



**Transcript of
Astec Industries, Inc.
Fourth Quarter 2013 Earnings Call
February 25, 2014**

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

Participants

Stephen Anderson – Vice President, Administration
David Silvious – Chief Financial Officer
Benjamin Brock – Chief Executive Officer

Analysts

John Kasprzak – BB&T Capital Markets
Joseph Grabowski – Robert W. Baird & Co
Jason Ursaner – CJS Securities, Inc.
Ted Grace – Susquehanna Financial Group
Walter Liptak – Global Hunter Securities
Barry Haimes – Sage Asset Management
Jon Evans – JWest

Presentation

Operator

Greetings, and welcome to the Astec Industries Fourth Quarter 2013 Earnings Conference 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, Steve Anderson.

Stephen Anderson – Vice President, Administration

Good morning, and welcome to the Astec Industries conference call for the fourth quarter and fiscal year that ended December 31, 2013. As Christine mentioned, my name is Steve Anderson, and I'm the Vice President of Administration, and Secretary and Director of Investor Relations for the company.

Also in today's call are Benjamin G. Brock, our President and Chief Executive Officer; Richard Dorris, Executive Vice President and Chief Operating Officer; and David Silvious, our Chief Financial Officer. In just a moment, I'll turn the call over to David to summarize our financial results and then to Ben to review our business activity during the fourth quarter.

Before we begin, I'll remind you that our discussion this morning may contain forward-looking statements that relate to the future performance of the company, and 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 of future performance and are subject to certain risks, uncertainties and assumptions. Factors that could 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. As usual, we ask that you familiarize yourself with those factors.

At this point, I'll turn the call over to David to summarize our financial results for the fourth quarter and the full year of 2013.

David Silvious – Chief Financial Officer

Thanks, Steve. Thank you everyone for joining us this morning. I will run through the financial analysis quickly here.

For the quarter our net sales were \$223.9 million in Q4 of 2013 compared to \$227.6 million in Q4 of 2012. That is a decrease of 1.6% or \$3.7 million. International sales for Q4 of 2013 was \$81.5 million compared to \$98.6 million in Q4 of 2012. That's a decrease of 17.4% or \$17.1 million in international sales. International sales were 36.4% of our Q4 net sales compared to 43.3% of Q4 of 2012 net sales. The decrease in international sales for Q4 of 2013 compared to Q4 of 2012 occurred primarily in Mexico, Australia, Africa, Asia, India and the Middle East. Those decreases in those geographic areas were offset primarily by increases in the post-Soviet states.

Domestic sales for the fourth quarter of 2013 were \$142.4 million compared to \$129 million in the fourth quarter of 2012. That's an increase of 10.4% or \$13.4 million. Domestic sales were 63.6% of Q4 2013 net sales compared to 56.7% of Q4 of 2012 net sales. Parts sales for the fourth quarter of 2013 were \$56.8 million, and that compares to \$58.1 million for the fourth quarter of 2012. That's a 2.2% decrease or \$1.3 million. Parts sales were 25.4% of quarterly sales in Q4 of 2013 compared to 25.5% of net sales in Q4 of 2012.

On a year-to-date basis, sales were \$933 million compared to \$936.3 million for 2012. That's just a slight decrease, or \$3.3 million. International sales on a year-to-date basis in 2013 were \$333.9 million compared to \$363.8 million in 2012. That's a decrease of 8.2% or \$29.9 million. The decrease on a year-to-date basis in international sales occurred primarily in Australia, Canada, Mexico, Europe, then Brazil and the rest of South America. These were offset by increases in the post-Soviet states, in the West Indies, and in Russia.

International sales were 35.8% of net sales on a year-to-date basis in 2013 compared to 38.9% of sales on a year-to-date basis in 2012. Domestic sales on a year-to-date 2013 basis were \$599.1 million compared to \$572.5 million in 2012. That's an increase of \$26.6 million or 4.6%. Domestic sales were 64.2% of our overall net sales in 2013 compared to 61.1% of our total sales in 2012.

Parts sales in 2013 were \$246.9 million compared to \$245.9 million in 2012. That's an increase of just 0.4% or \$1 million. Parts sales for 2013 were 26.5% of total sales versus 26.3% of total sales in 2012. Of course all that information, all sales information for all the segments is located attached to your press-release financial statements for both quarter and year to date.

Gross profit for the quarter was \$47.3 million or compared to \$48.3 million in Q4 of 2012. It's a decrease of \$1 million or down 2.1%. Gross profit percentage then is 21.1% for Q4 of 2013 versus 21.2% of Q4 in 2012, basically flat. The absorption variance in Q4 of 2013 was just over \$7 million under-absorbed, and that compares to about the same number, \$7.7 million under-absorbed in Q4 of 2012. It's a positive change of \$400,000 in absorption in Q4.

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On a year-to-date basis, gross profit was \$207.1 million compared to \$208 million in 2012. That's a decrease of \$900,000 or just at 0.4%. Gross profit on a year-to-date basis as a percentage was 22.2% compared to the same number of 22.2% in 2012. On a year-to-date basis, under-absorbed overhead increased to \$26.6 million in 2013 compared to 11.7% in 2012. That's nearly a \$15 million increase in unabsorbed overhead.

SGA&E for the quarter was \$36.6 million or 16.4% of sales. Compared to Q4 of 2012, the dollar amount was \$39.8 million or 17.5% of sales. That's a decrease in quarter-versus-quarter of \$3.2 million or a decrease of 110 basis points. The primary drivers during the quarter of the decrease in SG&A were pretty well spread out, but some slight decreases in commissions expense, payroll and related expenses and health insurance expense.

On a year-to-date basis, SGA&E was \$151.4 million or 16.2% of sales compared to \$156.8 million or 16.8% of sales in 2012. That's a decrease of \$5.4 million. The primary drivers on a year-over-year basis were decreases in R&D and in legal and professional fees. That was offset by a slight increase in payroll and related year over year.

Operating income was \$10.7 million in Q4 of 2013 compared to \$8.5 million in Q4 of 2012. That's a \$2.2 million increase or 25.9% increase. On a year-to-date basis, income from operations was \$55.7 million compared to \$51.1 million year-to-date 2012 for an increase of \$4.6 million or 9%.

On the tax line, our effective tax rate for the quarter was 29.7% compared to Q4 of 2012, which was at 38.6%, and this is tax on continuing operations only. The tax rate for the year was 32.7% versus 36.4% for 2012, and the primary driver for those big swings, big drops, from 2012 in both the quarter and year to date is the availability of the R&D credit, which, as you may recall, was not available in 2012 and was only passed in early 2013. So we got to take advantage of that in 2013 but not in 2012.

Net income from continuing operations was \$8.3 million for the quarter compared to \$5.5 million for the same quarter last year. That's a 50.9% increase. Earnings per share on net income from continuing ops was \$0.36 compared to \$0.24 per share in Q4 of 2012. That's an increase of 50%. On a year-to-date basis, continuing operations income was \$39 million compared to \$34 million on a year-to-date 2012 basis. That's an increase of \$5 million or 14.7%. That resulted in earnings per share on that line item of \$1.69 compared to \$1.48 on a year-to-date basis in 2012. That's a 14.2% increase.

Now on the bottom line, net income attributable to controlling interest for the quarter was \$8.3 million compared to \$10.9 million for the fourth quarter of 2012. It's a \$2.6 million decrease or 23.9% decrease. Earnings per share related to that line item were \$0.36 in the current quarter compared to \$0.47 for the same quarter in the prior year. It's a decrease of 23.4%. On a year-to-date basis, net income attributable to controlling interest is \$39 million compared to \$40.8 million in 2012 or a decrease of \$1.8 million or 4.4%. The EPS related to those numbers is \$1.69 in 2013 compared to \$1.77 in 2012 for a 4.5% decrease.

At December 31st of 2013, our backlog was \$290.2 million compared to \$263.8 million at the end of 2012. It's an increase of \$26.5 million or 10%. The international component of that at the end of 2013 was \$89.8 million compared to \$107.2 million at the end of 2012 for a decrease of \$17.4 million or 16.2%. Then the domestic portion of that at the end of 2013 was \$200.4 million compared to \$156.6 million at the end of

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2012 for \$43.8 million increase or 28%. Of course, backlog by segment is also attached to your press release.

On our balance sheet, our balance sheet continues to be very strong. Our receivables are at \$94.8 million at the end of 2013 compared to \$89 million at the end of 2012 for a \$5.8 million increase. The days outstanding has crept up slightly to 38.5 days compared to 33.3 days at the end of 2012. Our inventory is at \$342.3 million at the end of 2013 compared to \$312.7 million at the end of 2012. That's an increase of \$29.6 million. That result in terms for 2013 of \$2.2 million compared to \$2.4 million for the year of 2012.

We have nothing on our credit facility, and we have \$35.6 million in cash. We also have some investments on the balance sheet. Letters of credit outstanding at the end of 2013 were \$6.9 million, yielding a borrowing availability to us on our \$100 million credit line of \$93.1 million availability.

Cap ex in the fourth quarter was \$5.6 million and for the year was at \$27.7 million. We're looking for in the range of \$39 million for the year of 2014 in capital expenditures. Depreciation for the fourth quarter was \$5.3 million, and for the year it was \$21 million. We're looking at around \$24 million of depreciation expense to be recognized in 2014.

That concludes my prepared remarks on the financial details, and I'll throw it back to Steve.

Stephen Anderson – Vice President, Administration

Thank you, David. Ben Brock is now going to provide comments regarding the fourth quarter of this year's operations and will offer some thoughts going forward. Ben?

Benjamin Brock – Chief Executive Officer

Thank you, Steve, and thank you everyone for joining us on the call today. If we were to be asked to summarize our feelings about the fourth quarter in one word, the word would be "mixed." Sales were down 1.6% versus the same period last year, although our earnings per share on continuing operations were at \$0.36 versus \$0.24 in the fourth quarter of 2012.

If we were to be asked to summarize our feelings about our results for 2013 in a word, the word would be "improving." Sales were basically flat versus 2012, and our earnings per share from continuing operations were \$1.69 versus \$1.48 for all of 2012, and our backlog was up 10% versus 2012.

While it was a mixed quarter for us overall, despite the increase in earnings, we did experience a year of improvement as a whole, and we're encouraged about opportunities to improve internally going ahead. I'll talk a little bit more about that here later. It's probably going to sound like the movie *Groundhog Day* to everybody on the call, but the reality is that the uncertainty created by representatives in Washington, D.C. continues to make our domestic highway-infrastructure customers feel uneasy about their major capital expenditures.

This uncertainty remains in place despite the fact that those same customers are seeing marginal improvement in their private sectors. We're hearing rumors from contacts in industry trade organizations that the highway bill is at least being discussed in Washington now, and while we would absolutely welcome a long-term bill with increased funding, we're not sitting back and waiting on one. We're pursuing

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new business with new products in the United States, and we're working to grow our international effort.

The best example of our new products is the start-up of the first line of the Hazlehurst wood-pellet plant during the quarter. The plant is performing well. It's state-of-the-art with regards to operating costs and environmental compliance. It is a product we have chosen to finance for 24 months, and after careful and conservative discussions with our auditor we have decided to recognize the revenue for this plant as we're paid. The start-up of this plant has created really strong interest in that industry, and we expect to sell additional plants this year. In addition to this, the installation and start-up went so well that the customer at Hazlehurst did order the next two lines earlier than we anticipated. That order was for \$40 million, and it is in our backlog at year end.

The next best example of our efforts on new products is our booth at the ConExpo show next week. At this point, we will be displaying 41 new products, and that includes totally new products and new innovations products that we've had in the past at the show, and a 40,000 square-foot booth, which will be our largest ever.

As a member of the show management committee for ConExpo, we do have information that tells us our timing is going to be right for the booth effort, as the preshow registrations indicate it's going to be a strong show in terms of attendance. It's already the largest show ever in terms of the number of exhibitors and total square footage. So we head out to ConExpo next week with expectations for a good show.

With regard to the international effort, the best example that we have is that we do plan to have our new Astec Brazil manufacturing plant operational in the third quarter. Coming from our nearly zero position in the market—we do sell some equipment in the market now but in our nearly zero position and hearing from potential customers in Brazil, we are encouraged that we will see growth in Brazil and in South America with the opening of this plant. The next best example on the international front is the revamping of our coverage in our Mobile Asphalt Paving Group. Our operation in Germany is making some headway for them in Europe, and the group has added a new international sales head who is reconstructing their sales coverage across the board.

Looking ahead to the first quarter of 2014 and 2014 as a whole, we obviously have a fairly nice backlog to start off with. In reality, for us it is a stronger backlog because as a result of cutbacks in the military spending, the Army has canceled its future asphalt plant orders due to funding issues. We had \$14.5 million in the backlog for the orders that canceled that were removed in December. The Army jobs were very low-margin jobs. The other reason we feel it's a stronger backlog is because we also removed the prototype pellet-plant sale that was a \$10 million order from our backlog because the customer could not fund the project, and that too was a low-margin job.

So in summary, while the backlog is up to 10% versus 2012, we do consider it to be even better for us because the \$24.5 million we removed at year end was replaced with normal-margin jobs. We are very encouraged by this turn of events from a future earnings standpoint. Customer orders have continued and have been consistent since the first of the year. The industries that we continue to serve are the energy, infrastructure, and mining industries; and our R&D work and product releases are focused in these areas. We are getting good feedback from the field from our customers on our new equipment, and we are getting new orders for many of these products now.

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We do see growth opportunities in oil drilling in the pellet plants and the large crushers for mining, and high recycled-asphalt plants that will produce in the 65% and above range of hot-mixed asphalt with the high recycled asphalt. We also see opportunities in the small commercial-paving equipment line that are coming out of our Carlson group.

We also see room to improve internally through a more targeted lean effort and increased focus-group activity. We're also moving to benchmark in new ways between our operations so that we can improve our results together as a group through best-practices transfers. As an example, our division presidents will meet together twice this year. Our sales managers will exchange best practices in one meeting this year, and we will provide in-house training to all of our divisions' departmental heads during the year.

This investment in our people will yield the results in the future. Obviously, from David's comments, absorption is a key area specifically targeted for improvement in 2014. These meetings listed above will be quick and to the point. We really don't have time to waste in meetings, but if we can get value out of them we will hold them, and they will be quick and to the point.

Looking into the whole of 2014, we expect to improve our performance in 2013. This is despite the current state of the highway bill in Washington, D.C. Our customers are experiencing an improved private market, and we are focused on selling existing and new products, not only in the United States, but around the globe as well. We are growing our business in energy and mining, the two industries that are not dependent on the highway bill.

Finally, as an update, we completed our management transition plan announced in April of last year with the new role. My role changed to President and CEO of the company. Rick Dorris' role changed to Executive Vice President and COO of the company. Don Brock's changed to Chairman of the Board, and Norm Smith changed to Vice Chairman of the Board and Group President of the Mobile Asphalt Paving Group.

This has been a good transition. We continue to benefit as a company by having Dr. Brock and Mr. Smith active with us. Dr. Brock is working on sales and R&D projects as he continues to mentor Rick and me, and Norm Smith is working close with the Mobile Asphalt Paving Group and on sales as a whole in addition to that effort.

That ends my comments on the quarter and the year and what's in front of us. I want to thank everybody, again, for taking the time to be on the call with us, and thanks for your support as we move ahead. I will now turn it back over to Steve Anderson.

Stephen Anderson – Vice President, Administration

We'll start the Q&A session of our call now, and Christine will open up the queue for the Q&A. We would ask that you limit yourself to two questions and then a follow-up and then jump back into the queue so we can keep that rolling along. We appreciate your help with that.

So at this point, Christine, if you would open up the first question, we would appreciate it.

Operator

Our first question comes from the line of Jack Kasprzak with BB&T.

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<Q>: First question is just on SG&A. In the fourth quarter, it was down in dollars. It was also down in the third quarter. I know you're going to have ConExpo expenses in Q1, but excluding that is the run rate of SG&A now closer to the \$36 million, \$37 million per-quarter range?

David Silvius – Chief Financial Officer

Yes. We noted that the main drivers were R&D, and that was a big one for the year. I think we had a huge R&D push on these pelletizers and other related, or other similar, products that we were pushing over 2009, 2010 and 2011. So that run rate got up there, but we are bringing that back down somewhat. I think we're targeting something less than what we've been spending on R&D.

<Q>: Second question is, you guys made a lot of comments on what you're seeing in the market and the outlook, which is appreciated. As noted, your Q4 sales were about flat. Your sales for the full year 2013 are kind of flat with 2012. Given where the backlog is and maybe a little better private tone, I mean, do you think 2014 we'll see a little bit more meaningful sales-growth opportunity versus what we've seen for the last couple of years?

Benjamin Brock – Chief Executive Officer

We would say yes, it'd be up slightly. Of course, the pellet-plant orders are a little larger than an asphalt plant order, and we're going to obviously be pushing that pretty hard to try to get another one in this year if we can. The activity on that is good. I was at a pellet conference last week, and the projections for the needs of pellets are still high, and we do have customers coming to the site to see the plant in the coming weeks. So yes, we would think that there's an opportunity it would be up slightly here this year.

Operator

Our next question comes from the line of Mig Dobre with Robert W. Baird.

<Q>: This is Joe Grabowski sitting in for Mig. Just want to confirm that on the \$20 million to \$22 million of revenue for the wood-pellet plant, none of that was recognized in the fourth quarter, and maybe kind of walk us through how it's going to be recognized over the next 24 months.

David Silvius – Chief Financial Officer

Yes, sure. Absolutely. Thanks, Joe. We will confirm that was not recognized in the fourth quarter, number one. Number two, we are looking at essentially recognizing it on an installment basis as we go forward—the facts and the circumstances, being what they are with us financing and things of that nature. As a new product, we wanted to get it out there. It's a business decision, and we will be recognizing revenue on an installment basis. Then, as we said, we're doing the installation and construction financing. Customer is working on permanent financing, so as the facts change, then we'll follow the accounting rules and recognize the revenue.

<Q>: Then on the \$40 million of add-on orders, do you expect those to be financed also? How do you expect those revenues to be recognized?

David Silvius – Chief Financial Officer

I think it will be in a similar fashion right now. Unless the facts change, I think it'll be treated similarly.

<Q>: Do you know when those \$40 million of additional revenues will begin to be recognized? Will they fall into 2014, or when will they at least start?

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Benjamin Brock – Chief Executive Officer

We'll probably start to recognize some in late 2014. We'll have to get it in and get it up and running. But it went very well going in the last year, so we expect it to go as well with having a history of putting it up we think it will go well this year for those two lines.

<Q>: Then on the Army plant that I think was going to be recognized in the first quarter of 2014. Is that still going to come through?

Benjamin Brock – Chief Executive Officer

No. I have some general frustrations with our United States Army from a supplying to them standpoint, but our lift has been delayed again. It's going to be hopefully this next few weeks, according to our guys, and they also have the option in the contract to delay the taking of it. So we think at this stage that they will take it in August. I hate to say more to come, but it seems like that's how it is with them. That is \$6 million in revenue now at that point, so it's not very big, but it's there. It hasn't been recognized.

<Q>: Last question for me, and then I'll jump back in queue. It seems like the orders in the fourth quarter in the aggregate and mining group were stronger than they had been trending in the last few quarters. Just was wondering where you're seeing the strength in that group.

Benjamin Brock – Chief Executive Officer

Part of what you're seeing there is they have their national dealer event, and you've seen some deal orders come across. So that's mostly what you see in that, although we did have some good orders on major quarries: one down in Oklahoma and one in Pennsylvania. So we have seen some other orders outside of that, but the bigger driver of that was more in the dealer order side.

Operator

Our next question comes from the line of Jason Ursaner with CJS Securities.

<Q>: On the wood-pellet plant, as you begin to recognize revenue what do you expect the margin to be as it comes in?

Benjamin Brock – Chief Executive Officer

It actually is going to be at a normal equipment margin, major equipment margin. So for us, it's mid-20s to 22s-ish.

<Q>: And I guess, my understanding was the punch press had been part of the, I guess, challenge on getting it out and getting the margin off to where you want it. Over time, are you still working on that piece of it, and would do you expect the margin to keep moving higher, or that's kind of at a final margin on where we should expect wood pellet in the future?

Benjamin Brock – Chief Executive Officer

Well, on the press side, we decided to go with an outside vendor, so the press will not affect margin going ahead at all. That's the only piece of the plant that we won't be building going ahead. So we are using a press out of Germany, the call press.

<Q>: So the rest of the system, I mean, is there still room to be improving it, or did you get all of it kind of out on the prototype? Is there still room for improvement on margin?

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Benjamin Brock – Chief Executive Officer

I would say we have room to improve margin on it, and we typically see that on any new product. The first one's will come out a little bit lower margin, and then we improve them over time as we get some repetition. To tell you that every single thing fit when it got to the site would probably not be the truth, but what didn't fit was very easily fixed. So it went very well. So we do have room to improve as we go ahead.

<Q>: Then overall, as you're thinking about growth for 2014, you talked a little bit about the volume side and where you can expect orders. What are you seeing on the pricing side? And then I guess maybe in particular on the mobile asphalt the gross margin there was a bit lower, so was that a pricing issue? Or is that maybe more selling out of inventory where you had manufacturing causing that?

Benjamin G. Brock - Chief Executive Officer

Well, that's a good question. I'll tell you—and I think everybody sitting around the table would agree with this—that it was a very tough market last year. It was a tough year. I mean, when you look at our results, we feel pretty encouraged by them because we do see pricing pressure, particularly in the mobile group. They have some strong European competition, and then they have some competitors that are doing a lot of rent-to-own through their dealer networks.

So we have seen that pressure, and we've worked through the tier-four part. Most of our iron that's coming out of the mobile group now is through the tier-four process, so we do expect to see margins get a little better on that in that group. But certainly, they faced a lot of pricing pressure, particularly also with the rent-to-own market. Although I would add that we do feel like our pavers are gaining market share. We're doing a nice job with it. The new pavers have been well received.

<Q>: The other group, you had a pretty significant increase in sales but at a little bit lower margins. Wondering what went into there, whether it was Peterson or Australia.

Benjamin Brock – Chief Executive Officer

Mainly Peterson.

David Silvius – Chief Financial Officer

Definitely Peterson

David Silvius – Chief Financial Officer

Yes, it was definitely Peterson. We did have, and we talked about it in the comments, Jason, on the sales that we were down little bit in Australia, which it is the market for Astec Australia. So Peterson had a good quarter.

Benjamin Brock – Chief Executive Officer

Australia, with the mining being off a little bit down there, that's where it's been more of a struggle. The Aussie dollar has been not as good, but it's still in range, but we should be okay once it comes back, and we do have some activity there now.

Operator

Our next question comes from the line of Ted Grace with Susquehanna.

<Q>: Ben, maybe if we could start with the AMG group, I mean, very solid incrementals at 59% if my math is right, somewhat robust top line. But can you just walk through from a profitability of the margin standpoint kind of what really helped that and then start at that point?

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Benjamin Brock – Chief Executive Officer

Well, I think when you talk about that group it's a straightforward product mix and volume. They've been blessed with backlog and knowing what's ahead of them, and what they've sold has been pretty well wheelhouse equipment. So they have been in the right places at the right time on the sales side. That's the major part what's driven their success.

<Q>: I think David mentioned earlier in the call that the large screens were part of the mixed benefit there, but specifically can you just highlight what products you were referring to just for clarity sake?

Benjamin Brock – Chief Executive Officer

Sure, Ted. Their track-mounted sales have been very good, and their conveyor sales have been good, and the track-mounted would be site-specific crushing or screening. That may be where you get pick up on the screen side. They've done well of getting screens to help size materials that maybe they needed to size but they weren't.

We had one that was in a mining opportunity where they had some overburden that they couldn't get sized right, and they had to get a screen out there. So that's just one example of a lot of them. Those are the main products, the tracks, and that would be crushers and screens, and then track-mounted conveyors alone.

<Q>: And just for clarity's sake again, when we say mining are we talking kind of conventional mining or are we talking quarries and aggregates?

Benjamin Brock – Chief Executive Officer

Well, when I say mining, that would be like opening up traditional mining where they would bring in track-mounted crushers to open the mine or sometimes they'll do the track-mounted crushers. They have a lease agreement on a mine and they need to go over with a portable crusher spread to have some production out of that mine. Then if we talk aggregates and we say quarries, then when I say it, we're in the quarries and the traditional rock for infrastructure building materials.

<Q>: Then on the order front, can you just kind of highlight where the strength was either by end market or geography? Was that more on the aggregate side? Was that a couple of nice mining wins, kind of conventional mining? How would you encourage us to think about 2014 for AMG?

Benjamin Brock – Chief Executive Officer

Well, it's mainly, for them, in the quarry side. That's why we still think we have a pretty good opportunity in the mining side going ahead. Then as far as the regionals, Dave had mentioned some of those in his comments. But typically where there's natural resources like oil and gas, it's still okay for us, still going pretty good.

<Q>: Then the last question I'll ask before I get back in queue is you mentioned you were just at a convention for the pellet-press industry. Can you just talk about the opportunity, the pipeline that you're seeing now and what you think, how you would encourage investors to kind of calibrate the potential for orders in 2014 beyond the two you just announced?

Benjamin G. Brock - Chief Executive Officer

Right. Well, they did a projection, and you've got to be careful because you've got consultants giving a lot of projections on tonnages. But one of the presentations was a gentleman from Eggborough. It's a utility in the U.K., and he was talking about the

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North Chesterfield, VA
23236

Phone: 804-3273400

Fax: 804-327-7554

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needs for the pellets. One of his slides—and it may have been the guy before him but he said that's about the right number. He said that the demand by 2020, I think it was, would be up to 27 million tons.

On the same slide he's saying it's quicker than that, and I guess, the current demand is about five million tons to eight million tons, just for the U.K. Now if you did the math on the plants and the size, you would say there'd be 30 to 40 sizable pellet plant sold similar to what's going on at Hazlehurst. It would be 60 tons in our plants that would go in on the equipment side in a \$60 million to \$70 million range.

Operator

Our next question comes from the line of Walter Liptak with Global Hunter.

<Q>: I wanted to ask about your comments on the road bill and just the timing of it again this year. I imagine we'll hear more about the political will going into the spring. Is that set for a vote over the summer, or is it in September?

Benjamin Brock – Chief Executive Officer

Well, the current bill would run out at the end of September, and it depends on who you talk to. I mean, we get a mixed bag as we talk to our representatives. We talk to associations, and some associations see a pathway to a potential vote in the summer, and then you talk to some, and they'll tell you we're looking at maybe one or two more extensions before a bill. So that's why in the comments, we say our focus is to try, despite the highway bill, work on energy mining and where we can sell in infrastructure keep going and come out with new products, because there is work going on.

I mean, the private side is coming up a little bit. In the good times, the private side would have been 50% of the hot-mix produced, and then the government type would be about 50%. Of course, that dropped off pretty good when the economy turned. Really for us, we kind of saw it was turning in late 2008 and 2009, but that's coming back a little bit. So that's helping, but for the long-term cap ex purchases, they like to see the security of that federal bill. So where we can help is coming out with plants that do more recycle to help them compete with the concrete and that type of thing, and that's what we're focused on for that segment, and then keep working on energy and mining.

<Q>: Then I wanted to ask a question about ConExpo, and it'll be great to see the new products out there. But I remember in prior ConExpos that there was a level of expense that filters through in the first quarter. I wonder if you can give us an idea of what that spending is going to look like, your SG&A for the coming quarter?

Benjamin Brock – Chief Executive Officer

Sure. It's going to be somewhere in the range of \$3.7 million to \$4 million for our expense out there. At the same time, when you get out there and you see the effort in what we do with the show, it's probably the right amount, and it's the right exposure. With our decentralized model, we do take a lot of different sales reps that maybe a centralized model wouldn't bring that might have more dealer representations. So with the direct sales effort, we end up bringing more people.

The good thing is, though, like we mentioned in the comments, we have good expectations for tenants and our mobile group particularly thinks that it could be a good show for them. So we're looking forward to it.

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Our next question is a follow-up question from Jack Kasprzak with BB&T.

<Q>: Just a question on order patterns. In years where you have ConExpo I think that sometimes it gets a little lumpy in terms of customers waiting, and maybe they go to the show and then place an order. Given your comments about order trends so far in the quarter being pretty consistent with what you've already seen and your backlog what was already up at the end of the year, is this a little bit of a different order pattern than you're used to in maybe over the last one or two ConExpo shows?

Benjamin Brock – Chief Executive Officer

I would say that as decentralized as we are, it would vary by each division even. But I would say, in my history, it seems about the same. No, it doesn't seem over the top. I mean, it's consistent, so yes.

Operator

Our next question comes from the line of Barry Haimes with Sage Asset Management.

<Q>: I had a question relating to road repair, and I know the highway bill's an issue, but just in terms of the harsh winter that we've had compared with the mild winter last year—and I certainly know by being up in the northeast the roads are pretty beaten up. Is that the kind of thing where you're maybe starting to see some activity or inquiries, or is it too early? Is there any feel you have for how that harsh weather might impact your business this year?

Benjamin Brock – Chief Executive Officer

It's interesting you say that because I can promise you I've sent a letter to our representatives about what's coming in the spring, because when the freeze/thaws we've had there will be a lot of potholes, and we've been pretty lucky in the U.S. to have some warm winters in the last five or six winters. So it could give them a little momentum on a highway bill. I hope that that might, but we haven't seen any orders as a direct result.

I mean, I think most of the orders we've had are just normal buying. We haven't seen anything buying because of the weather. But when I wrote the letter, 70% of the United States was under snow cover, and it was going to 80% because we were going to pick up eight inches of snow the next day, which we did. So it was kind of a hit-home-type deal. So you're touching on something that we're trying to talk to our representatives about.

Operator

Our next question comes from the line of Jon Evans with JWest.

<Q>: Can you just talk a little bit about the oil and gas side? I've been on some of the equipment companies, etc. They're talking about a more positive North America spend environment, especially with the acceleration in natural gas prices. Can you just maybe help us frame kind of what you're seeing potentially from your customers, and maybe also why you haven't had as much success as you initially thought you'd have in that business?

Benjamin Brock – Chief Executive Officer

We would tend to agree with them on our oil and gas heater business. That has continued to be strong. We were with our sales group in the last couple of weeks that provides the rigs, and our sales quoting is up. But we do have new technology, and that takes a little bit more selling, and we're working on that. So we have great

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products there, and we're working to get a few of them across the line. But we've seen a little bit of an increase in the quote activity but not the actual sales yet on the rigs.

Again, the oil and gas heaters, that's remained good, but we do think as the price goes up, the rig sales will come with it. In the meantime, we've been developing auxiliary equipment to go around the rigs, and that would be the pumpers and the tanks that go with them. So that should help us in the long run, too. The other thing to note in the underground group is it's not just oil and gas, but we do have a line of water well-drill rigs, and that business is starting to come up, particularly with the private work.

Operator

Our next question is a follow-up question from Ted Grace with Susquehanna.

<Q>: I was hoping to just get some flavor on how we should think about kind of domestic versus international sales as we look forward. International sales are kind of flat, sequentially down year-on-year. The backlog, as you highlighted, was down kind of mid-teens. So can you just kind of speak to what your outlook is for the businesses, domestic versus international, as we head into 2014?

Benjamin Brock – Chief Executive Officer

Well, we're definitely seeing that in the numbers our domestic, as a percentage is up, and Europe has just been weak for us, but it seems to be again, the mobile group and even in the asphalt that the plant side we're seeing some opportunities now. We're going to work to get that percentage up this year, Ted. Our goal is to have a much better mix than what we had in this year.

I think the work that we're doing on mobile side that we mentioned in the comments with the new VP of sales, they're making some headway, and certainly some of their headway is in Latin America where they have not been strong. So they're starting to see a little bit of a— I wouldn't say they didn't have a heartbeat, but they're seeing more of a heartbeat.

<Q>: Then the other thing I was hoping to follow up on is you talked about the conservatism on the highway bill and the fact that you're focusing on things you can control. You mentioned that the MAPG group is optimistic on ConExpo, so I'm assuming that would have a positive read across, at least some people replacing equipment. But can you speak to just the tone or the sense that you're picking up from talking to both contractors and state DOTs on the uncertainty and how they may react, because the highway contract awards are actually pretty strong, and I guess, to be curious, to get your sense if those numbers are sustainable, or as we get closer to an expiration if highway DOTs start to pull back?

Benjamin Brock – Chief Executive Officer

Well, Ted, again, just like when you talk to different divisions of us, it depends on where you are a little bit because somewhere, some places, the states have started to try to take over the funding and get more funding and control more of their destiny. Like Virginia kind of effectively went away from the gas tax and turned it over to a sales tax to generate more revenue. As that flows through, they're going to have a very nice five-year run.

Pennsylvania went to the wholesale tax with the retail tax on gas, so they have a potential going ahead pretty good. So there's going to be pockets where that happens and there's opportunities where that happens but as far as the highway bill,

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it's just a longer term. It's just a mental piece. Even though the private's up a little bit, and if you're in these states, you feel better, across the board, there's nothing like a long-term highway bill for our customers' feelings.

Operator

Our next question is a follow-up question from Mig Dobre with Robert W. Baird.

<Q>: Just a quick follow-up—was hoping you could talk a little bit about the M&A pipeline and what sort of deals you might be looking to get done in 2014?

Benjamin Brock – Chief Executive Officer

We continue to look, and we're looking in the mining and energy and infrastructure areas. We're not looking to get outside of those areas. If we can find a strategic fit, and if things work out, we're not afraid to do it. We just keep looking.

Operator

Mr. Anderson, we have no further questions at this time. I would now like to turn the floor back over to you for closing comments.

Stephen Anderson – Vice President, Administration

Thank you, Christine. Again, we appreciate everybody's participation on this fourth quarter conference call, and thank you for your interest in Astec. As our news release indicates, today's conference call has been recorded. A replay of the conference call will be available through March 11, 2014, and an archived webcast will be available for 90 days. A transcript will be available under the investor relations section of the Astec Industries website within the next 7 days. All of that information is contained in the news release that was sent out earlier today.

This will conclude our call. Thanks to all of you, and have a good week.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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