and to the lay-down operation; a substantial amount of work is being done. It's just about all being done under traffic now; 80% of all your asphalt maintenance and rehabilitation. A lot of it's being done at night. You have a tremendous amount of upstream equipment depending on that paver running and not breaking down, so the pavers and the shuttle buggies and the equipment in the paving train, they're going to replace that and keep that modern and keep it low hours where its dependable. They just can't afford to have a breakdown. You create all kinds of crises with traffic and everything.

The other trend we're seeing is more night paving and the traffic is getting so bad that one contractor told me last week, he said, "We pave at night in cities because we can't get the trucks to the paver during the day." They're running these things day and night. They'll run in the city work at night shift , and then, they'll run the daytime out on the larger highway projects where the traffic's not quite as bad, so they're getting more hours quicker through that type of machine but that is such a critical thing. You're going to see more keeping modern equipment.

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The other side is that they're trading in 3,000 hour to 5,000 hour machines to us that is difficult to sell. We have to watch our trade in value on them; make sure we don't have to take a hit later.

<Q> Yes. Well, how viable, Don, is that used market? If you're talking about 3,000 to 5,000 hour machines, where do those machines go?

Dr. J. Don Brock - Chairman and Chief Executive Officer
Well, a lot of them used to go to South America. A lot of them used go to the residential commercial guys but not as much of that. The one thing that we do have that our competition doesn't do is we have 16 or18 rebuild centers where we rebuild these things, repaint them, and give them limited warranties. We've had to make a market for it. The highway type pavers are too big for a lot of the third world countries and too big for some of the commercial work, so it really comes back to our rebuild program and there are a number of contractors that will take those rebuilds.

<Q> When you guys do the rebuild retrofit, the repainting, and how many more hours can you get out of a used machine?

Dr. J. Don Brock - Chairman and Chief Executive Officer
Some of them will run up to 20,000 hours, but that's not very advisable, but I would say they'll probably go—we get a number of contractors trading in at 5,000 hours, and they have learned that if they trade before they starting putting parts on it, they can come out better. One of our big abilities on the rebuilds is we have the parts, and we're guaranteeing we're getting the parts' business when we do it. The margins, if you took the parts out of the rebuilds, are not as good as they look, but there's margin in it, and we make our margins on the parts we put on them. The rebuilds work out okay for us. In fact, it gives a real advantage over people that are not selling direct.

<Q> Yes. Okay. Okay. You talked a little bit about certainly pellet plants going in the U.K. Is there any sense if you look maybe out five/ ten years, what kind of an infield installation might you see in the U.K. or northern Europe? Are you talking about dozens of plants? Or tens of plants? Or hundreds of plants? I'm just curious as to how you see that strategically playing out.

Dr. J. Don Brock - Chairman and Chief Executive Officer
Well, I understand the U.K., basically, is switching to burning wood with a lot of the plants or burning it with coal. Their driver for that is to not have to put scrubbers on the plants. You don't have sulfur with the wood, and the wood is carbon neutral, but they don't have the source of the wood. The plants are going in the southeastern United States in the northwest, where your wood baskets are. Probably the future internationally would be Brazil, Chile, and close to the equator where the eucalyptus grows faster. Probably in Australia where the wood baskets are, where there are a lot of trees growing is going to be your major market.

The other unknown market is the torrification of the wood where you actually go ahead and keep cooking it and making artificial coal out of it that's clean and carbon neutral and has no sulfur. It takes about a third more wood to do that. The cost doesn't work economically, but as we start using more waste wood, when you torrify

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it, you kind of negate the environmental problems that have been in the wood because you cook it at 500 degrees. That is probably the next advance in technology of starting to use waste products to convert it.

Frankly, that has to come in the United States. If we're going to have renewable solar—solar is like using the bathroom in the ocean. You just don't have that many BTUS to it. It's good on a local basis. There's a bunch of windmills sitting there that they can't afford to rebuild, because they can't get enough out of the electricity. If the sun's not shining and the wind's not blowing, you don't have base electricity so wood has to come in to the equation at some point. Probably in the U.S., if we could use more waste wood to mix with the new wood instead of putting it in landfills, it's a better use for it. And that, in my opinion, logically will happen.

<Q> Okay. Okay. When you look at building up these pellet plants, Don, how many lines can you put on it? Is it just basically the amount of real estate that you have? Or is there kind of an economy scale as to how many lines you can put in a plant?

Dr. J. Don Brock - Chairman and Chief Executive Officer
The whole thing is one word; transportation. Generally, you have to haul the wood into the plant, the trees in to it; and wet wood, when you cut it, it weighs 25 pounds a cubic foot. When you make it in to pellet, it weighs 45 pounds a cubic foot. All the pellet plant is doing is drying the wood, getting the moisture out of it, upping the BTUS and it's densifying energy.

You're limited on wet wood unless you're in some kind of unique situation to where you can't haul it much over 50 to 60 miles, so these plants are generally going to be—in general, a 150,000 ton a year plant, which would be about a 20 ton in our plant. However, the second thing is the cost of freight to get it to the ships to take it to Europe, so you get a compromise between where you locate these things in a wood basket. There are some of them up to 500,000 ton plants where they have a unique situation where there's a lot of wood in that particular area or more concentration of it.

The positioning of these things are quite interesting and quite different. It really comes back to transportation to the plant and away from the plant.

<Q> Okay. Okay. Then, how much as you get in to this wood pellet business, Don, the sampling like your asphalt, your core operations, your pavers, how much parts business will be in these types of plants?

Dr. J. Don Brock - Chairman and Chief Executive Officer
They wear the heck out of the pellet dyes and those things, and it will be somewhat comparable to an asphalt plant. Probably not as much as a crushing plant, but somewhat comparable where you expect it to be 20% to 25% of our business.

<Q> Okay. You guys talked in the opening comments about a $0.40 cash dividend. Is that a secular dividend going now forward this quarter or is that just a special dividend depending on profitability?

Dr. J. Don Brock - Chairman and Chief Executive Officer

It's each quarter. It's a dime a quarter.

<Q> A dime a quarter. Okay. $0.40 for the year. Alright. Okay. Thanks, guys. Appreciate it. Keep it up.

Operator
We have come to the end of the Q&A session for today. I would like to turn the call back over to management for closing comments.

Steve Anderson – Vice President of Administration, Director Investor Relations
We appreciate the participation on this first quarter call. Thank you for your interest in Astec. As our news release indicates today's conference call has been recorded. Replay of the conference call will be available through May 7th and an archive webcast will be available for 90 days. The transcript will be available under the investor relation section of the Astec Industries website within the next seven days. All of that information is contained in the new release that was sent out earlier today.

This will conclude our call. We thank you and have a good week.

Operator
This concludes today's teleconference you may disconnect your lines at this time. Thank you for your participation.

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