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Transcript of Astec Industries
First Quarter 2014 Earnings Call
April 22, 2014/10:00 a.m. EDT

Participants
Stephen Anderson – Vice President, Director of Investor Relations
Benjamin Brock – President, Chief Executive Officer
David Silvious – Chief Financial Officer

Analysts
Jack Kasprzak – BB&T Capital Markets
Mig Dobry – Robert W. Baird & Co.
Ted Grace – Susquehanna Financial Group
Jason Ursaner – CJS Securities, Inc.
Nick Coppola – Thompson Research Group
Morris Ajzenman – Griffin Securities

Presentation
Operator
Greetings, and welcome to the Astec Industries First Quarter 2014 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.

I would now like to turn the call over to your host, Steve Anderson.

Stephen Anderson – Vice President, Director of Investor Relations
Thank you, Brenda. We apologize, apparently the provider had some technical difficulties, but we're glad you're with us here today.

As Brenda mentioned, my name is Steve Anderson. I'm the Vice President and Director of Investor Relations for the company. Also on today's call are Ben Brock, our President and Chief Executive Officer; Rick Doris, 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 quarter. Before we begin, I will 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 of future performance, and 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. 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 first quarter.

David Silvious – Chief Financial Officer
Thanks, Steve, and good morning, everyone. Thank you for joining us this morning.

Our net sales for the quarter, $238.7 million, compared to $247.8 million in the first quarter last year. That's a decrease of 3.7% or $9.1 million. Components of those sales, international sales were $63.2 million for the first quarter of 2014, compared to $85.9 million for the same quarter last year. That is a decrease of 26.4% or $22.7 million. International sales represented 26.5% of first quarter sales this year, and 34.7% of first quarter sales last year. The decrease in international sales from first quarter of 2013 to first quarter of 2014 curbed primarily in Russia, Canada, Europe, Australia, and in Africa, and these decreases were offset by increases in the post-Soviet states, as well as in Asia.

Domestic sales for the first quarter of 2014 were $175.5 million, and that compares to $161.9 million in the first quarter of 2013. That's an increase of 8.4%, or $13.6 million. Domestic sales represented 73.5% of total sales for the first quarter of 2014, compared to 65.3% of total sales for the first quarter of 2013. Parts sales for the first quarter of 2014 were $69.3 million, compared to $68 million in the first quarter of 2013. That's a 1.9% increase, or $1.3 million. Parts sales represented 29% of our sales in the first quarter of 2014, compared to 27.5% for the same period last year. Core segment revenues are attached to the press release.

You will notice that we're now reporting in a different segment format than in previous years, and we discussed this change in our 10-K for the year ended December 31, 2013, as well as on previous conference calls. We have attached the recast quarterly segment information for the last three quarters of 2013 as an addendum to the press release financials, for your convenience.

Moving on to gross profit for the quarter, we were at $56.8 million, compared to $58.6 million in the first quarter of 2013. That's a decrease of $1.8 million or 3.1%. The gross profit percentage was 23.8% this year, compared to 23.6% first quarter last year.

Part of that increase was due to a change in our absorption variance. Our absorption variance actually was at $3.3 million unabsorbed for the first quarter of 2014, compared to $6.6 million for the first quarter of 2013. So, we had a positive change in that of $3.3 million or 50%. The positive changes occurred across most of our companies.

SGA&E for the quarter was $43.4 million, or 18.2% of sales. That compares to $40.4 million for the first quarter of 2013, or 16.3% of sales. That's an increase of $3 million, or 190 basis points as a percent of sales. Now, the driver for that, the primary driver in the quarter, was ConExpo expense of $4 million. That was offset by decreases in other selling expenses across the companies, and on an after-tax basis, that ConExpo expense recognized in the first quarter of this year equated to about $0.12 per diluted share.

Operating income decreased to $13.3 million in the first quarter of 2014, compared to $18.2 million in the first quarter of 2013. That's a decrease of $4.9 million, or 26.9%. The effective tax rate for the quarter was 32.2%. That compares to 29.8% as the effective tax rate for the first quarter of 2013.

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Now, as many of you already know, the R&D credit has yet to be renewed for 2014. Therefore, no credit has been claimed during the first quarter of this year. However, in the prior year Congress had approved the R&D credit for both 2012 and 2013 in the first quarter of 2013. As a result of that, we had recognized not only the credit for the first quarter of 2013 last year, but also $1.2 million of R&D tax credit related to the 2012 year, which was included in the first quarter's tax provision of 2013.

Net income attributable to controlling interest for the first quarter of 2014 was $9.5 million, compared to $13.2 million in the first quarter of 2013. That's a $3.7 million decrease, or a 28% decrease. Our earnings per share for the quarter on net income attributable to controlling interest was $0.41, compared to $0.57 in the same period last year. That's a decrease of 28.1%.

Backlog at the end of March of 2014 was $299.6 million, compared to $276.5 million at the end of March of 2013. That is a $23.1 million increase, or an 8.4% increase. The international backlog at the end of March 2014 was $102.7 million, compared to $109.2 million for the same date in 2013. That's a decrease of $6.5 million, or 5.9%.

Domestic backlog at March 31 of this year increased to $196.9 million, compared to $167.3 million at March 31 of 2013. That's a $29.6 million increase, or a 17.7% increase. The March 31 of 2014 backlog of $299.6 million, compared to the December 31, 2013 backlog of $290.2 million, shows that there was a $9.4 million increase or a 3.2% increase over the backlog at the end of 2013.

Now, if we were to include—and we did a press release and notified everyone that we did purchase Telestack on April 1st, and so we don't include their backlog in the March 31 backlog that we're presenting. However, if we did include that backlog, then we would be sitting at $309.5 million of backlog entering into the second quarter of 2014.

Our balance sheet remains very strong. Our receivables are at $109.1 million, compared to $104.6 million for the same date last year. That's an increase of $4.5 million. Days outstanding increased slightly to 40.6 days outstanding, compared to 37.1 at March 31 of last year. Our inventory is at $361.2 million at March 31 of this year, compared to $326.1 million at March 31 of last year. That's a $35.1 million increase. A little more than half of that increase is related to the pellet plants. Those inventory balances result in 2.1 turns this year, compared to 2.3 turns last year.

We do owe $2.1 million on our credit facility, but we're showing $45 million in cash and cash equivalents available to us at March 31st of 2014. The $36 million that we paid for Telestack was escrowed on March 31st, and was unavailable for borrowings, but was not committed. It was just escrowed, and so it shows as cash. So, it wasn't available to pay down on the debt on that particular day. We did owe $2.1 million on our credit facility. We had $6 million of layers of credit at March 31, so that resulted in borrowing availability of $92.8 million.

Capital expenditures for the quarter were $8.4 million, and we are budgeted to spend approximately $39 million in 2014 on capital expenditures. Depreciation for the quarter was $5.2 million, and we're budgeted to depreciate approximately $24 million of fixed asset expense in 2014.

That concludes my prepared remarks on the financial details. I will turn it back over to Steve Anderson.

Stephen Anderson – Vice President, Director of Investor Relations

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Thank you, David. Ben Brock's now going to provide comments on our first quarter operations. Ben?

Benjamin Brock – President, Chief Executive Officer
Thank you, Steve, and thank you to everybody that's joined us on our call today.

With three main exceptions, we were generally pleased with our results during the first quarter. The first exception would be that our sales were down 3.7% versus this same period last year. The second would be that the expense of $4 million for ConExpo hit us during the quarter, which was expected, but still an exception for us. We were pleased with the show, despite the $0.12 per share cost of it.

The third would be that R&D tax credits that we had in place for the first quarter last year weren't available to us this quarter. Last year's R&D tax credits would have amounted to about $0.05 per share this quarter. So, our earnings per share for the quarter were $0.41, versus $0.57 in the first quarter of 2013. Adding ConExpo and R&D back in would have meant $0.58 this year, and that was on 3.7% less sales volume.

So, we're pleased that, accounting for ConExpo and R&D tax credit, that our focus on operations did result in higher earnings in continuing operations for the second quarter in a row when taken versus the previous quarter in the prior years. While we're pleased that these numbers reflect improvement operationally, we're not satisfied with our sales results lagging last year's sales, and we expect to improve our shipments in the second quarter. While sales were down 3.7% versus the same quarter last year, our backlog was up 8.4% versus the same period.

Regarding the sales environment that we're in here in the United States, the reality continues to be that the uncertainty created in Washington, DC, is continuing to make our domestic highway infrastructure customers feel uneasy about the major capital expenditures, and now their customers, which are the departments of transportation, are slowing, or even in some cases stopping some lettings. This is adding to the uncertainty, especially with our hot mix asphalt plant customers.

Our customers are continuing to see a slow marginal improvement in the private sector, and we continue to hear rumors from contacts in industry organizations that the highway bill is being discussed in Washington. As we said before, we would always welcome a long-term highway bill with increased funding. But in the meantime, we are continuing to pursue 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 during the quarter is also the best example of our effort to grow our international business. That example is our announced acquisition of Telestack Limited. Telestack is based in Omagh, Northern Ireland. They engineer, sell, and manufacture material handling systems used in ports, large mining operations, and quarries. We did not have viable large port and mining material handling systems available in any of our other 17 divisions, so with this acquisition we have added not only new products, but also a manufacturing division in Europe that has delivered equipment to six different continents profitably.

For more information on Telestack, they do have a really good website, and that website address is www.telestack.com. I was at Telestack last week, and I was pleased to meet a great team of people that had a great first quarter, and they have a good second quarter lined up. We expect Telestack to be accretive to earnings in the second quarter. They are not included in our first quarter numbers, as David

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mentioned. They do have a backlog of $9.9 million, and he mentioned that as included in our total backlog.

As a new products update, the first line of Hazlehurst wood-pellet plant continued to perform well during the quarter, and will deliver line two during the second quarter, then will deliver line three in the third quarter. As a reminder to everyone, it is a new product that we have chosen to finance for 24 months, and as a result we will recognize this revenue as we are paid. This will have an effect on our cash and our inventory until it's paid in full. As a reminder, the order for lines two and three was for $40 million. The start-up of the plant has created strong interest, and we expect to sell additional plants this year.

We mentioned ConExpo earlier in the call, and despite the cost, it was a great show for our company. We were pleased with the show traffic and the leads that we got from the show. We did sell equipment at the show; however, we do feel that the benefits of the show will be seen in sales during the second half of this year. We are on the record as saying that we expected a good show, and the show did meet our expectations.

I also visited our new Astec Do Brazil manufacturing plant site during the quarter. We still expect the facility to open in the third quarter. We remain encouraged that we will see good growth in South America with opening this plant, as a new player in the market with a base in Brazil.

Changing subjects, as everyone can see, we have changed our financial reporting groups as of this quarter's release. We have provided recast historical segment information for your reference. This change was not an overnight decision. We discussed it and decided on it during our corporate staff retreat last year. Our reporting groups now better reflect the industries that we have been focused on serving for some time, infrastructure, aggregate and mining, and energy.

The breakdown of subsidiaries that are in our new financial reporting groups can be found on our corporate website homepage. That website address is www.astecindustries.com.

Looking ahead to the second quarter of 2014 and 2014 as a whole, we obviously have maintained a nice backlog, and our new subsidiary Telestack has added $9.9 million to it, as of April 1st. From our last earnings release to now, orders have been steady with the exception of hot mix asphalt plants, which have been challenging up until the last few weeks. Our market share remains as strong as in the past in hot mix asphalt plants, but with the soft hot mix plant market, it has been good to have the pellet plant business as an offset to our Astec subsidiary.

We see growth opportunities in oil drilling, pellet plants, large crushers for mining, high recycle asphalt plants, and small commercial paving equipment. We also see synergies with Telestack and our aggregate and mining group, where representation does not overlap. We are also pushing to increase our parts sales and competitive parts sales, and we are continuing to work on our lean journey with regards to manufacturing and office operations.

We are also continuing to benchmark in new ways between our operations, so we can prove our results together as a group through best practices transfers. We are on the record with regards to working on our absorption this year, and we were happy to report that we were over 50% better versus the same period last year on absorption.

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Looking to the whole of 2014, we expect to improve on our performance versus 2013. We also expect to have a strong second quarter that will make up for the ConExpo expense and R&D tax credit that is not in place, and put us ahead of last year's first half results, and this is despite the current state of the highway bill in Washington, DC.

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. We are working to grow our business in energy and mining, two industries that are not dependent on the highway bill.

And again, we are pleased with the addition of Telestack to the Astec family of companies. Telestack has great people, new port material handling systems that we did not have in our prior fund, a manufacturing footprint in a cost-effective region of Europe, and a global customer base spread over six continents. And that customer base includes several of the largest mining companies in the world, which we feel will only help us as we release more products targeted at large mines in the future.

Acquisitions remain a key piece of our growth strategy, along with organic growth through new product introductions and targeted sales growth efforts, both in the United States and international markets.

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

Stephen Anderson – Vice President, Director of Investor Relations
Brenda, if you would, poll for questions, we'd be glad to answer any questions that come through.

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

<Q>: My first question is just on the international sales, which were down pretty sharply in the quarter, and you call out some of the regions and mentioned currency. But I was just wondering if there was anything else that you noticed, given that it was a sharp decline. Were there some order push-outs? Is this part of why you expect Q2 to be stronger, because this international will bounce back in Q2? Just more color there may be helpful.

Benjamin Brock – President, Chief Executive Officer
Sure, Jack. Being in Europe in the last couple of weeks, I can tell you for our equipment sales it's just been tough. So, for that, particularly on the asphalt plant side, it was a really tough year last year, and it hasn't started much better this year. The good news is, we are quoting some more, so we'll see if that translates into orders. The exchange rate there is favorable, if the business is there.

So, we're cautiously optimistic about that in the second half. Generally, we'll see some more shipments in the second quarter, but globally we've just seen—Australia, for instance. The country has been okay, even with the mining being down. But the infrastructure part of it, in talking with our guys—and I haven't personally been there this year yet—but it's just been a slow go. But in talking with them this week, they are seeing an increase in activity. So, we think maybe in the second half it will come back a little bit.

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<Q>: Just on the highway bill issue, I guess I'm a little surprised to hear the comments about state DOTs may be slowing lettings, just because I wouldn't think that there would be that much optimism, if that's the right word, around a new highway bill. Wouldn't everybody just basically be expecting a flat or slight increase in funding, sort of the status quo that we've had?

I guess I'm a little curious why there seems to be this reaction, when I wouldn't think there would be much chance for anything different than a funding level where we've been, we just sort of plod along like we have been.

Benjamin Brock – President, Chief Executive Officer
Jack, we agree with that. I think the reality that they're looking at from a budgeting standpoint is, they see their money running out by September 30th from the federal government. So, they kind of knee jerk a little bit.

The flip side of that is, there are some pockets where states have tried to take their destiny in their own hands, like Virginia, Pennsylvania and Indiana, with some tax measures, and those areas seem to be going okay. Pennsylvania for sure has some activity for us, so we feel like there will be at least a continuing resolution at flat, and if there was a long-term bill, I think the President—the last thing that I read, was maybe it will be a six-year flat bill.

Well, that would be okay, too, because that would at least provide the baseline mentally that our customers are looking for. So, we continue to push with them through organizations and fly-ins to Washington to try to get at least some kind of dependable bill going. But I would agree, we'll probably see a resolution at flat before the next bill.

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

<Q>: So, if we can sort of go back to ConExpo, Ben, you had obviously good tone, apparently you had good conversations. You also mentioned that you expect sales related to this show to maybe come in the second half of 2014. I guess I'm wondering, what gives you that confidence? And can you talk a little bit about sort of the sales process that you normally see at one of these trade shows?

Benjamin Brock – President, Chief Executive Officer
Sure. Kind of what we saw—and our backlog's up a little bit, part of that's ConExpo, not all of it, but part of it was—and we've also seen that with the private work being up, with the state work that has been there, the private is a little better margin, particularly for our hot mix asphalt customers.

And so, while they don't have the long-term vision maybe on the large cap ex items like I mentioned in the comments, one of the things that they are doing is they are buying some mobile equipment, so like our Roadtec division is doing pretty well. So, the confident side of that really comes more from the private, continuing to see some slow movement upward.

For instance, here in Chattanooga—and we're getting really local now—but we have a good friend that's in the concrete business, and he can't quote fast enough. So, there are pockets where that's happening, and when you combine them all together, that's what gives us the feeling that we'll continue to see orders as a result of the show. And generally, that's what we head from the customers at the show, that their private side was getting better.

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<Q>: I guess I'm also a little bit confused with regards to overall activity for the road building industry, because, I guess, from the information that I have available, it seems like activity is actually picking up. There's certainly a need after a really rough winter in most of the country to patch up some roads and highways, and highway obligations certainly are pointing in the right direction. So, what are you seeing that's different from that, I guess?

Benjamin Brock – President, Chief Executive Officer
Well, for instance, our sales rep in Arkansas mentioned a few jobs that were taken off of the bidding, pointed right at funding. Now, on the flip side, the maintenance side at the end of highway bills, typically we do see a lot of mill and inlay work. For example—of course, I'm again staying close to home, but in Alabama they have a 30-mile stretch where they're doing a mill and fill on a section. So, we have seen that on the maintenance side, but it's the longer-term, larger projects that we're seeing that are kind of slowing down.

<Q>: Then just two more questions for me. I want to go back to the Telestack acquisition, and I'm wondering if you maybe can give us a little more color on the accretion we should be expecting, or anything around margins, multiple paid economics of the deal?

David Silvious – Chief Financial Officer
On the Telestack acquisition, they're probably about a $25-$30 million company, fairly profitable and good gross margins that will be right there in sort of our wheelhouse as far as our margins on equipment, which you've seen with us, sort of those mid-20 target margins. Again, a lot of it depends on volume, but they're profitable. I don't know that we can say exactly how accretive, but they're profitable, and we expect them to be accretive.

<Q>: Is this going to be part of the aggregate and mining segment?

David Silvious – Chief Financial Officer
That is correct, they'll be in the aggregate and mining segment.

<Q>: Then my last question for you, David, I'm looking at the inventory, and I appreciate the color on what drove half of the increase year-over-year. But nonetheless, even excluding these pellet plants, inventories continue to increase. So, from your perspective, what are you aiming to do with working capital going forward? What's an appropriate turn-over level, if you would, for inventory?

David Silvious – Chief Financial Officer
Yes, we certainly are not exactly happy with two turns. We would love to be at four. I think three is realistic for us, but part of that increase is due to some rental equipment, as well. We're growing the rental fleet especially in our German location. That's just kind of the way business is done there. We do have some consignment fleet on the ground in Australia.

So, growing these international locations is a little tougher than being able to just produce it right away and sell it domestically. We have some finished goods. The growth that you see in that inventory is primarily finished goods and rental. WIP has remained fairly flat, it's grown slightly in the purchased parts, and raw goods have grown slightly. But the biggest piece of it is, of course, the pelletizer, and then some additional finished goods and some rental equipment.

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

<Q>: The question I was hoping to ask is, stock orders. My recollection is, at the end of the fourth quarter when you reported the results, business got off to a good start from an order perspective. And I was just curious if you could talk about kind of like how January, February, and March compared, and how you might—a little more color on April. It seemed like there's some reason to be encouraged. So, could we maybe just start there?

Benjamin Brock – President, Chief Executive Officer
Sure, Ted. Obviously the biggest thing would be that the backlog is up, so that would be reflective of how the order taking was. Again, up until the call the asphalt plant market has just been tough, so the order intake slowed in the late part of the first quarter. However, I would say that since April we've picked up quite a few plant orders. They're not all U.S. It's just one U.S., they're international, but we're pleased with that.

There was a little bit of concern at Astec subsidiary, not that there isn't still a little bit more, but the leads are a little bit better now. I don't know what it was, but the first quarter, particularly the last part of the first quarter was a little back and forth with them. But generally, when you look at the backlog as a whole, it's been okay on order intake.

<Q>: What about in AMG, and if you could just talk a little bit about maybe the mobile asphalt paving?

Benjamin Brock – President, Chief Executive Officer
The mobile asphalt paving Roadtec, like I mentioned earlier has done fairly well. We feel like we might be increasing our paver market share a little bit, and the material transfer vehicles are moving with them, what we call a shuttle buggy. Still an opportunity to do a little bit better with them, we think, in Europe, with Astec Mobile Machinery. We were over there visiting with them, and, like David mentioned, that is a kind of a rent-to-own type market.

There are some things we can do a little bit differently to try to help our paver and screed business there. We can have pretty good margins on the screeds if we can have the tractor go with them. So, we're working on some creative ways to start moving those screeds to help them.

<Q>: And then on the mining side, the aggregate and mining. Could you maybe characterize how the quarter progressed, and how April is feeling?

Benjamin Brock – President, Chief Executive Officer
They had a good quarter. Internally, what we would call our AggReCon group, mobile, kind of the track-mounted crushing equipment, conveying equipment did well. The major products over in aggregate and mining, what we call aggregate and mining internally, did well on orders. It's kind of taken a little bit of a breather in the last few weeks, but the leads are okay. I've been talking with them in the last week or two here. So, generally it's okay with those groups.

<Q>: And then, David, could you just maybe highlight kind of the impact of FX, both on international sales, kind of the reported number, and then also how it impacted international backlog?

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David Silvious – Chief Financial Officer
Yes, we had strengthening in primarily just Europe and the sterling, the British pound. Australia, Canada, South Africa, Brazil, all those weakened. And so, it's kind of a mixed bag, simply because we do quote in U.S. dollars in a lot of places.

Now, when we quote out of South Africa, we'll quote in rands, but they don't necessarily carry a huge backlog from time to time down there. I would say that the ForEx didn't have a huge impact on the backlog. The impact on the P&L for the quarter was very small, as far as what we recognized in transaction expense. So, the biggest piece just runs through what we call OCI, the conference of the income, is when we translate the balance sheets over, and that's just part of equity.

<Q>: The last thing I was hoping to ask is just—you guys obviously had pretty solid gross margins versus our expectations, and incremental gross margin was about 20%, which we thought was strong. Could you just maybe give us a sense for what you're seeing on the cost side? And the absorption obviously was a nice positive variance, but what are you seeing both on the materials side and the internal cost side kind of broadly? And how should we think about that over the course of 2014?

Benjamin Brock – President, Chief Executive Officer
Ted, this is Ben. Steel is going up, that's what we're seeing, and that's something that we're working with all of our division heads to keep an eye on as we're quoting for the second half. We're generally locked in through the first half on our pricing, but we're seeing a pretty good increase on steel.

It's not showing up so much in our components, but overall we're watching steel pretty tight. As far as what that means for us in the second half, we're going to have to try to get the pricing in the second half to be able to offset it.

<Q>: How does the pricing environment feel? And then I'll jump back in queue.

Benjamin Brock – President, Chief Executive Officer
It's still tough, particularly in the asphalt plants where there are not many being sold. So, that side of it is very tough. We're seeing a little bit of pressure on the aggregate and mining side too, so we're still fighting every deal. You know, with our market share being as good as it is, still every deal has two or three of us on it.

<Q>: And just to be clear, you said pricing pressure is still pretty tough in AMG?

Benjamin Brock – President, Chief Executive Officer
Yes.

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

<Q>: Just a follow-up on ConExpo, from before. You know, a few years ago I remember Don providing some details on firm orders that came out specifically from the show, which had been a surprise at the time, just because it is more of a tire-kicking trade show. Was this more similar to some of the older shows, where maybe you wouldn't have gotten orders directly at the show?

I'm just trying to balance the backlog figure that was pretty positive, and how much ConExpo would have played into that, versus what you said with the overall sales strategy, with leads translating to orders as the year progresses.

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Benjamin Brock – President, Chief Executive Officer
I would tell you it was between the last time's ConExpo, and the ones where it was just a show, where people came to kick tires. It was right in the middle of that Jason, frankly, which was still pretty good. I'll tell you, talking to our guys, and I tried to spend time in every portion of our booth, and we had a 40,000 square-foot booth with almost all of our divisions displaying. It was very active, and we were selling equipment that was on the floor. Roadtec had a good show of selling equipment that they took out there.

Some of the pieces we took out there needed to go home and get finished out. We had 41 new products, so some of those got to come back to their respective factories to get through the R&D process. But, it was a good show. It was right in the middle of what you heard three years ago from—I call him the good doctor—and a tire-kicking show.

So, when you look at the increase in the backlog, I don't have hard numbers for you, but my gut would say that probably, maybe about 25% of that increase came off the show, and the rest was through our normal selling channels. But I'm a pure gut on that, Jason, that's about what I would say it was.

<Q>: And then, just with the new combined segment groups, I wonder if maybe you could provide a little more detail on the mobile piece of the infrastructure group now? The margin there—still challenges coming out of some European competitors with the Tier III/Tier IV switch? Or is that kind of done now?

Benjamin Brock – President, Chief Executive Officer
The Tier III/Tier IV piece is very small now. Most everybody is into Tier IV. Most of what we're facing is some of our competitors on particularly the mobile side doing some creative rent-to-own type work, and we wonder if there's ever a bottom with some of our European competitors. That's really more where the pressure will be coming from there. Although, I will say that their margins are tracking in the right direction. They're coming up.

<Q>: On the demand side, the mobile piece, I know you said the private side's doing a bit better, but on the public side that business seems to have been off since all the paving jobs with the stimulus funds were completed over the last couple of years. Just wondering your view, how much a new highway bill—whether it was at a flat level or even maybe a little bit of an increase—how much would that really move the business, versus some of the demand generated from non-highway bill projects?

Benjamin Brock – President, Chief Executive Officer
Jason, I've always said that if you look at the historical—and for some of the way some of this economy moves, it changes—but historically, hot mix asphalt production, for instance, 50% typically would come from governmental side, and 50% of that production would be private work. With the private coming back, which has been down, if we could have a stable federal bill, it may only typically be 50% of the mix, but it would be about 90% of the hope.

So, that just mentally for our customers looking to invest $3-6 million in an asphalt plant, a 3 to 5 or a 6 year bill, even if it was flat, would do wonders for their psyche, and then their desire to go ahead on a major asphalt plant purchase. And there is some pent up demand. I mean, our parts business has been very good at our Astec

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division, and that's really a reflection of people fixing things versus necessarily buying them. So, we think it would help quite a bit.

<Q>: And just the last question from me, you guys obviously completed Telesack, which seems to be a nice, talking that it's pretty close to the core. Just wondering, overall acquisition strategy, how is the pipeline looking, are there other assets out there that are similar to that, in terms of trying to be active and continuing to make acquisitions?

Benjamin Brock – President, Chief Executive Officer
I don't think it's any secret, it took us a while to find them. But we're continuing to look, and there are some opportunities. But we continue to look. I mean, as I mentioned in the comments, it's part of our long-term growth strategy, and so, yes, there are some opportunities. But with acquisitions, as time goes on, some just fall right into place and work really well, and some just kind of go away. But we're continuing to look, for sure. We're very active.

Stephen Anderson – Vice President, Director of Investor Relations
And Jason, we've done six over the last seven years, so we continue on that path.

Operator
Our next question comes from the line of Nick Coppola with Thompson Research.

<Q>: Going back to ConExpo, what kind of interest did you get on your 41 new products, and how should we think about new product iterations driving growth for you?

Benjamin Brock – President, Chief Executive Officer
We actually had great feedback. We probably had a piece or two that was outside of their normal market range. The people carrier, if you were at the show, we had the BTI people carrier, and also its underground mine truck, basically. Not many of those customers were at the show, but the feedback from the people that made it to the show was very good.

Then GEFCO, we had the 20K vertical rig that, you know, their sales reps were wondering why they were there. But then as the show went on, a lot of the quarry customers that we have, have those units, and so they came away excited. Generally as you walked through the booth, we had good feedback on what we had. So I think, really, they're going to be well received. There will be some time to get some of those things going in the field, but it was really good feedback on the new equipment.

As a reminder, some of it was brand new equipment, and some of it was significant changes enough that we could call an existing piece of equipment new, or we felt comfortable saying it was new. Carlson is another good example. Their small paver, they had their CP75 and their CP90 at the show, and their section of our booth might have been the busiest in the entire show, all the way through, and their paver that was new that had the rubber conveyor as the mechanism to move the asphalt back to the screed was a big hit. So, they have a very nice backlog, and they did have some sales directly as a result of the show. I think, generally, across the board it was very well received.

<Q>: And then on weather, how did weather impact you in Q1? I mean, clearly domestic sales were up pretty nicely, about 8% year-over-year. But wondering if weather may have had any positive or negative impact on you in the quarter?

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Benjamin Brock – President, Chief Executive Officer
We're hopeful that it will have positive impact as more people drive their cars into the big potholes. We haven't seen that yet, but that only seems logical. I mean, as bad as our roads have gotten here, in the Northeast, when you travel, they're pretty rough, too. But we haven't seen a direct impact of that yet.

We tried to avoid mentioning it in our comments, weather-related issues, but it probably delayed some orders on the mobile side. It delayed a few shipments, but we always have some shipments that kind of slide quarter-to-quarter. So, we would say that it probably delayed a few orders, and probably delayed a few shipments, but we're going to make up for that in this quarter.

<Q>: So, you'd expect it to create some demand going forward, but could have potentially delayed some work in Q1?

Benjamin Brock – President, Chief Executive Officer
Yes, maybe a little more than normal. But not enough that we felt like mentioning it in our comments.

<Q>: And then, last question from me is on wood-pellet plant inquiries. I heard your comment that having a plant up and running is helping with interest, but where are you getting interest, and how do you think about the ramp for growth there? Any color would be appreciated.

Benjamin Brock – President, Chief Executive Officer
Sure. Capacity-wise we can handle a couple of orders without any problem with Astec group, and then there are several divisions of equipment that their pieces are small enough, they could handle the additional volume. We have a customer coming in tomorrow to look at the plant, and they're one of the top three producers of pellets on the globe. That doesn't mean they're ordering tomorrow, so please don't take it that way. But that's the type of interest we have. All of the major players are making their way to Hazlehurst, and that's why we're encouraged that we could sell another plant this year yet.

The pellets—now, for the product that's coming out, our process is making a beautiful pellet. Absolutely beautiful, with high durability which is one of their big measures of a pellet. Also, the way they're coming out there—the color of the pellet is a big deal when you get into the residential pellet market, and they get a little bit more per ton in the residential market. So, the look of this pellet really gets our Hazlehurst fellas very excited, because it looks the part, and the durability comes with it. So, they're very excited about that.

Operator
Our next question comes from the line of Morris Ajzenman with Griffin Securities.

<Q>: Just as a follow-up on the wood-pelletization initiative. Are the customers all intermediaries, or do you have conversations with the end customer, such as a utility?

Benjamin Brock – President, Chief Executive Officer
Morris, at the wood-pellet conferences—there was one in Atlanta, one in Miami, there was one in London maybe in the last couple weeks—we talk to the utilities, but only in their inquiry of what we're doing and how we're proceeding on our plant. But we're not selling the plants to the utilities, at this point. That doesn't mean that we wouldn't have a lead down the road where one might want to invest in the U.S. and kind of

control their feed supply of pellets, but to this point it's been companies that are in the business of just supplying the pellets to the companies.

Typically they have an intermediary that's kind of a trading company, so that they can get paid at the port. So, we're selling to companies that either own forest, or have an agreement with fiber supply around the specific site near a forest, and typically near a port, because transportation's a huge deal. The cost to transport a ton of pellets becomes a huge deal. Typically it's private companies that are getting in the business to supply pellets to utilities, and/or residential. And that's specifically targeted, usually, at Europe.

<Q>: Switching gears, just one other question. Let's use Telesack as an example, I think you stated the acquisition cost us $36 million? Can you just run through whether Telesack or any other acquisition you've made in the past, or those you look at in the future, what sort of return on capital you look at in an acquisition? Also the multiple of EBITDA, maybe you can give us that for Telesack? Just some benchmark when you look at an acquisition, outside of having of a very good fit with the company, with lines of business, what's the return objective that you have? And how many years out would it take to get there?

Benjamin Brock – President, Chief Executive Officer
Well, our return on capital employed, we stated in the past, doesn't change with acquisitions. So, it's a 14% return on capital employed, and then a 14% cash flow number. Of course, we also measure that metric for our profit sharing. So, we also have safety as the third piece of that measure. Our history, we try to stay in the five to seven range of the EBITDA, so that's kind of where we are on this deal.

<Q>: And five to seven an acquisition, or five to seven a company

Benjamin Brock – President, Chief Executive Officer
Acquisition.

Operator
It seems we have no questions at this time, I'd like to turn the floor back over for any additional comments.

Stephen Anderson – Vice President, Director of Investor Relations
Thank you, Brenda. We appreciate everyone's interest, and your participation on this first quarter conference call. As our news release indicates, today's conference call has been recorded. A replay of the conference call will be available through May 6th, 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 seven days. All of that information is contained in the news release that was sent out earlier today.

This concludes our call. We appreciate your attendance, and have a good week. Thank you.

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