

**Transcript of
Astec Industries, Inc.
Fourth Quarter 2014 Earnings Call
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Participants

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David Silvius – Vice President, Chief Financial Officer and Treasurer
Ben Brock – President and Chief Executive Officer
Rick Dorris – Executive Vice President and COO

Analysts

Mig Dobre – Robert W Baird
Jason Ursaner – CJS Securities
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Ted Grace – Susquehanna
Brian Rafn – Morgan Dempsey Capital

Presentation

Operator

Greetings, and welcome to the Astec Industries' Fourth Quarter 2014 Earnings Call. At this time, all of the participants are in a listen-only mode. A question and answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host Mr. Steve Anderson. Thank you, Mr. Anderson. You may begin.

Steve Anderson – Director, Investor Relations

Thank you, Jenna. Good morning, and welcome to the Astec Industries' conference call for the fourth quarter and fiscal year that ended December 31, 2014. As Jenna mentioned, my name is Steve Anderson, and I'm the Vice President of Administration and Director of Investor Relations for the company.

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 Silvius, our Chief Financial Officer. In just a moment, I'll turn the call over to David to summarize our financial results and then to Ben to review our business activity during the fourth quarter.

Before we begin, I'll remind you that our discussion this morning may contain forward-looking statements that relate to the future performance of the company, and these statements are intended to qualify for the Safe Harbor liability established by the Private Securities Litigation Reform Act. Any such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions. Factors that 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 fourth quarter and the full year of 2014.

David Silvius – Vice President, Chief Financial Officer and Treasurer

Thank you, Steve, and we thank each of you for joining us this morning. We'll go through the financial results here. Net sales for the quarter were \$239.5 million in the fourth quarter 2014, compared to \$223.9 million in the fourth quarter of last year; that's an increase of 7% or \$15.6 million.

International sales were \$87.9 million in 2014 Q4, compared to \$81.5 million in Q4 of 2013; that's an increase of 7.9% or \$6.4 million increase. International sales represented 36.7% of Q4 2014 sales compared to 36.4% of sales for the same quarter last year. The increase in international sales in quarter-over-quarter occurred primarily in South America, in the Middle East, in Central America and in Russia. These increases were offset by decreases in the post-Soviet states and in Australia.

Domestic sales for the fourth quarter of 2014 were \$151.6 million compared to \$142.4 million in 4Q of 2013. That's an increase of 6.5% or \$9.2 million. Domestic sales represented 63.3% of Q4 2014 sales compared to 63.6% of Q4 2013 sales. Part sales for the fourth quarter of 2014 was \$63.8 million; that compares to part sales of \$56.8 million in Q4 of 2013, a 12.3% increase by \$7 million increase, part sales within 26.6% of our quarterly sales in Q4 2014, compared to 25.4% of sales in Q4 of 2013.

On a year-to-date basis, sales were \$975.6 million compared to \$933 million last year; it's a 4.6% increase or \$42.6 million increase. International sales in 2014 were \$321.4 million that compares to \$333.9 million in 2013; that's a 3.7% decrease or \$12.5 million decrease. The decrease in international sales year-over-year occurred primarily in the post-Soviet states, Africa, in Australia and in Canada. Those decreases were offset by increases in South America, in Asia and in Russia. International sales were 32.9% of sales in 2014 compared to 35.8% in 2013.

Domestic sales for the year were \$654.2 million, compared to \$599.1 million in 2013, a \$55.1 million increase or a 9.2% increase. Domestic sales for the year are 67.1% of total sales compared to 64.2% of total sales in the prior year. Part sales in 2014 were \$254.7 million compared to \$246.9 million in the prior year, a 3.2% increase or \$7.8 million increase. Part sales were 26.1% of total sales this year compared to 26.5% of sales in the prior year.

Gross profit for the quarter was \$53.1 million compared to \$47.3 million last year in Q4 of 2013; that's a \$5.8 million increase or 12.3% increase in gross profit. That made the gross profit percentage 22.2% for the fourth quarter of 2014 compared to 21.1% for the fourth quarter of 2013. Impacting that gross profit was a reduction in the unabsorbed overhead, and in Q4 of 2014 our unabsorbed overhead was just over \$1 million, while it was \$7.3 million unabsorbed overhead in Q4 of 2013; that's a positive change of about \$6.2 million.

On a year-to-date basis, the gross profit was \$215.3 million compared to \$207.1 million last year, an \$8.2 million increase or 4% increase. Gross profit percentage then would be 22.1% for 2014 compared to 22.2% for 2013. On a year-to-date basis, the unabsorbed overhead was \$12.2 million and that compares to \$26.6 million of unabsorbed overhead in 2013. That is a positive change of \$14.4 million.

I just want to point out that, when you look at the segment revenues and profits and the reconciliation of the total segment profits to the net income as reflected in the financial statement, you'll see some rather large numbers for the elimination of intersegment profit. Those amounts reflect intercompany sales and the deferred profit on those sales and those occurred primarily in sales to Australia and to Brazil. But the biggest piece of that is the deferred profit on intercompany sales of equipment on the pelletizer project. So that inventory is still sitting on the books and contains profit that certain subsidiaries have recognized, we obviously eliminate that in consolidation, just wanted to point that out for you.

SGA&E for the quarter was \$41.1 million or 17.2% of sales, compared to \$36.6 million for the fourth quarter of 2013 or 16.4% of sales; that's a \$4.5 million increase or an increase of 80 basis points as a percentage of sales. The reason for that increase or the primary drivers for the quarter is the addition of Telestack at April 1 of 2014, and a payroll and related expenses also increased during the fourth quarter of 2014 over the fourth quarter of 2013.

For the year, SGA&E was \$163.6 million or 16.8% of sales compared to \$151.4 million or 16.2% of sales for the year-to-date period in 2013; that's a \$12.2 million increase. The primary driver on the year-to-date basis in SGA&E is payroll and related expenses, the addition of Telestack again. Recall that we had ConExpo earlier this year and so that was \$4.25 million in the current year, we had incurred some cost last year so that increase was \$3.5 million net increase and increased research and development costs for the year.

Operating income for the quarter is \$12 million compared to \$10.7 million in the quarter last year; that's a \$1.3 million increase or 12.1% increase. For the year operating income was \$51.7 million and that compares to \$55.7 million last year, a decrease of \$4 million or 7.2%.

The interest expense line has jumped up just a little bit. In the fourth quarter interest expense is \$345,000 compared to \$7,000 last year and for the year is \$720,000 compared to \$423,000 last year. The driver behind that is that we did dip into our credit facility in intra-quarter periods, so during those months in the middle of the quarter we had to dip into it just a little bit. And we also have some outstanding debt in overseas locations primarily in Brazil, and those amounts are for the construction of the building in Brazil and our facility there. Those amounts are reflected in these condensed consolidated financial statements in the short term and long term liabilities because they are relatively small amounts.

Other income for the quarter was about \$0.5 million and for the fourth quarter of 2013 was income of \$1.1 million and on a year-to-date basis it's \$2.9 million of other income compared to \$2.8 million last year. Recall that other income is primarily generated from license fee income and investment income where we have investments in our captive insurance company.

The effective tax rate for the quarter was 30.4% and that compares to an effective rate last year in Q4 2013 29.7%. The effective rate for the quarter was impacted by the passage of the R&D tax credit in the fourth quarter of 2014; so we got to recognize our R&D credit all in one quarter during 2014. You may recall that in 2013, it was enacted for both 2012 and 2013 early in the year.

So, it was in the first quarter of 2013 where we recognized two years' worth of R&D and that's reflected in the full year effective tax rate. You'll see that for the current year, it's at 36.2% and in the prior year it's at 32.7% and the primary driver there again is the inaction of the 2012 and 2013 R&D credits in the early part of 2013.

Net income attributable to controlling interest is \$8.5 million in the fourth quarter of 2014 compared to \$8.3 million in the fourth quarter of 2013; it's a 2.4% increase. And EPS for the quarter is \$0.37 compared to \$0.36 last year fourth quarter. The year-to-date net income is \$34.5 million compared to \$39 million last year; that's a decrease of \$4.5 million or 11.5%, and that makes EPS for the year \$1.49 compared to \$1.69 last year.

When we discussed the backlog numbers recall that our backlog has been adjusted in the prior years for the addition of Telestack. So, not only are they reflected in the current numbers, we went back and recast the prior year numbers, so that you get a true apples-to-apples comparison on the backlog. So, our backlog at the end of 2014 was \$332.1 million, a record backlog, and the backlog at the end of 2013 was \$298.2 million; that's an increase of \$33.9 million or 11.4% increase. The international component of that backlog this year was \$109.7 million, that compares to \$97.5 million of international backlog at the end of 2013, a \$12.2 million increase or

12.5% increase. The domestic backlog at the end of this year was \$222.4 million and that compares to \$200.7 million at the end of 2013, a \$21.7 million increase or 10.8% increase.

The December 31, 2014 backlog of \$332.1 million compares to September's backlog of \$295 million, and that is a \$37.1 million sequential increase or 12.6% sequential increase. Typically here at the fourth quarter press release we also disclosed to you the January backlog because we do have those numbers in and consolidated. So, the January 2015 backlog is \$335 million and that compares to a January 2014 backlog recast to include Telestack of \$291.4 million; that's a \$43.6 million increase or 15% increase in January versus January backlog.

Our balance sheet remains to be strong, we had receivables of \$107.3 million that compares to \$94.8 million in the prior year; that's an increase of \$12.5 million. Our days outstanding are at 41.5 compared to 38.5 last year. Our inventories are at \$387.8 million compared to \$342.3 million at the end of last year; that's a \$45.5 million increase but recall that included in there is the addition of Telestack which is about \$3.6 million here at the end of the year plus the pelletizer inventory that still sits in our inventory on our books makes up the vast majority for rest of that difference.

Our inventory turns are at 2.1 compared to 2.2 in the prior year. We owe nothing on our \$100 million credit facility and we have \$13 million in cash and cash equivalents plus we have another \$1.9 million in investments, outstanding letters of credit here at the end of the year at \$12.6 million. So, that gives us borrowing availability on our domestic facility of \$87.4 million, and again, we had about \$10.9 million of debt overseas in primarily in Brazil and those again are reflected in the balance sheet in the other short-term and other long-term liabilities.

Capital expenditures for the quarter were \$6.3 million and for the year were \$24.8 million, and we forecast about \$30 million of cap ex in 2015. Depreciation for the quarter was \$5.4 million and on a year-to-date basis was \$21.3 million and we do expect about \$23 million depreciation in 2015.

That concludes my prepared remarks on the financial statements; I'll turn it back over to Steve.

Steve Anderson – Director, Investor Relations

Thank you, David. Ben Brock now will provide some comments regarding the fourth quarter this year's operations as well as offer some thoughts on 2015. Ben?

Ben Brock – President and Chief Executive Officer

Thank you, Steve, and thanks to everyone for joining us on our call today. As we mentioned in our earnings release this morning, we were pleased with our fourth quarter results and we were also pleased with our record setting backlog which along with our current prospect has us optimistic for the first half of this year.

Our earnings per share were \$0.37 a share in the quarter versus \$0.36 per share in the fourth quarter of 2013. On a year-to-date earnings per share was \$1.49 for 2014 versus the \$1.69 in 2013.

Our year-to-date EBITDA was \$77.43 million versus \$79.69 million. As a reminder from David's comments and as our calls this year, past year, we did have three unusual items that affected our year-to-date EBITDA – ConExpo expense, the fair market inventory write up at Telestack for acquisition accounting, and a foreign exchange loss which totaled about \$1.5 million. The fair market value write up at Telestack was \$1.418 million. The total of the three unusual items equals \$7.17 million, adding that back to our year-to-date EBITDA of \$77.43 million, would have given us the year-to-date EBITDA of \$84.6 million versus the \$79.69 million last year.

So, that would have been an increase of \$4.91 million versus last year, so that would be an increase of 6.2% without the unusual items versus the sales increase of 4.6%. So, we're pleased to report that operationally we

have improved versus last year. Our backlog at December 31st was a new record at \$332.1 million, which was up 12% versus last year, and as David mentioned, our backlog at January 31st stayed strong at \$335 million.

Regarding the sales environment that we're in here in the United States, it just continues to be that uncertainty created by the Washington DC representatives continues to make our domestic highway infrastructure customers feel uneasy about major capital expenditures. The encouraging news for us is that as we've mentioned on last quarter's call, we do continue to hear from our infrastructure customers that they're experiencing good business levels and have backlogs of work to do particularly on the private side. This continuing development is exciting for our business and while it will take a long term highway bill to speed growth and really large cap ex in the infrastructure group, we are encouraged that our customer's equipment is running at higher capacities now, and we are quoting more large projects this year versus the same period last year.

With regards to the highway bill, we are keeping close contact with our elected representatives in Washington DC and we're encouraging our customers, our vendors and other industry members to do the same through our company sponsored "Don't Let America Dead End" effort. More info on that effort can be found on our website dontletamericadeadend.com. We are cautiously optimistic that there will be a long-term highway bill of some kind passed this year. We would always welcome that long-term bill with increased funding but in the meantime we do continue to pursue new business with new products in the United States, and we are maintaining our international effort.

We are pleased to see our international backlog up in the quarter versus last year. I have visited the Hazelhurst, Wood Pellet Plant earlier this month and Line 1 continues to run to capacity. Line 2 is installed and will be in testing during this quarter, and Line 3 is being installed as we speak.

As a continuing reminder, it is a new product that we've chosen to finance for 24 months, and as a result, will recognize the revenue for the plant as we're paid. This will have an effect on our cash and our inventory until it's paid in full. As another reminder, the order for all three of those lines is for \$60 million. The startup of this pellet plant has created strong interest and we do expect to sell a new plant near the end of this quarter or early second quarter. Internationally given the well-documented issues globally with regards to currency swings and politics, we were pleased to see our quota activity continue to stay level during the fourth quarter along with our international backlog increase.

On the energy side, we remain challenged in our drilling and pumping equipment with regards to shipments and margins in Q4, and we're not immune to the current low oil prices with regards to our oil drilling and pumper business. As a result of the low price of oil and overcapacity at our GEFCO Loudon Tennessee facility, we regretfully informed our employees at the Loudon facility that we would be closing the facility effective at the end of May this year.

The product lines and related inventory at Loudon will be relocated to our GEFCO Enid facility. The main products, product lines at Loudon are the oil drill rigs and pump trailers. This move will result in a Q2 charge of approximately \$1 million however it will result in a cost savings in 2015 that will outway the Q2 cost of closing the facility. The difficult decision will affect approximately 75 employees at Loudon. We will do our best to place those employees with other Astec Industries companies as we're able to.

In other energy group news, we saw continued strength in heaters for gas processing operations and increased sales of wood chippers and grinders. So, despite the tough decision with regards to Loudon, we are optimistic on our outlook in the energy group.

Our new facility in Belo Horizonte Brazil did open during the fourth quarter. While Brazil's current economic issues are well documented, we remain optimistic on Brazil over the long term. As a reminder we will build equipment for the aggregate processing, mining and a small asphalt plant in this facility to start.

Looking ahead to the first quarter of 2015 and the rest of the year, we have once again increased our backlog and we've mentioned that stable quota activity internationally. From our last earnings release to now orders have been good for the last three months, with the exception of complete hot-mix asphalt plants which have continued to lag historical levels due to the highway bill uncertainty.

Oil drilling and pumper equipment have also lagged as well and that's reflected in our decision with regards to Loudon. We see growth opportunities in pellet plants, large crushers for mining, high recycle asphalt plants, small commercial asphalt paving and after-market parts and service sales. We see the potential for a long-term highway bill with increase funding to be passed this calendar year. Part sales in 2014 did increase 3.2% versus 2013; we remain committed to improving our part sales volume in the long term along with working to increase competitive part sales.

We are continuing to work on our lean journey with regards to manufacturing and office operations. We are seeing some results of our lean efforts show up in higher margins in the quarter. We continue to focus on margins and we will work to make this a trend ,not a one quarter bump. Looking to the whole of 2015 we are cautiously optimistic, we expect to continue to improve on our operational performance versus 2014 with our divisions, current backlogs and delivery schedules, we are optimistic that our first quarter will be improved versus this past quarter and that our first half will be a good first half.

And again this is despite the current state of the highway bill in Washington DC, our customers are experiencing improved private markets. We are focused on selling existing and new products not only in the United States but around the globe. We're also growing our business in energy and mining to industries that are not necessarily dependent on the highway bill. Acquisitions remain a key piece of our growth strategy along with organic growth to new product introductions and targeted sales growth efforts in both the United States and in 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.

Steve Anderson – Director, Investor Relations

Thank you, Ben. Jenna, if you would open the lines for questions, we'll be ready to field those.

Operator

Our first question today comes from the line of Mig Dobre with Robert Baird. Go ahead with your question, please.

<Q>: Good morning, gentlemen. A lot of questions here. I guess maybe the biggest one for me—pretty good backlog numbers without a doubt and apparently trends are still decent through the quarters. So, I was wondering Ben, when you're thinking about the full year, thinking about 2015 as a whole, how do you think about the revenue potential here?

Ben Brock – President and Chief Executive Officer

Mig, I still think for us the summer is always going to be our challenge and what could help us will be potential pellet plant order and/or a highway bill. We need to manage through the summer better if there is not a highway

bill. The money will be there. I mean, Congress has proven that they will vote an extension that keeps the base line in the \$40 billion range, and with the private markets being okay that can be manageable but we experienced a rough third quarter with how things were going especially in the Astec division.

It feels a little bit better; our customers are doing well. I've been with a lot of them during the quarter and in January. So, we see an opportunity to have, like I said in the comments, cautiously optimistic for the year. If there is not a highway bill, we need to manage better. Because what happened is, as you heard David's comments, our absorption did come down but our margins came down with it during the third quarter. We'll just have to manage that better if there is not a highway bill or a large pellet plant coming through Astec Inc.

<Q>: I appreciate that. I wish, to be honest with you, I wish you'd been a little more specific in your commentary. But I understand that maybe you're a little bit limited. Sort of sticking with this line of thinking on margins, in the infrastructure group, pretty meaningful improvement in gross margin. I'm not just talking sequentially, I'm talking year-over-year also in spite of an 11% revenue decline. So, are we talking about a shift in mix year? Is pricing getting better? I know you called that out last quarter as an issue. How do we think about the sustainability of gross margins into next year?

Ben Brock – President and Chief Executive Officer

I think in the first half it's sustainable. There is a little bit product mix as you mentioned. Little bit of our lean efforts starting to show up and we are in the mine season for asphalt plants. So it always feels a little better around here in the winter but it's the work that we are getting is our main product line work here at the Astec division. The mobile side has stayed fairly strong. The small pavers have done very well for Carlson. So, it is a combination of those really, Mig. I wish it was just one but it's kind of everything coming together during that quarter and starting off this year.

<Q>: What about pricing?

Ben Brock – President and Chief Executive Officer

We are still in a competitive pricing situation on asphalt plants, and we have done a little bit better on parts, but on the plant side it's still pretty tough. But again, even though we're competitive and it's tough on the parts, back to your point on product mix, it's just been more main line equipment and just a little more volume coming through the plant and that helps us.

<Q>: Then before I get back in the queue, just shifting over to your energy segment. I'm trying to make some sense here of your really strong orders and backlogs. You're up 54, up 98% year-over-year, you're calling out the oil and gas headwinds but obviously there are some other things that are contributing to this segment. What is it and again how do you think about 2015 as a whole?

Ben Brock – President and Chief Executive Officer

That's a great question, and Rick, you may want to comment, but the biggest thing that happened to us during the quarter is we got a large \$25 million order from a large oil producing company that, we can't tell you who it is but it's one that you know, I mean that the globe knows and that was for gas process here, processing up in Canada and Rick, you may want to comment on the other group.

Rick Dorris – Executive Vice President and COO

Well in addition to that, the wood chipper and grinder markets improved and we improved our market share in those markets. So that also contributed pretty significantly to the increase in the backlog for the quarter.

<Q>: Can you talk at all about, what drove that \$25 million order? Is this new product introduction on your part? Really any color there would be helpful.

Rick Dorris – Executive Vice President and COO

The customer is building a new plant and so we got eight heaters to go onto that plant.

Operator

Our next question comes from the line of Jason Ursaner with CJS Securities. Go ahead with your question, please.

<Q>: Good morning. Just following up on maybe the last question, when you look at the domestic orders and the backlog for the year end, is the lower oil helping your contractors in the asphalt side, maybe do some more miles or just any additional commentary on what you see driving the strength there for equipment orders through the end of year?

Ben Brock – President and Chief Executive Officer

Jason, this is Ben. We're seeing that, that's helping them on their bottom line, there is a little more backlog particularly from the private side. Some of the states have taken on more funding on their own like Pennsylvania and Virginia we talked about several times on these calls, and that's starting to show up some pretty big lettings, but not needle moving lettings like the federal highway bill for the long term. It's fairly good in pockets; it's not everywhere, as far as the state money goes. But on the private side in general, I was at the National Asphalt Pavement Association Annual Meeting at the end of January; there were customers there from 42 states and the feeling was just generally better and having a little work going into the year and having pretty decent years last year. So they're doing little bit better than us.

<Q>: And the year-over-year comparison, these orders are coming through for a bit of lead time, any concern that contractors last year had maybe held off in anticipation of ConExpo and that plays at all into the year-over-year numbers?

Ben Brock – President and Chief Executive Officer

Well, I don't know about the ConExpo side, I think there is definitely pent-up demand and just a little bit of work probably got us a couple of deals that maybe wouldn't have happened last year. But again, historic versus historical sales levels of asphalt plants through the buying season, it's still lagging. On the mobile side, it's still pretty strong as it has been.

<Q>: And in terms of cash flow, looks like pretty much breakeven for the quarter and for the full year excluding Telestack again pretty much flat. Just working capital investments seem like they're taking up a lot of cash, mostly in inventory, how are you thinking about current working capital levels and cash flow going forward?

Ben Brock – President and Chief Executive Officer

A lot of that you are seeing there is pellet plant and so that's a lot of money tied up. The sale was \$60 million and when we get that back we'll look a lot better. David, if another comment on that.

David Silvius – Vice President, Chief Financial Officer and Treasurer

It's something that we talk about and monitor on a fairly regular basis and we have in the past when we get appropriate discipline and need to apply appropriate discipline. Our guys are pretty good about generating cash and pulling it out of the balance sheet. So right now, we really allow because of our internal metrics, allow folks to buy a little more inventory so that they can deliver more quickly to customers and also they're investing in R&D and in product development, so that's eaten a little bit. But you're right, we do watch that AR and the inventory numbers pretty closely.

<Q>: At this point you wouldn't expect the customer on the wood pellet to get financing until Line 3 is in or they're going to do it line by line.

Ben Brock – President and Chief Executive Officer

It will be 2016, we've mentioned that in the past. All three lines should be running mid-year so we'll still be—hate to call it working the kicks out but when you start up that much iron you go through that process and it'll probably be running strong by the end of the third, the latest. We have learned a lot in Line 1, that's been fixed for Lines 2 and 3. That's a good and bad thing, but they need to be running to get the financing in place, all three lines, because they want to finance it all in one shot. We knew that going in, I'm sorry—we did know that going in, Jason, I'm sorry.

<Q>: No, no problem. I will jump back in the queue, let's some others get a chance. Thanks.

Operator

Our next question comes from the line of Nick Coppola with Thompson Research Group. Go ahead with your question, please.

<Q>: Good morning. On SG&A you called out in your opening comments Telestack and payroll and related expenses. Was there anything unusual in either of those items or were you running about where you expect to be trending in Q4 and a follow-up to that, what kind of SG&A leverage do you expect in 2015?

David Silvius – Vice President, Chief Financial Officer and Treasurer

No, there was nothing unusual in those. They were added together and they were the vast majority of the increase in SGA&E. I would expect trending that we would be in that probably 41 range on average going forward. I think that's probably a fairly safe number right there.

<Q>: Then what are your infrastructure customers, particularly those within energy intensive states, reporting back to you? Do you think there's any negative impact on either private, on the private or public side for infrastructure and places like, a place like Texas from lower oil prices?

Ben Brock – President and Chief Executive Officer

Nick, this is Ben. I've talked to a few contractors from Texas at that meeting I referenced for Napa in Florida and they have a long-term concern. But in the immediate, they didn't see anything this year, the ones that I talked to. Didn't really talk to any from North Dakota or South Dakota but near that region we are installing a very large asphalt plant right now in Minnesota which is probably the worst place to be installing an asphalt plant right now. I think it was -35° the other day, they couldn't even start the welding machine onsite. We haven't heard much other than concern for 2016 out of that is what they said.

The other thing, I would add to that, it's not part of the question in talking with people on the energy side and kind of trying to get a feel for how long the oil industry, the issue could be there, our general feeling in talking with people is that, it's about an 18 months issue as far as oil prices coming back. And that's just in talking to lot of people, there is no science behind that, there is just a lot of conversations.

<Q>: That's helpful. Then my last question for you. Just looking for any more color about Brazil. It sounds like you finally got that up and running. What does early performance look like there? Kind of just color about what's going on down there and maybe any ability to or desire to add product lines down the line.

Ben Brock – President and Chief Executive Officer

Sure. Well everybody knows how the economy is doing down there so perfect timing to open a plant in Brazil for the economy it's not great. So, it's going to be a struggle this year, and the way we are trying to offset that struggle is to fit a few more products that we would build through the plant there. We had the one small asphalt plant that is what we call a voyager that's really built in our Dillman operation transferring the drawings down. And

then we're now talking about one other sized plant for that operation that would sit well in Brazil and then we've also discussed potentially maybe one or two Roadtec pieces. When we designed the facility we designed it to be flexible to build multiple divisions worth of equipment. So it's going to be a struggle though in year one, there is no doubt.

Operator

Our next question comes from line of Ted Grace with Susquehanna. Go ahead with your question, please.

<Q>: Good morning, guys. Ben or David, I was hoping to get some perspective on thinking about margins in 2015. I know you made some comments in SG&A in a \$41 million run rate being a reasonable run rate, if I heard that correctly. But I was just wondering, when we look at 2014 on 5% sales growth we have kind of flat gross margins in the low 22% range, operating margin is compressed about 60 basis points. Could you just give some kind of handholding or framework kind of think about, or how you are thinking about the opportunity for margin expansion both at the gross and the operating lines in 2015?

Ben Brock – President and Chief Executive Officer

Ted, this is Ben. We think we will be improved in the first quarter particularly against the first quarter of 2014 on margin. We're trending in that direction; to predict back to the historical highs in the 25, 26 range I think, it is way too early but we're certainly going to feel like we're going to be above fourth quarter margin of last year and first quarter margin of last year.

<Q>: On the first quarter is that, are you talking operating, or is that due to the ConExpo easy comps so to speak or are you talking about the gross margin and underlying profitability is actually better?

Ben Brock – President and Chief Executive Officer

That's gross margin and underlying profitability is being a little better.

<Q>: When you think about the big puts and takes beyond mix, could you just maybe walk us through or bridge us through how you're thinking about materials or under absorption on revenue growth in those dynamics? I think, that kind of handholding would helpful for people, as they think about framing out their 2015 estimates.

Ben Brock – President and Chief Executive Officer

Sure, we have seen steel come down during the fourth quarter. We think that will be stable in the first half and so that's a good and bad story. That means that nobody else is using much of it, but it's good, it helps us. But we see it being stable for what we know at the moment. Your other question the materials and absorption that will be okay in the first half, I think we will be probably about where we were this year, we'll keep it in line.

<Q>: Any other big puts or takes within the cost of [indiscernible] we should be mindful of? FX or anything like that?

Ben Brock – President and Chief Executive Officer

I think just, as I mentioned we have been working on our lean effort, I think we starting to see that in our margins little bit. Volumes help us. But it you can, when you walk through our plants which we've done a quite bit in January, you can see differences starting to take shape.

<Q>: The second thing I was hoping to zero in on and I apologize if I somehow missed this but within the aggregates—the question of screening products within the aggregate mining group. Can you talk about just the domestic environment for that product line and then maybe the outside US opportunities or the environment fields for the core aggregate products.

Ben Brock – President and Chief Executive Officer

Sure, timing is perfect, because I just spent a week traveling and visiting some customer sites where we're putting in a big quarry in Oklahoma, near Durant, Oklahoma. It's a large crushing system and traveled with the more the stationary aggregate group and the portable aggregate group during that week. So, they've really kind of been an unsung hero for us over the last few years. They have been very steady as a group and their backlog is off a little bit, but it is a little bit more manageable for them as a whole. We are still challenged with pretty good backlog levels on the portable side, particularly in washing equipment.

Talking with the customers and talking with a few of our sales reps traveling around with some windshield time, generally the feeling is pretty good for domestic. And of course we're seeing some nice releases from some of the larger aggregate suppliers that have come out in the last month or so. So, our guys are generally upbeat about domestic. Outside the USA there is still a concern about Russia even though we have done generally okay in Russia and what happens for us is there is not a lot of great local manufacturers of the equipment we build in Russia. So that's why we have been maybe able hold on a little bit there, but the politics are tough there so we're keeping an eye on it.

Outside the USA for the aggregate mining site, of course, Brazil is in that group, so as we start growing there, that'll help. Again I think that will be a challenge for year one, but there is still a lot of work in Columbia coming up. And so we're staying active there and Mexico has been good for us, so not so much Middle East and not so much Africa. But Europe we are starting to get a little more activity and I think that's a lot because of Telestack being in the region and people paying a little more attention to us as having manufacturing in the region and Telestack is in that group. They're starting to look at ways to incorporate some of their crushing equipment in the system and incorporate Telestack equipment. So, I wouldn't say that we're over the top saying that international is about to boom for any of us but we're pleased that we're making a little more headways versus maybe last year at this time.

<Q>: And then last one if I can squeeze it in, for 2015 when we think about the impact of FX, given a lot of your manufacturings in the US, how would you encourage people to think about kind of A, how it's impacting your sales ability on a transactional basis being at a disadvantage? And then B, just as we think about the impact of FX on your revenue from a translational and the FX impact on your profits for 2015, could you just give us a little handholding there?

Ben Brock – President and Chief Executive Officer

Sure, it's painful. The Australia with Astec, Australia at Aussie dollar this morning was \$0.77 when I took a peak this morning; that is painful for getting equipment sold. Although those guys are holding on and had compared to what's happen to them on the volume side, they held on okay through last year and the Canadian dollar at \$0.79 is not a help.

And then the euro even at 113 we seem to be getting some deals, so it's a concern for us and we'd like to see it get a little better in Australia talking with those guys. I'm going to go down there Sunday and spend some time with them but it's a challenging time there, but there is some opportunities for us there too. In any market, somebody is buying, we have to try to get in front of them and earn the business. But it's a challenge to us but we are still as you can see with our backlog we're still selling.

Operator

Our next question is from the line of Brian Rafn with Morgan Dempsey Capital. Go ahead with your question, please.

<Q>: Good morning, guys. Give us a sense, you mentioned, Ben, talking about your expectations for this time I am guessing a six-year highway bill, any thoughts on the size, the numbers you are hearing? Is it more of the

\$245 billion to \$275 billion? I've heard the Army Corp of Engineers talk about \$500 billion? Then if that actually flows through on a six-year bill, what kind of pent-up demand might you see from some of your road builders actually kind of releasing some orders?

Ben Brock – President and Chief Executive Officer

Well that, if you take what we are hearing, we are hearing everything from a four year to six-year bill and an average of \$50 billion a year, it's kind of what we have been hearing. I kind of think sometimes it's who's talked to the last guy last. But that's kind of generally what we are hearing; we are hearing that gas tax doesn't have a lot of legs but we're hearing there is tax code changes tied to it, to try to make it happen. It's kind of what we are hearing.

And so, if let's say that happens and it's a four to six-year bill and what would that mean for us? Particularly on the infrastructure side, I think it means that we would see a pretty good quick order run for about three months, there is plenty of people that would love to do something right now but need that bill to feel comfortable. And then I think we see a little break while everybody figured out, okay, when is that money hitting and where is that money going and where are the jobs going to be let. And then I think we see a few years of pretty good activity in the infrastructure group.

Our customers are doing fairly well and I think they'll move quickly. I mean 80% of our business is privately held companies, where you are dealing with one decision maker at the top that can make a quick decision. So, I think we would see a quick increase and then kind of a little break and then probably a pretty consistent run for a few years.

<Q>: If you look at Carlson and Roadtec, and you look at, let's say we take a worst case scenario you don't get highway, Washington continues to stumble along. There have been extensions like you've said, they've been pretty stop on with that. If you don't see new order releases, how over the next few years, how strong is that are you for repair parts? Sooner or later the equipment is going to break down and if you want jobs there's a lot of discounting. I mean how much demand for repair parts? Have you seen that delta change up as we haven't had a six-year bill and repair parts have been pretty strong?

Ben Brock – President and Chief Executive Officer

I think we've seen a delta in that in December and January. Our parts on the year were up. I think there would be a good opportunity for that in either case in the second half and through the winter next year, because it's going to come and we're in a pretty good position in the infrastructure group for that. I think we have room to improve that in energy and in the aggregate side. The aggregate side has come along on that but we still got room for what we would call boots on the ground, guys are direct in front of customers working for the parts business.

<Q>: Yeah, I would I just—go ahead I'll let you finish.

Ben Brock – President and Chief Executive Officer

Well I was just saying Astec had a really good parts year last year and it's starting off really strong this year.

<Q>: Then just, Ben, from the standpoint of a 50,000 foot view, what kind of capacity utilization are you seeing across some of your subsidiary companies or how many shifts are you running? What's running fairly strong and what's running with fairly low capacity?

Ben Brock – President and Chief Executive Officer

Yeah, sure. I would say we're probably today running—we've been probably last year we were running at 60% to 65% range overall, we're probably in the 70% range and not to 75% but somewhere between 70%, 75% right

now. Obviously with what we're doing in Loudon and that's a pretty good indicator at Loudon, how utilization is not good. And truthfully it's not great in Enid; this move] will help us in Enid with an increase man hours through the shop.

Now I say that with an asterisk because the oil and gas industry has pretty well documented it is off right now. But we did have a water drill rig that we're starting to build at Loudon that was a 30-K unit that we're moving to Enid which will help their volume, too. So we think it will help us not only with what we're doing what Loudon, but it will help us in Enid with more man hours.

Operator

Our next question is a follow-up question from the line of Mig Dobre with Robert Baird. Go ahead with your question, please.

<Q>: Thanks for taking my follow-up. Just a little more color maybe on the aggregate & mining segment. I'm wondering can you parse out some of the moving pieces on your margin in the fourth quarter? It's been a little bit shy what I personally expected. Also looking at this segment margin here has been between call it 9.5% to 9.8% over the past three years. Is there any reason to think that we should be seeing that number change in 2015?

Ben Brock – President and Chief Executive Officer

Mig, this is Ben. I don't think we'll see it change very much in 2015. I think when you look at the aggregate group and what they deliver and I guess I'm just looking into the answer just, because I was traveling with them. The project was a large project in Oklahoma was a big piece of that and that there was some new equipment on the new designs, new conveyer designs for our Telsmith group. And that's showing up in the margin and that whenever we have first we always take a little hit on margin. The other thing that's happening is on the mobile side and the KPI on the JCI side they're doing more development on their global track units, and they're doing some work to be able to get those to breakdown and go in to containers and so they'll be able to ship a little easier and more economically to get it outside the US and be competitive and a little bit of that is showing up, too. They're going to be okay this year on margin, though.

<Q>: I remember, Ben, you said that mining accounted for about a third of this segments' revenue. Has there been a mix shift in 2014, a notable mix shift of any kind of we should be aware of?

Ben Brock – President and Chief Executive Officer

I would say if there is a shift, it's more toward the aggregate side in this year. We have the large 900 crusher that is at Telsmith and it's ready to go. We think—I hate to go over the top here and say we have a home for it, but we think we have a home for it. We would like to get that installed before the middle of this year at a place and get it tested out, and start proving ourselves in those 900 to 1200 horsepower crusher segments of the market. That will help us grow the mining side and then being in Brazil and being next to the mines, and being able to build right there will help us long term, I don't think it moves a huge amount this year down there given what's going on.

<Q>: But is it fair to say that mining is—I don't know maybe closer to a quarter of the segment at this point.

Ben Brock – President and Chief Executive Officer

I think so. I don't have the exact number here Mig, but my gut feel will be about right.

<Q>: And then, I'm looking to clarify something because I'm little confused with regards to your EPS comments for the first quarter. Are you, to be clear, are you saying that you are going to be up sequentially in year-over-year in terms of earnings?

Ben Brock – President and Chief Executive Officer

In the first quarter versus the first quarter of last quarter we should be up. That's your question?

<Q>: Yes, that is my question. And the last one is on the potential wood pellet plant order that you said, you could get it either may be late 1Q or early 2Q. Can you remind us maybe size the order of the potential there, the way the revenue's going to be recognized and maybe the way you foresee that revenue flowing through the various segments?

Ben Brock – President and Chief Executive Officer

We are negotiating that it'll probably be three lines or so, similar to what we have at Hazelhurst with some extra auxiliary equipment. So, it's going to be a little more money and it's going to be partially in the fourth quarter in the balance and the first and second of next year. There is a lot of moving parts to those and working on back pages and that kind of stuff. That would be what it would be if we were successful.

<Q>: And in terms of how that flows as segment level for revenues?

Ben Brock – President and Chief Executive Officer

Well it would be mainly all in the infrastructure group through Astec because all of those companies that would be affected would sell into Astec. Probably 90% of it would be rolling through Astec Inc. and then you would see small pieces show up in the aggregate & mining group and energy because Heatec supplies the convector heater for it. The good news about that is we're not financing that. So, we are setting up the terms so that we can recognize it as we ship it. So, that will feel a lot better.

<Q>: Sure, in theory, if you're able to get financing on or the customer can get financing on the plant that you already have in Hazelhurst and then we are talking about this one as well, that could potentially be a pretty meaningful swing to the out year number right?

Ben Brock – President and Chief Executive Officer

Yes.

<Q>: So, as these things develop it would be helpful to get some press releases or some kind of update maybe intra-quarter on this.

Ben Brock – President and Chief Executive Officer

If we got the order and it was firmed up, we would do a release on it.

Operator

I would now like to turn the floor back over to Mr. Anderson for closing comments.

Steve Anderson – Director, Investor Relations

Thank you, Jenna. We appreciate everyone's participation on our fourth quarter conference call and thank you for your interest in Astec. As our news release indicates, today's conference call has been recorded. A replay of the conference call will be available through March 10, 2015 and an archived webcast will be available for 90 days. A transcript will be available under the Investor Relations section of the Astec Industries website within the next 7 days. All of that information is contained in the news release that was sent out earlier today.

So, this will conclude our call. Thank you all. Have a good week.