# *Transcript of Astec Industries*
## Third Quarter 2014 Earnings Call
## October 21, 2014

## Participants
Steve Anderson – Director, Investor Relations
David Silvious – Vice President, Chief Financial Officer and Treasurer
Ben Brock – President and CEO
Rick Dorris – EVP and Chief Operating Officer

## Analysts
Jason Ursaner – CJS Securities
Mig Dobre – Robert W. Baird
Ted Grace – Susquehanna
Nick Coppola – Thompson Research Group
Morris Ajzenman – Griffin Securities
Ryan Cassil – Global Hunter Securities
Brian Rafn – Morgan Dempsey Capital Management
Jack Kasprzak – BB&T Capital Markets

## Presentation

**Operator**
Greetings, and welcome to Astec Industries Third Quarter 2014 Earnings call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. (Operator instructions.) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Steve Anderson, Vice President, and Director of Investor Relations.

**Steve Anderson – Director, Investor Relations**
Thank you, Rob. Good morning, and welcome to the Astec Industries conference call for the third quarter that ended September 30, 2014. Also on today's call are Ben Brock, our President and Chief Executive Officer; Rick 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 quarter.

Before we begin, I'll remind you that our discussions 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 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.

So, at this point, I'll turn the call over to David to summarize our financial results for the third quarter.

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
Thanks, Steve and thank each of you for joining us this morning. Net sales for the quarter were $220.2 million compared to $213.2 million for Q3 of 2013, that's a 3.3% increase or a $7 million increase. International sales were $77.6 million this quarter compared to $80.8 million for Q3 of last year, that's a decrease of 4% or $3.2 million. International sales represented 35.2% of this quarter's sales compared to 37.9% of Q3 2013 sales. The decrease in international sales this quarter versus the same quarter last year occurred primarily in the post-Soviet states, in Africa and in Mexico. These decreases were offset primarily by increases in South America and Canada.

Domestic sales for the third quarter 2014 were $142.6 million that compares to $132.4 million for Q3 of 2013, a 7.7% increase or $10.2 million increase. Domestic sales were 64.8% of this quarter's sales compared to 62.1% of sales for Q3 of last year. Parts sales for Q3 of this year were $61.5 million that is compared to $59.4 million for Q3 of 2013. That's a 3.5% increase or a $2.1 million increase. Parts sales represented 28% of quarterly sales this year compared to 27.9% of quarterly sales in 2013 for Q3.

On a year-to-date basis, sales were $736.1 million that compares to $709.1 million last year or 3.8% increase or a $27 million increase. International sales for the year were $233.4 million compared to $252.5 million last year, a 7.6% decrease or $19.1 million decrease. The decrease in international sales on a year-to-date basis occurred mainly in Africa, in Canada, the post-Soviet states, in Australia, and Europe. Those were offset by increases in Asia, South America and Russia. International sales were 31.7% of sales year-to-date this year compared to 35.6% of sales year-to-date last year.

Domestic sales year-to-date were $502.7 million, compared to $456.7 million last year, an increase of $46 million or 10.1%. That represents 68.3% of total sales this year compared to 64.4% of total sales for the same period in 2013. Parts sales year-to-date 2014 were $191 million that compares to $190.2 million which is essentially flat, or an increase of 0.4% or $800,000 increase. Parts sales represented 25.9% of total sales this year versus 26.8% of total sales last year.

Gross profit for the quarter was $43.3 million compared to $45.8 million in Q3 of 2013, a $2.5 million decrease or a 5.5% decrease. The gross profit percentage was 19.7% for the third quarter of 2014 compared to 21.5% for the third quarter of 2013. The absorption variance decreased slightly; last year we had a $5.5 million unabsorbed overhead amount. This year it's $5 million for the third quarter, so basically flat.

We had a foreign exchange transaction loss this year compared to a gain last year. This year it was a $700,000 loss; last year a $240,000 gain.

The Infrastructure Group obviously struggled, as you can see in your segment analysis during the quarter, with its gross margin falling from 22.3% in Q3 of last year to 14.4% in Q3 of this year. The decrease was due primarily to the segment's 5.5% decline in volume, that's combined with pricing pressures primarily in the asphalt plant market. The segment's gross margin compared to Q3 of last year was only negatively impacted by absorption. There was a negative $300,000 change in unabsorbed overhead quarter-over-quarter.

On a year-to-date basis, the consolidated gross profit was $162.2 million compared to $159.8 million; it's an increase of $2.4 million or a 1.5% increase. Gross profit percentage on a year-to-date is 22% compared to 22.5% last year, a decrease of 50 basis points. The year-to-date unabsorbed overhead was only $11.1 million compared to $19.3 million last year. We made an improvement in that factor of $8.2 million. Foreign exchange on a year-to-date basis was a $1.1 million loss compared to a $530,000 gain last year.

SGA&E for the quarter was $38.9 million or 17.7% of sales compared to $36.6 million or 17.2% of sales last year. That's an increase of $2.3 million or an increase of 50 basis points as a percent of sales. The primary driver of that $2.3 million increase was the addition of Telestack on April 1 of 2014. They're in this year's number but not in last year's number and that increase was $1.6 million of the $2.3 million overall increase.

On a year-to-date basis, SGA&E was $122.5 million or 16.6% of sales, compared to $114.8 million year-to-date last year, or 16.2% of sales, a $7.7 million increase. Primary drivers on a year-to-date basis for the increase in SGA&E again is the addition of Telestack which was $3 million of the overall $7.7 million increase. And don't forget that we had CONEXPO earlier this year which was a $4 million charge to SGA&E, so total of those two together, $7 million of the $7.7 million increase in SGA&E for the year.

Operating income was $4.4 million in the third quarter of 2014 compared to $9.2 million in the third quarter of 2013, a $4.8 million decrease or a 52.2% decrease for the quarter. Year-to-date operating income was $39.7 million compared to $45 million last year, a $5.3 million decrease or an 11.8% decrease.

Moving down to the tax rate, it was quite a challenge this quarter for us. The effective tax rate in the quarter was 64% that compares to 34.6% effective tax rate for Q3 of last year. That effective tax rate this quarter was impacted by net operating losses that we had in certain foreign jurisdictions, so certain of our foreign companies that had NOL amounts, that we couldn't utilize to offset the taxable income in the US. We had adjustments to prior year tax reserves and we also had the continued delay in the passage of the research and development tax credit in 2014.

Recall that in 2013, the R&D tax credit was passed in Q1 and that was retroactive for 2012 as well. So we were able to claim both 2012 and 2013 tax credits in the year 2013. Tax rate for the year was 37.9% compared to 33.4% last year. We expect the tax rate for the year to remain in this 37% range if no research and development tax credit is passed by Congress this year. The rate could be down in the 35% range which is our traditional run rate around 35%, if we do get the R&D tax credit passed, we certainly don't expect anything to happen on that until at least after the elections.

Net income attributable to controlling interest is $1.9 million for the third quarter compared to $6.5 million for Q3 of 2013, a 70.8% decrease. Earnings per share were $0.08 versus $0.28 per share in Q3 of 2013, it's a decrease of 71.4%, and our year-to-date net income is $26 million compared to $30.8 million last year, a decrease of $4.8 million or 15.6%. EPS for the year was $1.12 compared to $1.33 last year, that's a 15.8% decrease.

The backlog—and remember that the backlog for prior years that we state here has been restated to include the backlog of Telestack which was acquired April 1 of 2014, so you get a true apples-to-apples comparison. The backlog was $295 million at 9/30 of 2014 compared to $231 million at 9/30 of 2013; that's an increase of $64 million or 27.7%.

The international backlog this year at September 30 was $105.8 million compared to $98.1 million at September 30 last year; it's an increase of $7.7 million or 7.8%. And the domestic backlog for those same dates increased from $132.9 million last year to $189.2 million this year; it's a $56.3 million increase or a 42.4% increase. Sequentially the backlog is up $30.9 million or an 11.7% increase.

On the balance sheet, the balance sheet continues to be strong. Our receivables are $108.8 million compared to $97.3 million last year, an increase of $11.5 million. Our days outstanding of 45.5 days compared to 41.8 last year. Our inventory is at $370.4 million compared to $339.8 million last year, an increase of $30.6 million.

Our inventory turns are 2.1 compared to 2.3 last year. We owe nothing on our $100 million credit facility and we have $13.8 million in cash on the balance sheet plus about $1.9 million in investments. Our letters of credit are at $9.3 million; our borrowing availability then is $90.7 million.

For the quarter, cap ex was $4.9 million and for the year it's $18.5 million. We expect cap ex to end up in the $22 million to $23 million range for the year. Depreciation for the quarter was $5.4 million and on a year-to-date basis, it was $15.9 million. We expect depreciation to end up the year at $24 million.

That concludes my prepared remarks. I will turn it back over to Steve.

**Steve Anderson – Director, Investor Relations**
Thank you, David. Ben will now provide some comments regarding the third quarter of this year's operations. Ben?

**Ben Brock – President and CEO**
Thank you, Steve and thank you to everyone for joining us on our call today. As we mentioned in our earnings release this morning, we were disappointed with our earnings during the third quarter. However we are optimistic for the fourth quarter and for 2015. Our earnings per share were $0.08 per share in the third quarter versus $0.28 per share in the third quarter of 2013, and our year-to-date earnings per share was $1.12 per share versus $1.33 per share in 2013.

Our year-to-date EBITDA was $58,974,000 versus $62,591,000 in 2013. We had three unusual items that affected our year-to-date EBITDA. The first was our CONEXPO expense of $4 million. The second is our fair market value inventory write-up at Telestack as part of our acquisition accounting for $1,418,000, and the third is a foreign exchange loss of $1,103,000.

If you take the total of those three unusual items, that totals to $6,521,000. Adding this $6,521,000 back to our year-to-date EBITDA of $58,974,000, would have given us a year-to-date EBITDA of $65,495,000 and that is versus the $62,591,000 that we had last year-to-date, which would have meant an EBITDA increase of $2,904,000 versus last year. So despite our earnings and the setback in the third quarter on earnings we are pleased to report that operationally we are remaining ahead of our performance last year. The other good news is our backlog at September 30 was at $295 million, which was up 27.7% versus last year.

Regarding the sales environment that we have here in the United States, particularly in the Infrastructure Group, the reality continues to be that the uncertainty that's created by not having a highway bill out of Washington, D.C. just continues to make our domestic highway infrastructure customers feel uneasy about major capital expenditures. The encouraging news for us, though, is that for the first time in about five years, we are hearing from our infrastructure customers that they are having a good year and do have backlogs of work to do particularly on the private side and that's pretty exciting for our business. While it will take a long term highway bill to speed growth in the large cap ex in the Infrastructure Group, we are encouraged that equipment is now running at higher capacities and we are quoting more large projects this year versus the same period last year.

We're always going to welcome a long term highway bill with increased funding, when and if it would get done, but in the meantime we're going to continue to pursue new business with new products in the United States and we are working to grow our international effort and I think that seeing that backlog up is very helpful towards that end. We are pleased to see our international backlog up in the quarter. We are pleased to report that Telestack was once again operationally profitable in the quarter.

As an update, the first line of the Hazelhurst wood pellet plant, continued to perform well during the quarter. Line 2 is delivered and being installed now and line 3 is in process as well. As a continuing reminder, it is a new product that we've chosen to finance for 24 months. As a result we will recognize the revenue for this plant as we are paid. This will continue to have an effect on our cash and our inventory until it's paid in full. The order for all three lines as a reminder was for $60 million.

The startup of the pellet plant has created strong interest, and we do expect to sell additional plants either late in the fourth quarter or in the first quarter. We do have customers coming to see us as soon as this week on that. Internationally we are again pleased to see our quote activity continue to increase during the third quarter, along with the backlog increase.

On the energy side, we remain challenged in our drilling and pumping equipment with regards to shipments in the third quarter. We had two pump trailers that we expected to ship and they were delayed by the customer so that we could customize the trailers for them. The good news is that there is more money involved for the trailers, and the bad news was that they didn't ship. These trailers will ship in the fourth quarter now and, along with continued strength in heaters for gas processing operations and increased sales of wood chippers and grinders, we are optimistic on our outlook in the energy group.

We are working to grow our business in mining through our new facility in Belo Horizonte, Brazil. As a reminder, this facility's progress did take a big slowdown during the World Cup. We expected to have the facility open in October. We have been waiting on power and now we expect it to open in November.

Our Osborn division in South Africa does about 90% of their business with the mining industry. Their big challenge in the third quarter was a large strike of workers in the metal working industry that had several manufacturers closed down. Osborn itself was closed down for about four weeks. However we did ship parts from vendors and supported our customers' service issues during the strike and thanks to our team's effort in Johannesburg, the Osborn strike really had a very small effect on our results.

Looking ahead to the fourth quarter of 2014 and to next year, we have increased our backlog and we have mentioned an increase in quote activity internationally. From our last earnings release to now, orders have been good for the last three months with the exception of hot-mix asphalt plants, which just continue to lag due to the highway bill uncertainty. Our market share in asphalt plants remains very strong as in the past. We need to see a bill to help move our customers along.

We see growth opportunities in oil drilling and pumping trailers, pellet plants large crushers for mining, high recycle asphalt plants, small asphalt plants for export and small commercial paving equipment.

Parts sales are now up slightly for the first nine months versus last year. We do remain committed to improving our volume in parts in the long term, along with working to increase competitive parts sales as well. We are continuing to work on our lean journey with regards to manufacturing and office operations and we are seeing progress in nearly all of our divisions on that front.

Looking to the whole of 2014 as a year, we were not pleased with our third quarter earnings. We do expect to improve on our performance in the fourth quarter. The third quarter is traditionally slow for us as a whole. With our division's current backlogs and delivery schedules, we're optimistic that our fourth quarter will be in line with our fourth quarter performance in 2013 with growth coming in 2015 and again, this is despite the current state of the highway bill in Washington, D.C. Our customers are experiencing an improved private market with some backlogs and we are focused on selling our existing and new diversified products not only in the United States but around the globe as well. We're also growing our business in energy and mining, two industries not dependent on the highway bill. Acquisitions do remain a key piece of our growth strategy along with organic growth and targeted sales growth efforts both in the United States and international markets.

That ends my comments on the quarter and the year, and what's in front of us. We thank you 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.

**Steve Anderson – Director, Investor Relations**

We will then take questions and Rob, if you will poll for questions, we'd appreciate.

**Operator**
Our first question comes from the line of Jason Ursaner with CJS Securities. Please proceed with your question.

<Q>: Ben, first, I wanted to ask about the Infrastructure Group. Can you help break out a little bit of the accounting impact at the gross margin level from the wood pellet activity? Are you sort of writing that project to a specific margin that you're going to recognize when you get the revenue and if that number is kind of right or wrong, you're essentially taking the variance in current results, or you're more identifying specific costs on that project?

**Ben Brock – President and CEO**
Jason, we are keeping it at a margin when we get done, we'll be okay on it when we ship it. So there has been some expense to that. The bigger issue in the Infrastructure Group particularly at Astec was just the hot-mix plant volume. That's our core business in that division, and while the pellet plants are great, they're taking up man-hours. We had deals that we thought we would ship in the quarter or that would happen that we could still ship in the quarter, fairly recently, and things just kind of stopped for Astec. The extension to May of 2015, kind of slowed down the DOTs and lettings and our customers did a gut check and it was about a five-week delay in everything.

After the Labor Day holiday, the first week of September, we had a tremendous influx of orders. It was a great one-week run, because after that it kind of went back to normal. Everybody got awfully excited right after Labor Day, but it's primarily a volume issue at Astec Inc. with that and the infrastructure side, and then maybe Australia is struggling too with mining being down, and the infrastructure is off a little bit too in Australia although now the mobile equipment seems to be picking back up for us in Australia.

<Q>: Got it. I understand the hot-mix. Just on the wood pellets particularly, though, are you guys recognizing some of that cost in man-hours for the work on line 2 and line 3 without any revenue?

**Ben Brock – President and CEO**
Yes.

<Q>: And for the federal spending, you mentioned the continuing resolution in that you're still seeing challenges in the hot-mix. Can you go back to your comment balancing the orders you take in to advance the backlog position the way it did? I mean it generally looks like you're positioned pretty well, going into next year. So I am just wondering what opened some of the order flow in these other markets, and is there a way to get an acceleration in the core asphalt without an increase in funding?

**Ben Brock – President and CEO**
Well, generally what happened for us, the DOT started— well that's more inlay work and some larger projects have also come along, and in particular the state of Florida has done a lot of public private partnership type work which basically means toll roads. So we have seen pockets, particularly the energy states, where a lot of the orders that we picked up went on the asphalt side. So again the private market is really pretty decent for our customers as I mentioned in the comments.

On the other side, when you talk about international in asphalt plants, the small plants seem to be going okay. Those are coming out of our Dillman operation, and Dillman is having a fairly good year. On the larger plant side, it seems like we've gotten some things going in Europe for the first time, in probably two and half to three years, so that was encouraging to us too. So we have good coverage. All of our sales groups were in the last few weeks in sales meetings and the international side seemed fairly upbeat.

<Q>: And the energy markets, the last one from me—any concern that the strength—you've contributed from there, trails off of a bit; obviously there has been some severe volatility in the end markets for energy. So just wondering if you see that flowing through to project equipment?

**Ben Brock – President and CEO**
Rick Dorris is in here and he is working closely with energy group and I'm going to let him answer that one for you.

**Rick Dorris – EVP and Chief Operating Officer**
We still feel good about our energy products going forward. We've had a good quarter for wood chippers and grinders, and expect that to continue to be good and we've had a good quarter for heaters for gas processing operations and that continues to be good. We are not expecting a downturn currently.

**Operator**
Our next question comes from the line of Mig Dobre with Robert W. Baird. Please proceed with your question.

<Q>: Maybe we can go back to discussing margin in the Infrastructure Group. I am wondering if you can help me understand exactly what the moving pieces were here. We are looking at, call it, $5 million of lower revenue but obviously gross profit decline was better than $7 million. So you mentioned several items, mix obviously is an issue; volume is an issue but can you kind of break out maybe the impact of one versus the other?

**Ben Brock – President and CEO**
Well, Mig, it's more volume than mix. We had a couple of jobs that are special that you might stretch for because you're not busy in that group. But generally it's volume, and the comment I would make is, it's kind of a catch because we've done a nice job on absorption that we've held on and we've kept people clocked in the jobs, because we see a little bit of a shortage in skilled labor particularly on the machining side. So we took the approach that if we are seeing a little bit of a breather in these five, six week period with asphalt plant customers, we wanted to just maintain our labor and it seems like that's a good move because now we have pretty decent business at least into the first part of next year in that business, on the Astec side. So that's why we feel comfortable that we will be better in the fourth quarter than the third quarter but it was primarily a volume issue.

<Q>: And if you can maybe calibrate expectations going forward, because in this business you have been running gross margins in the 20s. Obviously that's not what happened this quarter but for all I know mix and pricing is something that might be around for a while, should we be thinking that this is going to be, call it, a mid to high teens gross margin business as we look maybe over the next 12 to 18 months? Can you get back to 20s?

**Ben Brock – President and CEO**
I think we will be back in the 20s.

<Q>: I also want to talk a little bit about orders, and I look at infrastructure specifically and according to my math, your orders were up nicely, almost 8% in the quarter. And they were pretty close to being on par with what you have done during CONEXPO. What sort is happening here, is it that you see a lot of mobile product that's being demanded, or how should we kind of parse out what you are saying in terms of customer hesitation with what I perceive to be pretty decent orders?

**Ben Brock – President and CEO**
Yes, the Infrastructure Group is a tale of two cities because at the end of these highway bills, there is a lot of mill and inlay work, so Roadtec is up slightly versus last year, so they've seen a pretty good demand and then on the Carlson side, with their small pavers and their screed business they've had a very good year. So that's what you

are seeing. There is more mobile equipment being sold and in our business, the customers really need those pavers to work, because when they get out on the job, and they've got 15, 20 trucks out and they've closed off traffic, the paver becomes very, very critical to them. So we've seen a good replacement cycle on paving and milling equipment.

<Q>: I am sorry to go back to this margin issue but as you look at your backlog that currently exists in the Infrastructure Group, is it fair to say that you have enough visibility there to sort of expect a rebound in gross margin as you are looking out especially next quarter?

**Ben Brock – President and CEO**
Yes.

<Q>: And then the last question from me is going to be maybe around SG&A. How should we think about that number? Is $39 million kind of the run rate going forward?

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
Mig, I don't think that's the run rate going forward, it will be a little less than that. We've got $4 million of CONEXPO this year, so if you average it out, I think—

<Q>: No, but I mean that's what it was this quarter and you didn't have CONEXPO but you had everything else.

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
I think it will be slightly less than that, on a run rate basis.

**Operator**
Our next question comes from the line of Ted Grace with Susquehanna. Please proceed with your question.

<Q>: Can we just come back— I know you had mentioned that Roadtec orders were up a bit and that Carlson was up nicely. Just could you give us kind of for the mobile asphalt paving group versus the asphalt plants, kind of what orders did you run, so we have those numbers?

**Ben Brock – President and CEO**
What, say that question, at the back end, again I am sorry, Ted.

<Q>: So infrastructure orders were up 8% year-on-year, how should we think about kind of the mobile asphalt paving product orders versus the asphalt plant?

**Steve Anderson – Director, Investor Relations**
So basically the Roadtec versus the Astec— Ben had mentioned, I think, a few minutes ago where the hot-mix plants had been soft and that the Roadtec orders had been up, and they're having a pretty good year. Again a lot of the work we had the temporary extension, you're getting these short term contracts versus the longer term contracts and most of the $41 billion being spent on the federal basis is going towards restoration versus new projects, so that kind of plays into the hands of Roadtec and also Carlson paving.

<Q>: Yeah, I got that, I just wondered if you could quantify it but if you are not comfortable quantifying it then I can swoop on to the question.

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
We typically don't break down those items to anything lower than the segment level but I will say this that it's up in each of the subsidiaries.

<Q>: Maybe turning to the asphalt mine or the aggregate mining group, could you just maybe speak to how aggregate did versus mining? I know you mentioned the Osborn struggle, but maybe some commentary on kind of what you are hearing from US aggregate producers and how the quarter trended?

**Ben Brock – President and CEO**
In the aggregate mining side, we in the last two and a half weeks, we've visited every North American location with the exception of BTI, because it had a huge rainstorm and we couldn't get in. But in the aggregate group, generally the feeling was upbeat and that their customers were generally having pretty good years and they feel very good going into 2015.

<Q>: And then on the mining side, did you say you have a positive outlook in 2015 on large crushers or can you speak to kind of what you're seeing in the mining markets now because that would be certainly better than what people probably would expect for mining?

**Ben Brock – President and CEO**
Right, on the mining side, we were still very new into that. We have our T9100 crusher which is a 900 horsepower crusher made for the larger mines. I would tell you that about 6 months ago, we might had had one okay lead and I would tell you after being there last week, we have three pretty good leads to move that crusher into operation within the next 3 or 4 months. So we are so new in the larger mining equipment, that for us one is a good number. We had to go through a little extra testing on the first one. It is now through testing in our shop and being prepped for shipment when the customer is ready to take it but in talking, too, with our Australia position and our Brazil division, mining is still down overall as far as the mining side goes for us.

<Q>: So it would have been a drag on the growth rate, the 11%.

**Ben Brock – President and CEO**
Yes slightly, other than in South Africa, it's very small and even our Osborn division did okay, even despite the strike and generally their business outlook is okay.

<Q>: And the last thing, I was just hoping that to kind of circle back on— could you elaborate a little more on quotation levels domestically for kind of road and highway products broadly? Just I know you had, you feel good about the 4Q and you felt good heading into 2015, but could you just maybe talk about kind of what you are hearing from the field and what your thoughts are on the highway bill at this point, whether there is any prospect for renewal during the lame duck session?

**Ben Brock – President and CEO**
Sure. Again on the asphalt plant side, we are quoting more large plants and larger projects than we have been, which is encouraging. Our customers generally are doing pretty well on the asphalt side, and that's mainly private work. There is some DOT; there are some areas that are pockets that are going well. But on the highway bill side, that's what moves the needle mentally for our customers and the extension, as you know, runs out in May of 2015. Right now most of the politicians are only thinking about the election, but we are continuing to push and keep the highway bill in front of everybody through letter writing campaigns and things like that. We need the bill to help accelerate the growth large cap ex spending on asphalt plants.

In the meantime, like we said with the paving equipment it seems like there is a good base of demand for the paving and milling and material transfer devices. I don't know how to say it any better for Astec Inc, for the plants, that's what we need. But in the meantime we do have about a half a dozen pellet plant prospects for Astec Inc. Two of them staying very, very warm, and if we can get those in that will help us, too. So we are trying to diversify so the highway bill doesn't affect this as much it has in our history.

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

<Q>: I just wanted to continue with that last train of thought and I guess what are you expectations for federal funding? Are you just looking for more continuing resolutions after May 31st? I mean what are you guys planning for?

**Ben Brock – President and CEO**
Well, we are going to plan for, in the asphalt business like it isn't going to happen like it will be flat funding. We are going to work toward helping get them to pass the bill, but in the meantime we're going to continue to work on the pellet plants and try to get that business going and help offset any flatness in the hot-mix plant business. I think Congress' MO has been extension. So for our planning, we're going to plan like it is flat for asphalt plants and we're going to push hard on our pellet side.

The biggest proposal that we're trying to help promote was the Corker-Murphy proposal for the $0.12 a gallon gas tax increase and that was $0.06 a year over two years and then that was tied to a price index which would be tremendous. I can drive across town here in Chattanooga and see an $0.11 a gallon price difference. And the price of fuel is down right now, so there is an opportunity, we just need to get everybody back from the election cycle here.

<Q>: And then on the really strong growth in energy backlog, was there anything particularly lumpy in there? I heard you mention a couple of sales that were delayed for customization; I am wondering how much that moved the needle and I guess just to better understand what's going on in energy backlog.

**Ben Brock – President and CEO**
Well, all of our energy group companies have increased backlog. There wasn't any one particular area where it was better although, wood chippers were good and like I said the heaters for gas processing were good, but backlog is up across all the companies in the whole group.

<Q>: And then I guess my last question, looking at cap ex guidance, it looks like last quarter you were talking 32 to 33 and then it came down to something like low 20s. I guess what was the delta there?

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
We just had some projects that we were hoping to get into the year that we're just not going to get into the year, that's really what it comes down to. We're focused on our lean initiatives, and it's not necessarily an issue of things that we have canceled but we may have pushed some things. I know there was an ERP system.

**Ben Brock – President and CEO**
Yes, there is an ERP system in our aggregate mining group and two large machining centers in our aggregate mining group and that's really the difference. And we didn't start some manufacturing work in one of the divisions, so that's not going to be in this year. So there are about those four things that would be not in this year's cap ex.

**Operator**
Our next question comes from the line of Morris Ajzenman with Griffin Securities. Please proceed with your question.

<Q>: Just trying to get a little more color— on the call you are presenting as an improvement in the fourth quarter, and correct me if I am wrong, but I think in your presentation, you stated fourth quarter will be in line with

fourth quarter last year. And when I look at fourth quarter last year, revenue was $234 million, gross margin of 21.1%. Is that correct? Did you say fourth quarter 2014 will be in line with fourth quarter 2013?

**Ben Brock – President and CEO**
Yes.

<Q>: And you did say sequentially from the third quarter which is about $220 million, and $221 million, things will improve into the fourth quarter, so you put those couple things together and it seems like you might be a little conservative or are there things that I am missing?

**Ben Brock – President and CEO**
Well, I think what you will see, Morris, is while we have the work in the asphalt plant business, there still are pricing pressure in that too. So we are being a little conservative on that probably but the reality is some of the pricing pressures we think in line with the fourth is a better way to look at it here.

<Q>: And those gross margins, 21% last year, we should be looking at that sort of range in the fourth quarter this year?

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
Yes.

<Q>: And one last thing, on the pellet plants and the new projects you are bidding on, will you be financing those also so there'd be a deferral revenue recognition, would that be an outright sale solution potential orders coming down the road?

**Ben Brock – President and CEO**
They are outright sales. We are not interested in financing any more pellet plants. We did it to get the first one out and we had a customer that we really trusted and respected. They had been in the business a long time and they really helped us with our design work. They have been really good working with us through the start-up issues which any time you have one this big, there's going to be some issues and they have been great to work with. So that's working out really well with them, they are going ahead, we have a proven product now that we feel will sell without our financing. We have no interest in financing.

<Q>: And then on a GAAP basis, the existing pellet line, 1, 2, 3, when will we start seeing an impact to the income statement, will it be fourth quarter, first quarter next year? Just give us some idea on that.

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
It will most likely be 2015 and it will be on an incremental basis, Morris, it will be as on an installment basis as they make their cash payments to us.

<Q>: So again, so in the first quarter, or we are not sure at this point?

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
I would say first quarter.

**Operator**
Next question comes from the line of Ryan Cassil with Global Hunter Securities. Please proceed with your question.

<Q>: You noted some pricing pressures on the infrastructure side, but the expectations for gross margin are improving. Is pricing better in the current backlog versus Q3, and is that sustainable despite a highway bill going forward?

**Ben Brock – President and CEO**
I would not say that the pricing is that much better; it's that we will have the volume. It's just the volume issue at Astec Inc. and now that we have volume in the plant and it is mainly what we have is straight asphalt plants for this quarter, that's where it's coming from, for us.

<Q>: But is pricing stable I guess, is that the takeaway then?

**Ben Brock – President and CEO**
It's stable, lower than we wanted, but yes, it's fairly stable.

<Q>: And then in the energy business, any update on the kind of quarter-to-date trends you are seeing in the GEFCO business and whether you started having conversations with customers on 2015 spending yet?

**Rick Dorris – EVP and Chief Operating Officer**
We are still struggling with the 500K rig domestically; we still have good interest internationally. I think just because it's a newer technology, and it's the domestic drilling contractors seem to be slower to accept it. We have shipped two rigs internationally in the past year and a half but we have not had any discussions with domestic contractors to indicate there is any significant upturn domestically.

**Operator**
Our next question comes from the line of Brian Rafn with Morgan Dempsey Capital Management. Please proceed with your question.

<Q>: Give me a sense on what is—maybe you commented on this before—what kind of a delivery time do you guys see on that backlog at $295 million or maybe quarter-by-quarter?

**Ben Brock – President and CEO**
Brian, that varies by division because we are so decentralized, but that typically you would say would be in the probably in the middle of the next quarter for a run rate.

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
Don't forget that there is a significant piece of the infrastructure backlog related to the pelletizers and so we've discussed those in detail and sort of how those are going to play out. So that's a chunk of the infrastructure piece but the rest of them, as Ben says, because we are so decentralized can roll out of that backlog over the next quarter to quarter and a half, maybe in two quarters, so it really depends.

<Q>: You commented, I think maybe Ben commented a little bit, where are you guys seeing regional pockets of strength? We are up in Wisconsin and they're knocking down interstate projects—throughout the entire Milwaukee corridor, what are you seeing state by state, where you are seeing better business on the infrastructure side?

**Ben Brock – President and CEO**
Well, Wisconsin is one of those states that we are seeing activity in, the energy states—Texas, Pennsylvania, New York, Utah have been busy, also I mentioned Florida, Colorado, those are kind of the main states that we would say we are seeing a lot of activity in.

<Q>: If you kind of look at some of your discussions you guys had, with some of your larger road builder contractors, if we get a highway bill, what is your sense of their financial condition, their liquidity, access to credit, what is your sense of them being able to move up and begin taking down some more cap ex?

**Ben Brock – President and CEO**
That question three years ago would have been a different answer than today. Three years ago I would say we'd be fighting a little bit of a challenge on the finance side. Today on the private side, I think people could pull a trigger very quickly. On the larger cap ex side, with the larger companies, it just takes longer with them, and not that it's a bad thing, it's just a longer process and it just takes a little longer but the nice thing is that 80% of our customers are privately held, and their ability to make that decision and make it quickly once they see a longer term highway bill is exciting to us.

<Q>: Given what you are seeing now, if we continue in this ridiculous extension of what should be a six-year bill in the past with map21 and Tea 21. Your road builder guys—Carlson or Roadtec, are they extending the lifespan of equipment, are you guys seeing more rental fleet, are you seeing more demand for repair parts on older equipment, how are they mitigating some of that?

**Ben Brock – President and CEO**
We have seen some rental, some lease from a competition standpoint, so we have seen some of that but generally we have seen them keeping hours lower on their mobile equipment, again because they are out on a job site they have to keep moving. So we have seen that cycle stay fairly low. On the parts side, particularly on the asphalt plants, the parts business has been good and we have also the capacities since they are running more mix and some of the plants that were not running are running now. And some of the plants that weren't running that they were stealing parts from, we have seen a little bit of increase in parts business because those have been kind of used up. So we have seen the paving equipment though still stay young.

<Q>: You guys mentioned a little bit, we are out of Granite, Utah, site a few years ago and they were talking about the difference between virgin asphalt and recycled, is there a big demand even with the weakness on the hot-mix plants or recycled or plant that can use more of a recycled content?

**Ben Brock – President and CEO**
Again on the private side, yes, and in the cities, like New York I was up there with a customer about four weeks ago, they can't use enough of it. I mean they're piling it up. They had a pile that was probably— gosh, this would be a guess, probably around 700,000 tons just sitting there. So we are working with DOTs and trying to educate them to be able to use more in state work but yes, our customers would love to run more recycled and more recycled asphalt shingles, which would be good for our Peterson business, too, because they make a shingle grinder.

<Q>: Across all of the different subsidiaries and all the different business operating groups, you mentioned a little like grinders, wood chippers, are you guys adding capacity anywhere and kind of if you look across the entire business platform, what might you be running, say, capital with capacity utilization?

**Ben Brock – President and CEO**
If you took all of our companies together, our utilization is probably in the 65% range, but then if you go individual divisions we have some that are running full out, now full out doesn't mean a 100%, they are probably running in the high 80s, and we are considering at two places some expansion. Ultimately you might say well, why we wouldn't you just move some of that work to another division, but it's a totally different type of manufacturing, some of that equipment might be mobile. And it's hard to build mobile equipment at a stationary equipment plant that maybe does more project work than a one-off, you don't say one-off a unit type construction or manufacturing, so we are considering that at a few plants right now.

<Q>: And then how is your headcount looking as you go into 2015 and would you say it would be kind of stable? Are you seeing any shortage, hiring anywhere?

**Ben Brock – President and CEO**
We see it stable, where we see shortages would be in the skilled side and the machining side. What we are trying to do there is just come up and put together a better training programs and try to grow our own machining talent. We are working with tech schools on that as well, but we are going to be doing little more in house training for that, probably going ahead.

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

<Q>: I got on the call a little late, so I apologize if you said this but did you quantify or give some indication of the amount or the magnitude of the pricing pressure you are seeing in the asphalt group— Astec group?

**Ben Brock – President and CEO**
We did not but the deals are thin, I can tell you that. That would be accurate.

<Q>: Ben, this is a relatively new comment from you guys. Is it a situation where we are getting late in the year and people just want to book some work? Maybe it hasn't been as good a year as people thought to start with and that's the nature of the pricing pressure, or is there something else going on out there?

**Ben Brock – President and CEO**
Well I think it's just not many asphalt plants that have been sold this year, Jack, it's our customers are smart buyers like we are. They get two or three people on every deal and everybody, our competitors, we all need work in those businesses and so it's just been thin.

<Q>: Switching gears, the highway bill question always comes up for you guys, obviously, and I know everybody is frustrated at the lack of progress. But is there something we could or should look out for in terms of a change in the nature of the conversation that might give us some encouragement? I mean, is there something that might flip the switch that would give us some real encouragement rather than just the usual, or what we've become used to is a lot of dialogue and no action?

**Ben Brock – President and CEO**
One of our guys mentioned yesterday and I think it was a pretty good comment, our politicians are halfway there; they're admitting that we need to really do something to fix it. And then I mentioned the Corker-Murphy bill earlier about the $0.12 a gallon gas tax increase over two years, tied to an index, and if you notice, when they brought that out, the deal for the extension was already done when they proposed that, but when they proposed it, you didn't hear a lot of people just get up at the microphones and say those guys are crazy, we don't need to be doing that, which I think is a good sign for everybody getting to the mindset that we need to finally do something. And so that doesn't fix the longer term issue of you still have cars that do miles per gallon and you have more electric cars and hybrids that aren't paying the tax, but it could be the bridge between the longer term issue and fixing that, which is either probably going to be vehicle miles travelled or to the toll roads, which would be a shame because toll roads are just going to cost us more than collecting the gas tax. I guess we are encouraged that nobody got up just to tell them how bad that idea was and we hear enough that we are encouraged that it's really on the table. And we are going to continue to work with them, so the good news is that Murphy is a Democrat and Corker is a Republican. So that was good to see a combination like that.

**Operator**
Our next question comes from the line of Mig Dobre with Robert W. Baird. Please proceed with your question.

<Q>: Just two questions to wrap it up. First, on the utilization discussion, you mentioned about 65% the current run rate. Now, I'm speculating here but I'm presuming that the area where you are seeing underutilization would be in the Infrastructure Group, maybe around asphalt. And you also bring up lean as something that you're focused on. So what does that mean going forward? Should we expect maybe some cost action on your part given that the environment is what it is in terms of asphalt planned demand?

**Ben Brock – President and CEO**
Yes, that is one thing that we have identified to try to help our bottom line going ahead. And so the downside is just the volume at Astec, the good side is if you walk through the plant right now, for the work that we've done, we put a team together that's focused on lean at this facility, it looks great. So when it comes back we are pretty excited about what we can do here, if we get some volume going.

<Q>: But this is basically good incremental margin on additional volume. You're not talking about a certain cost component that you're looking to eliminate.

**Ben Brock – President and CEO**
Not at this time.

<Q>: Then my last question is on tax. I understand that there were some losses, operating losses, outside of the US and that impacted the tax rate. Is this something that could potentially skew the tax rate going forward as well, or should we expect some normalization here?

**David Silvious – Vice President, Chief Financial Officer and Treasurer**
I think you should expect some normalization. The mathematical driver of the issue was that income was so low and so the tax impact of those issues have always been out there. I mean we've had these NOLs for few years, I mean we are talking about Brazil, we are talking about Germany, we are talking about start-up type companies that eventually will start making profit, and those issues go away. However since the income was so low, taxable income was so low during this quarter that it just popped that rate sky high, and it just looks crazy but I would expect that to mitigate.

**Operator**
Our next question comes from the line of Morris Ajzenman. Please proceed with your question.

<Q>: You kind of touched on this two questions ago. Today, in the *Wall Street Journal*, there was a story about toll roads and how that might be the wave of the future, even though it's just an article picking up on recent trends but you touched on it just two questions ago, but this might be one of the ways going forward, which you kind of hinted might not be the best for the American public. But can you give us just sort of the dynamics, and will this start having longer legs, and private toll roads, etc., would that be a potential wave of the future? Just curious. As that plays out, is that public or private?

**Ben Brock – President and CEO**
In the last six or seven years I guess I have been to over 50 countries travelling trying to help our guys and selling equipment. What I would tell you is most of those countries are growing their road programs through toll roads and they're typically private concessions with some government backing in case there is no traffic. But they are typically private consortiums and large companies that invest in, in the road and then there would be typically anywhere from 20 to 30 years where then they turn it back over to the government. The downside is that depending on which numbers you look at, it can cost as much as 20% to 30% of the cost, of the collection of the

toll, to collect the toll and it will cost about 2% of the gas tax to collect the gas tax. And then on the toll road side, you have the investor that needs to make a return and you have the contractor that's going to make a return and it's just a compounding deal for the cost to the end user which is the driver. And I drove on a road from Santiago, Chile to Valparaiso to see a customer and the gas tax versus the tolls will blow away; it is about a 78% more to travel on the toll on that road versus the gas tax.

Now the flip side of that is that project doesn't get built without the toll. So if that's the way it's going to go then we need work and if we don't love it, if it helps us, it helps us, and if helps the country get the roads that we are not going to get because we are not going to do more gas tax, then it is what it is and we need to move on.

**Operator**
There are no further questions at this time. Now I would like to turn the call over to Steve Anderson for closing remarks.

**Steve Anderson – Director, Investor Relations**
Thank you, Rob. We appreciate everyone's participation on our third 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 November 4, 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 was contained in the news release sent out earlier today. And as Rob said, this concludes our call. Thank you all and have a good week.