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Transcript of
Astec Industries, Inc.
First Quarter 2015 Earnings Call
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Participants

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David Silvious – Vice President, Chief Financial Officer and Treasurer
Ben Brock – President and Chief Executive Officer

Analysts

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Brian Brophy – Robert W. Baird & Company
Nick Coppola – Thompson Research Group
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Presentation

Operator
Greetings, and welcome to the Astec Industries' First Quarter 2015 Earnings Call. At this time, all participants are in a listen-only mode. A brief 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 call over to Steve Anderson. Thank you, please go ahead.

Steve Anderson – Director, Investor Relations
Thank you, Brenda. Good morning, and welcome to the Astec Industries' conference call for the first quarter that ended March 31, 2015. As Brenda 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 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 first 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.

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

David Silvious – Vice President, Chief Financial Officer and Treasurer

Thanks, Steve, and good morning, everyone. Thanks for joining us this morning. Net sales for the quarter were $288.7 million compared to $238.7 million for the first quarter of 2014 that is a 21% increase or $50 million increase. Our international sales for the quarter were $77.7 million compared to $63.2 million for the first quarter of 2014, that's a 22.9% increase or $14.5 million. International sales were 26.9% of Q1 sales this year compared to 26.5% of Q1, 2014 sales. The increase in sales internationally occurred primarily in Australia, in the Middle East and South America, Canada and Europe. Those increases were offset primarily by decreases in Russia, Central America and Mexico.

Domestic sales for the quarter were $211 million compared to $175.5 million in Q1, 2014, that's an increase of 20.2%, or $35.5 million. Domestic sales were 73.1% of Q1, 2015 sales compared to 73.5% of Q1, 2014 sales. Parts sales for Q1, 2015 were $73.1 million that compares to $69.3 million in Q1, 2014, a 5.5% increase or $3.8 million increase. Part sales represented 25.3% of Q1, 2015 sales compared to 29% of Q1, 2014.

Gross profit for the quarter was $66 million compared to $56.8 million in Q1, 2014, that's a $9.2 million increase or 16.2% increase. Gross profit percentage for the quarter was 22.9% compared to 23.8% for Q1, 2014. Our absorption variance for Q1, 2015 was at $2.1 million under absorbed that compares to $3.3 million under absorbed in the first quarter of 2014; that's a positive impact on the gross profit of $1.2 million. We did experience a little bit of a foreign exchange transaction loss during the quarter of $734,000 and that compares to $139,000 loss experienced in Q1, 2014. Other things that impacted gross profit for the first quarter of 2015 were some cost overruns in the energy group on some new product development introductions as well as we began to recognize some of the restructuring cost at our Loudon facility as we combined the Loudon facility with GEFCO in Enid, Oklahoma.

SGA&E for the quarter was $43.8 million, 15.2% of sales compared to $43.4 million or 18.2% of sales of Q1, 2014; $400,000 increase or 300 basis point decrease as a percent of sales. You will recall that we had $4 million of CONEXPO expense Q1, 2014, also the $43.8 million in Q1, 2015 as compared to the projected $41 million run rate that we have discussed previously. That over run is primarily due to some unexpectedly high health insurance cost due to some large cases as well as some ERP implementation cost, computer system implementation cost that we recognized during the quarter, as well as additional commission expense due to higher sales and the amortization of the Telestack intangibles of about $0.5 million for the quarter.

Operating income was $22.2 million in the first quarter of 2015 compared to $13.3 million in the first quarter of 2014, an $8.9 million increase, or 66.9% increase in operating income. Interest expense for the quarter was $297,000 compared to $73,000 in the first quarter of 2014, a $224,000 increase, that increase is primarily due to our borrowings in Brazil as we borrow in-country there to finance the construction and the operations of the Brazilian facility, had its grand opening in the first quarter of 2015.

Other income for the quarter was $1.9 million compared to $800,000 in the first quarter of 2014. Typically our primary source for other income during the quarter is license fee income, investment income related to our captive insurance company. However, during the first quarter of 2015, we recognized approximately $1.2 million of key main life insurance proceeds due to the death of Dr. Brock.

The effective tax rate during the quarter was 37.1% compared to 32.2% for the first quarter of 2014. Now the effective tax rate is slightly higher this year in the first quarter than our expected run rate of that 35% to 36% rate that we typically target due to certain increases in federal and state tax reserves that we took and those are related to tax positions or audits that are occurring in certain jurisdictions, as well as our inability to book tax benefits related to losses in certain of our foreign subsidiaries. The effective rate for Q1, 2014 was at lower than our traditional effective rate of in that 35% range due to a one time true-up of certain tax benefits related to our basis in those foreign subsidiaries last year; that was a onetime deal in the first quarter of 2014.

Net income attributable to controlling interest was $15.1million in the quarter compared to $9.5 million in the first quarter of 2014, a $5.6 million increase or 58.9% increase in earnings. Earnings per share for the quarter were $0.65 compared to $0.41 per share in the first quarter of 2014, a 58.5% increase.

Our backlog at March 31st, recall that we always recast our prior year backlogs when we do acquisitions and remember that we acquired Telestack on April 1st of 2014, so we recast the March 31, 2014 backlog to include the backlog of Telestack on that date. So our March 31, 2015 backlog of $291.2 million compares to a recast backlog at March 31, 2014 of $309.6 million, an $18.4 million decrease or 5.9% decrease.

The international backlog at March 31, 2015 was $90.2 million and that compares to $112.3 million in March 31, 2014, a $22.1 million decrease or 19.7% decrease. The domestic backlog at March 31 of this year was $201 million compared to $197.3 million at March 31, 2014. That's an increase of $3.7 million, or 1.9%.

Our balance sheet remains strong. Our receivables are at $129.9 million this year compared to $109.1 million at March 31 of last year, a $20.8 million increase. Days outstanding related to those receivables has declined, it is at 39.7 days outstanding at March 31, 2015 compared to 40.6 days outstanding at March 31, 2014. Inventory is at $388.7 million compared to $361.2 million last year, that's a $27.5 million increase and our turns stayed relatively flat; they are 2.1 turns at March 31st this year and last year.

We owe nothing on our $100 million credit facility here in the US. We have $12.5 million in cash and cash equivalent. Our letters of credit outstanding against that credit facility are $12.4 million giving us borrowing availability of $87.6 million. Capital expenditures for the first quarter were $6.9 million and that we still believe that we will achieve a budget of capital expenditure of $30.2 million for the year of 2015. Depreciation for the first quarter is $5.2 million and we are still projecting $23.1 million as the depreciation number for 2015.

That concludes my prepared remarks on the financials. I'll turn the call over to Steve.

Steve Anderson – Director, Investor Relations
Thank you, David. Ben Brock is now going to provide some comments regarding the first quarter of this year's operations. Ben?

Ben Brock – President and Chief Executive Officer
Thank you, Steve. Good morning, everyone, and thank you for joining us on our call today. As we mentioned in our earnings release this morning, we were pleased with our first quarter results with earnings of $0.65 per share in the quarter versus $0.41 per share in the first quarter of 2014. Our backlog at March 31st was $291.2 million, which was down about 6% versus last year. Backlog domestically was up 2% year-over-year; internationally it was down 20% versus last year. International backlog was down primarily due to the strength of the US dollar against other currencies and the global mining slowdown in the markets that were key to us.

The encouraging news for us remain that as we mentioned on last quarter's call, we continue to hear from our infrastructure customers that they are experiencing good business levels in the United States and have backlogs of work to do particularly on the private side. This has been good for our infrastructure group business. While it will take a long-term highway bill to bring sustained growth in large cap ex spending by our infrastructure group customers, we are encouraged that our customers' equipment is running at higher capacities.

With regards to the Federal Highway Bill, we continue to stay in close contact with our elected representatives in Washington DC and we are encouraging our customers, vendors and other industry members to do the same through our “Don't Let America Dead End” effort. We expect after meetings last week and phone calls, our expectation is that we will see another short-term extension of the current highway bill by May 31st this year and that we remain optimistic that there be a long-term highway bill ofsome kind past this calendar year. As we work and wait on a long-term highway bill, we continue to pursue new business with new products in the United States. And we are maintaining our international effort despite the challenge presented to us by the strength in US dollar and depressed mining industry in some of our key markets. Our lower backlog in international was a direct result of those two developments.

Updating everyone on the pellet plant that we delivered to Hazlehurst, Georgia, line one of the three lines continues to run. Line two is in the testing phase; line three is being installed as we speak. As a continual reminder, it is a new product that we chose to finance. And as a result, we will recognize the revenue for the plant as we are paid, this will have an effect on our cash and inventory until it is paid in full, and the order for our three lines was for about $60 million.

There was a large teleconference in London last week that our team attended and the startup for the pellet plant continues to bring interested customers to us. And we do expect to sell the new pellet plant this quarter, local permitting, pellet supply contracts and customer finance on these size projects takes a very long time, and is requiring a high level of patience for us as we progress in pellet plants. Coming out of the conference our team is very encouraged.

With regards to international sales overall given the well documented challenges globally with regards to the US dollar strength and global mining and politics, particularly in Russia, we are challenged for the moment with regards to growing sales internationally. We do remain committed to growing our international sales over the long term and will continue to maintain and in some cases increase our sales and service coverage around the globe.

To that end and as a reminder we had an official open house for our new 132,000 square foot Astec Do Brasil facility in Belo Horizonte, Brazil on March 26th. It was well attended by customers, suppliers and government officials. We are already building crushers and screens in that facility. They look good. I was there; I really like the quality there. And we will build a small asphalt plant in the facility that will be completed in the fourth quarter this year.

On the energy side, we remained challenged in our drilling and pumping equipment with regards to shipments and margins in the first quarter and we are not immune to the current low oil prices with regards to our oil drilling and pumper business. As a reminder and as David mentioned in his comments, as a result of the lower oil price and over capacity at our GEFCO Loudon facility, we regretfully informed our employees at the Loudon facility earlier this year that we would be closing the facility effective at the end of May. The product lines and related inventory at Loudon will be relocated to our GEFCO, Enid, Oklahoma facility. The main product lines at Loudon were oil drill rigs and pump trailers. This move will result in our Q2 charge in the range of $1 million; however it will result in cost savings in 2015 and will outweigh the Q2 cost of closing the facility.

In other energy group news, we saw continued strength in heaters for gas processing operation and stable 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.

Looking ahead to the second quarter of 2015 and the rest of the year, we do have historically good backlog and stable quote levels in the United States. From our last earnings release to now orders have been normal for the last three months with the exception of three areas: complete hot mix asphalt plants, which have been okay during this most recent selling season but have also continued to lag historical levels due to the highway bill uncertainty; oil drilling and pumper equipment due to the price of oil; and international sales due to the strong US dollar and weakness in global mining.

We see growth opportunities in pellet plants, large crushers for mining despite the mining industry being down, hot recycled asphalt plants, small commercial paving equipment and aftermarket parts and service. We see the potential for a long-term highway bill with increased funding could be passed this calendar year.

Part sales in Q1 increased 5.2% versus the first quarter of 2014. And 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 operations and we continue to see results of the effort, helping us become a better company. As a part of that we continue to focus on our gross margin as well.

Looking to the whole of 2015, we are cautiously optimistic and 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 half of 2015 will be improved versus last year and that our second half of 2015 has the same opportunity.

And again this is despite the current state of our federal highway bill in Washington DC. Our customers are experiencing a stable private market and we are focused on selling existing and new products not only in the US but around the globe as well. Although as mentioned we are a facing a currency challenge at the moment internationally.

We are also growing our product sales targeted at multiple energy segments including the biomass industry with wood pellets, the oil industry and the gas industry that are not dependent on the highway bill. Acquisitions do remain a key piece of our growth strategy along with organic growth through new product introductions and targeted sales growth efforts both in the United States and international markets.

That ends my comments on the quarter, the year and kind of what's in front of us. Thank you for taking the time to be on our call and your supports as we move ahead. Now I'll turn it back over to Steve Anderson.

Steve Anderson – Director, Investor Relations
Thank you, Ben. Brenda, if you would open the queue up we'd be glad to start answering questions.

Operator
Our first question comes from the line of Jason Ursaner with CJS Securities. Please go ahead with your questions.

<Q>: Just starting with the sales outlook, backlogs declined 12% sequentially, it was split pretty evenly domestic and international and across all three segments. So, yes, I understand that orders towards the end of last year were strong and you delivered on that this quarter with the revenue, but just how should we be thinking about revenue growth going forward kind of by business?

Ben Brock – President and Chief Executive Officer
We have been encouraged over the last year really what's been going on in energy, that group with the gas heaters, I mentioned that in the comments and I think we'll still, despite the price of oil, see growth there. On the aggregate side and the infrastructure side, I think we're okay. We need a highway bill to help sustain growth, and I mentioned hot recycle asphalt plants have some newer products that will help us sell equipment even in a challenging market. So I think when you look at it going ahead I think we have new products including the pellet plant that gives an opportunity to grow our sales.

<Q>: And the second large pellet order, last quarter it kind of sounded like it was pretty close to heading towards a firm order. Coming out of the London conference, is that still in the works? Is it getting closer? How does that shake out?

Ben Brock – President and Chief Executive Officer
It is still in the works. I had a meeting with the customer there, our guys did and it's looking like it's this quarter. And as I mentioned in the comments, it is requiring a high level of patience for us as the permitting and their supply contracts get worked out, but they indicated that they are very close to going ahead.

<Q>: And just SG&A, David, appreciate all the details on what drove it, but the run rate of 41 is that still kind of how you are thinking about it going forward or do some of these change that at all?

David Silvious – Vice President, Chief Financial Officer and Treasurer
Yes. I think it could be slightly higher than that. I don't think it's going to maintain this high run rate but again there are a couple of wild cards in there. The health insurance kind of played havoc with us this quarter and that was certainly not something—we are self-insured company so it was not something which you can even mitigate. It is what it is so we are responsible for it. So I don't think it is going to maintain the run rate that we had in the first quarter but it could be slightly higher than the 41 on a run rate basis.

Operator
Our next question comes from the line of Mig Dobre with Robert W Baird. Please go ahead with your questions.

<Q>: This is Brian Brophy on for Mig. Just had a few questions on the infrastructure segment, sales were pretty strong this quarter versus last year. I was hoping you could elaborate on which product lines were driving that growth.

Ben Brock – President and Chief Executive Officer
Yes, Brian. As I mentioned in my comments, it was really a pretty good selling season for the asphalt plants so that's at the Astec Inc. division. But again typical back in the day here for Astec where we had what we used to call the summer doldrums, one of the concerns would be there that would you have the summer doldrums on the asphalt plants. The offset to that is the pellet plant, so if we could sell one or two those that would fill that up, but it was at the Astec Inc division in asphalt plants.

<Q>: And kind of dovetailing on that, is it possible that we could see the beginning of a large replacement cycle on asphalt plants even without a long-term highway bill. Can the stronger private markets and state initiatives provide enough confidence for your customers to drive that replacement cycle?

Ben Brock – President and Chief Executive Officer
Brian, I think we probably saw a little bit of that through this buying season, between that and their prices for liquid have gone down a little bit, we are seeing an average price, talking to different customers anywhere from—depending on part of the region you're in $400 to $500 or maybe use $450 a ton; that's down. So that's helping them a little bit. So, yes, I think that could happen. And you know how we are, we travel a lot so seeing some customers during the quarter, there are some initiatives being taken at a state and local level to help with construction of infrastructure. And so yes we could definitely see that, but I think it would take a highway bill to make it a consistent demand through a few years. I think you still see when they get into their season, there will be seasonality in asphalt plant purchases because they will be focused on doing the work.

<Q>: Then on the wood pellet plants, you mentioned you are expecting to get an order this quarter. Would revenue be recognized this quarter as well or would that be pushed out to a different quarter?

Ben Brock – President and Chief Executive Officer

No. Brian, I think the sooner it is the better chance we have of recognizing any revenue in the year, not the quarter, so the best case to be recognize part of it in the fourth quarter and the rest of it in the first part of next year.

Operator
Our next question comes from the line of Nick Coppola with Thompson Research. Please go ahead with your questions.

<Q>: Aggregate and mining continued to see some nice double-digit year-over-year growth. What were the key drivers in that segment and were there certain customer types or end markets that really drove that?

Ben Brock – President and Chief Executive Officer
They really have been pretty balanced in the quarter where their equipment went. There were some larger projects and then a lot of onsite crushing contractor-type crushing sales so they targeted I think— it was kind of a balanced quarter. Going ahead one of the challenges for that group if oil stays down, they were pretty successful on the oil regions in the US and that could be a concern for us. It is not there yet, and there is still decent activity but that's been a place where they have been pretty strong is supporting that business, too. And that group would be a dealer network supporting that business.

<Q>: And then second question also kind of regarding oil. In the energy segment, where are you looking for growth in 2015 and I am just trying to understand where in that segment oil prices may have a bigger impact and where it may have a kind of less significant impact?

Ben Brock – President and Chief Executive Officer
Right. In that group, we have products in the heating side targeted at not just oil production but also gas processing and chemical businesses and food processing businesses. And then one other thing that David mentioned was a new product introduction in the energy group which it is a piece of energy group and it is in there because it was CEI that builds heaters and tanks and that's going into the energy side. They also do a lot of work with asphalt blending and some terminal work. But the one thing that they are transforming and building, too, is a concrete plant. And number one for them we moved the concrete plant that we started to build at Astec to CEI because Astec focused on the pellet plant. And now that's good because we have the focus on that, but on the other hand that's a new product first time for them so you get a hit on that in the quarter, but long range next year it is going to feel a lot better because they will be through that process and be a good supplier of new technology for concrete production.

So there will be some growth that comes out of that. And in the Peterson business for the wood chipping and the grinding they are doing some good R&D on some new equipment that would come out end of this year, so there will be some growth from that. So there is some good R&D going on in that group.

Operator
Our next question comes from the line of Ted Grace with Susquehanna. Please go ahead with your questions.

<Q>: Ben or David, could you maybe just talk about how 1Q performed to plan and how you are tracking the debt? I apologize if I missed it, but I know you feel cautiously optimistic within the first half and prospectively the second half. But could you just help us understand mark to market where you are, relative to where you thought you would be?

David Silvious – Vice President, Chief Financial Officer and Treasurer
There are a lot of variables in there. That's a loaded question. Yes, I think we're pretty positive on where the year is going. Again there are headwinds, there are FOREX headwinds, we have put a lot into international growth,

into putting people overseas to developing those markets in those geographical regions and we think we are ahead even though we have those headwinds, we think we're ahead of obviously where we would have been, had we not made those investments. So I think when you compare to plan internationally I think we are doing well.

Domestically, again the highway bill gets a lot of discussion and lot of talk, the states are really driving a lot right now because they are being proactive and they are being very creative in the way they are having to finance highways and their piece of it because it is not something that's going to be able to sustain itself. We are going to have to have some expenditures in some form or fashion so we would love to see a gas tax, a user fee adjustment but we are happy to work with whomever and provide the equipment is going to be the most efficient to build these roads in the least costly manner. So I think domestically we are holding our own. Overall, I would say that relatively to where we think we should have been, we are where we think we should be. And we are poised to take advantage of any uptick.

<Q>: And on a related basis, just in terms of on the competitive front, can you maybe talk about what you are seeing in the core businesses, whether it is paving equipment or AMG, where it is more competitive and a more fragmented market? Can you just talk about what you are seeing on that end?

Ben Brock – President and Chief Executive Officer
We are still seeing competitors, and just about every segment of our business has strong competition. And even on asphalt plants where the competitive landscape maybe a little smaller we have—contractors are pretty shrewd buyers and we have competition on every deal. Where we thought about was with the euro and the dollar and lot of European competitors coming at us in the US particularly on the mobile paving side, it was already competitive. So we haven't seen that change, so the pricing's still very competitive.

<Q>: And the last thing, if I could just squeeze it in and Ben, you have been at this company your whole career and you have been CEO for the last 15, 16 months. Could you just maybe talk about what your vision is for the company in the next 10 years? And I realize that could be a really long-winded question, but just where do you see yourself taking Astec with the team, whether it's financial metrics that you are aiming for or end market diversification that you are targeting? I guess it would be interesting to hear where you see the greatest opportunities over the longer term.

Ben Brock – President and Chief Executive Officer
Well, that is a good question, Ted, and in the short term I feel like one of our goals needs to be to try to get back to historical higher gross margins in the 25% range. And the things that we are doing to get there is a lean effort working on how we are purchasing things. You can hurt yourself little bit with purchasing because sometimes the cheapest thing isn't the best thing because long term you need quality, too, to be able to be in business down the road. I want us to be doing a better job in parts and supporting customers and also get better on competitive parts. And so those things—they may seem short term but they take a little longer to get done.

Our target over the years, 15% growth a year, 10% through organic and 5% through acquisition is still a good target in my mind and if we could do that, we would double our size every five years. It is more challenging on the acquisition side than it was maybe 10 years ago because of the private equity money that's on the side line, so as we look at companies we have to be more creative and think about things. But, the other thing I would tell you is we probably have a little bit bigger appetite today for a larger acquisition than we did in the past. So we would take on a little bit of debt to do that. But we are not willing to bet the company over it so, I think there are some things that maybe give you insight how we are thinking and we are conservative by nature and that's not going to change but we could maybe be a little more aggressive on the size of the acquisition we would look at.

Energy infrastructure and mining are the industries that we are focused on. We are not looking to get outside of that, if our city is infrastructure, energy, and mining, we are not going to want to get much outside our metropolitan area as an example. That's not to say we wouldn't take a look but it would have to make a lot of sense to do that. So those are just a few of the things that hopefully give you a little insight to how we think.

Operator
Our next question is from the line of Larry De Maria with William Blair. Please go ahead with your questions.

<Q>: Just a clarification, first, in the pellet plant orders, the potential anyway. Would you issue a press release for it? And remind us how many lines we would be looking at.

Ben Brock – President and Chief Executive Officer
We would and of right now it looks like it is a three line.

<Q>: And then, as we're getting closer to a long-term highway bill possibility, can you just help us understand better the impact and exposure maybe to public and private highway spending, maybe help us with the size of public versus private that you guys have and how far off peak we are in both of those? Just so we want to try to gauge, obviously, sensitivity to the P&L, should we get a longer-term bill later this year.

Ben Brock – President and Chief Executive Officer
Our infrastructure group would be more closely tied to the highway bill than most in our company although the aggregate group which supply the equipment to the quarries that will crush the rock for any roads or bridges or sub grades that would be put in as a result of highway bill. So to quantify it, I wish I had the crystal ball because I would tell you I know that there is still a lot of pent up demand in traveling around and talking to customers. I know that our customers' equipment is running higher capacities from being out there. And I do think if we got a highway bill we would see a quick increase in larger cap ex orders and then a little bit of a break while people figure out where the work is going to be let. And then with the right bill we probably have a couple or three years of a good run, probably both infrastructure and the aggregate side of our business.

To put a percentage on it not knowing what the bill would be, it is impossible to say but it would be very good for us. I can give you a little bit more, you didn't ask but I would tell you kind of what we are hearing on the bill, there was a fly-in of the Transportation Construction Coalition last week and we had several of our division presidents attend. That's why we think it looks like an extension to May 31st. We definitely see and feel and hear a desire by our representatives and we have divisions in multiple states, so there are multiple states in this comment but from congressmen and senators that there is a desire to put a long-term bill in place. It is how to fund it is the big question. Everybody seems to be scared of the gas tax and people are throwing out tax reform tied to it or repatriation tied to it.

At the end of the day it is who will walk the plank and be the one to say this is what we are going to do and put it out there for a vote. And the associations and I have talked to a large association yesterday, they are seeing the same thing. They are telling us they see a small crack in the door for some kind of bill by May 31st, that's not what we are hearing from our representatives but the associations liked the TCC fly-in tone and they feel like it got attention like we haven't had in the past because the tone was maybe slightly angry, people that we are talking to, their representatives. And that kind of took the representatives and the senators by surprise to the point that there was a fundraiser, where one of the guys came into the meeting and it was kind of lighthearted and when he left, he was not so glad he came to the meeting.

So I think they got their attention, and my opinion is we are going to need a highway bill to happen by August or we'll be in extensions until after the presidential election because nobody will want to touch it. The rest of the story is that Congress and DC has proven that they will do extensions. So if they do that, that means a lot of mill and inlay work and we build equipment that's wheelhouse for mill and inlay work. So it is not the end of the world if it's extended, it would just be a great world or better world I guess if we had a long-term highway bill and that's just not for Astec industries, I mean that's the country. We travel to a lot of states and I can tell you the roads are coming apart and you don't want to look underneath the bridges you're driving over. And at some point Congress has to wake up and do something because it really is getting bad.

So anyway you didn't want that comment I am sorry. I am on my soapbox but we just need to do it. And it is not just for Astec, it is for the country.

<Q>: Thank you very much. That's really, really helpful. I appreciate it. Just the last thing, obviously the states have picked up a lot of the slack due to what's going on in the federal side. Is that a structural shift or does that come down if we get a longer-term bill and the states pull back on their spending, or is that just a structural shift now?

Ben Brock – President and Chief Executive Officer
I think once it gets into place and if the states continue like—we were in the Dakotas earlier this quarter and South Dakota I think is one that had just put in a $0.06 a gallon gas tax increase. If they'll keep it in the roads people are okay with that. It is when they siphon it off and take it to general fund and people stop trusting them and then it doesn't get approved down the road. So I think it becomes more permanent if they keep spending it on roads and people see the results. And the states will still have to match federal funds, so the things that they are putting in place now that are helping shore them a little bit will actually need to be in place to help them meet their matching funds on the other side of the federal highway bill, too. So it is good that that's happening before the bill.

Operator
Our next question comes from the line of Brian Sponheimer with Gabelli. Please go ahead with your questions.

<Q>: I guess just one on the potential for another pellet plant. If you were to get this order, would all three lines be immediately added to your backlog?

Ben Brock – President and Chief Executive Officer
Yes.

<Q>: Do you anticipate funding this in the same manner that you did the first three lines?

Ben Brock – President and Chief Executive Officer
No. Our customer has their own financing. So we really don't intend to be in the pellet plant finance business. And fortunately the people that we picked up some additional leads while we were at the conference and everyone we were talking to has their own funding.

<Q>: So, could you just very quickly explain the differences from an accounting perspective as far as how this would flow through your P&L versus your first plant?

David Silvious – Vice President, Chief Financial Officer and Treasurer
Yes. I can explain that. In the first plant we are financing that and so you have to defer the revenue because it is essentially our plant until we finish it and they get their financing and once that financing is in place we can recognize the revenue. On these other plants, once we deliver the facility which we've already done for the initial plant that we're financing, but for these additional plants once we deliver those we would recognize the revenue because the financing would already been in place with the third party. So that's the fundamental difference right there.

<Q>: So this isn't a pay-as-you-go, either. You set up a line and send them an invoice and they pay you for the whole thing and that's that?

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

Operator
Your next question is coming from the line of Stanley Elliott with Stifel. Please go ahead with your questions.

<Q>: Quick question, I hate to go back to the wood pellet piece, but on the permitting or the customer that you are thinking will have the order by the end of this year, they have both their permitting secured already and their financing secured? I just want to make sure that I heard that correctly.

Ben Brock – President and Chief Executive Officer
Well, I would tell you that and the answer that would be 95% on both and about the same on their supply contracts, so they are very comfortable where they are.

<Q>: Then you talked about getting the gross profit back up to 25% as a near-term goal. There is lots of momentum on this pellet business. Is it a matter of flipping the switch once you get the one that's in testing right now, maybe another one or two lines or plants, actual plants going, that you can get up to that 25% threshold or is it that some other parts of the energy business need to help pick up some of that slack?

Ben Brock – President and Chief Executive Officer
With the pellet plant when we're successful and get one sold and it comes through will show up in the infrastructure group through the Astec Inc because they are the lead seller of the equipment. So it will show up in infrastructure even though the product is for energy. So the opportunity for us is the first one out of the gate was in the range of normal margin on the site as a first one. We've taken our punches and getting it all lined out and getting it running. So we have an opportunity to be back in line with the historical margins in the course of the second plant, the one that we are selling now. But we'll have to do a lot of things right and we will be focused on it. But we have the opportunity to do that on this one that we are getting ready to sell. It won't be home run type margins but we can get it back in line with our traditional margins.

<Q>: I apologize if you guys said something about this earlier, but what sort of benefit could we possibly see from lower input costs, steel, etc., in the back half of the year?

Ben Brock – President and Chief Executive Officer
Right now, we are seeing steel prices down a little bit as we travel around the divisions. One of the challenges we have goes back to the question about competition in pricing and we are still seeing quite a bit of competition. So we are going to try to get the advantage where we can but to a certain extent—I hate to say we give it away we are trying to keep it but we are facing pretty stiff competition in a lot of places, too.

Operator
Our next question is from the line of Brian Rafn with Morgan Dempsey. Please go ahead with your questions.

<Q>: Give me a sense, you talked a little bit about—I was going to ask you about the price elasticity on the infrastructure with the construction and engineering side, road builders or pavers and that type of thing. You talked about them being very shrewd buyers and certainly having stiff competition. I am wondering you guys develop a lot of new products. What is the receptivity of some of the road builders adopting new product given how competitive they are and how price elastic they are? Are they deferring any when you guys bring out a new

product line? Is the deference today different than maybe their adoption might have been when markets were a little stronger?

Ben Brock – President and Chief Executive Officer
What we are seeing is if we have a new product like our hot recycle asphalt plant system that what we call the V-flight system, that ties the inside the drum, the flights have a new design and then we tie that design in with VFD on our drum which is more detail than you probably ever wanted but we can run higher recycle from zero up to 65% through an existing style drum. There is a great reception to that and so we do okay on that. The problem with that particular one is the price isn't high enough. We need to sell lot more of it to make a difference on the top line but we've seen good reception to things that help them lower their cost and be more competitive to win more work, win more business.

<Q>: On a regional basis, there are some states where the DOTs have been pretty aggressive - Texas, Florida and Wisconsin. Are there pockets of strength where you are seeing better business versus maybe other areas where states, maybe the DOTs aren't as aggressive in the infrastructure build?

Ben Brock – President and Chief Executive Officer
Yes, and you named some of those states. I mean Texas is one where we have done very well. We have done well up in the Dakotas, in the Midwest, in general. On the West Coast, California on the infrastructure side not so much, although we did deliver a larger asphalt plant to California during the quarter. But that's been few and far between delivery. And that holds true even when there is a big highway bill because different states are in different positions, so there are hot areas and not so hot areas even when there is a highway bill but the middle part of the US has been good for us.

<Q>: Yes. Let me ask you, going back to the highway bill, as you look at your discussions have really been about timing. I think you made a very good comment if we don't get something by August, this may be it for this administration. From the standpoint of what kind of dollar volume or what kind of dollar—if you look at Army Corps of Engineers, if you look at Obama's shovel ready, you have numbers on a six-year highway bill that are all over the map. What is your sense of if we get a bill, what might we see in total dollars for the bill?

Ben Brock – President and Chief Executive Officer
Brian, it depends on the years that they went because we've heard everything from a four to five to a six-year bill and this is just an educated guess but my guess would be about $50 billion a year. I don't have anything in writing or anything other than just hearing what I am hearing and that's just a pure opinion.

<Q>: Let me ask if we don't make August and we're back to as you said the milling and inlay business, is there any point where equipment becomes critical from a standpoint of if you say that you are seeing higher capacity utilization, the private business is coming up? At what point if we don't have a six-year bill is there some incremental secular buildup or might that be it for the entire administration? Might we be that sluggish for the next two or three years?

Ben Brock – President and Chief Executive Officer
I think there are two pieces to that because you've got the private side and the public side and it seems like for our customers in the private economy is staying pretty consistent and that's been a pretty good base for them now for a little while. And then you've got the states with their funding mechanisms that they're starting to put in place and then the federal government. I think if there are extensions, the base is in place for everything to be okay and then our job and our place is to have the new product releases that working on come out to help create additional demand to the normal demand that comes in a stable market. And those are the things that we're working on in our different divisions right now.

<Q>: Let me ask you a dumb question. Every time I see Tennessee's Bob Corker on the TV talking about Iran, was he the lead guy in this highway bill, or is that just your representative from Tennessee? And if he is mitigating deals with Iran, does that at all take away his leadership from the highway bill?

Ben Brock – President and Chief Executive Officer
That proposal never became a bill, that they kind of put out a written proposal saying, hey, we'd like to see $0.12 a gallon gas tax increase over two years and that was Senator Corker and Senator Murphy, Murphy is out of Connecticut and Murphy is a Democrat and Corker is a Republican, so it was bi-partisan. I think it is fair to say that as with his Foreign Relations Committee assignment that he is little more focused on the international and what's going on there. But I wouldn't say that his staff is not less focused. In talking with them they are still a very vocal supporter of the highway funding and we talked to them within the last week really, and they are still very much a supporter behind the scenes.

<Q>: If you look on the infrastructure side, is there anything in this market of extensions, product lines that are doing better than maybe small pavers versus larger pavers or types of hot asphalt mix plants or is it each quarter is very different in the product mix?

Ben Brock – President and Chief Executive Officer
Brian, we are seeing pretty consistent market share gains in small pavers and in larger pavers, too. So that would be the Carlson pavers on the small side and the Roadtec on the larger side. And we are seeing good market share on the milling machines. And we've been very pleased with how both those companies are doing.

<Q>: And just one final. Your sense again from a 50,000-foot view, your capacity utilization, how many shifts are you running, infrastructure versus energy and mining, your three basic segment business?

Ben Brock – President and Chief Executive Officer
Sure. Overall on average in every group we are running around 70% to 75% utilization. Of course we have some divisions that aren't running that much but that would be a pretty fair average.

<Q>: Any hiring at all, headcount this year, or pretty stasis?

Ben Brock – President and Chief Executive Officer
We will do it as demand requires. We are in a couple of markets where it is a challenge to hire, South Dakota is a challenge to hire and Oklahoma has been probably less of a challenge with oil where it is. Other than that I think we will be able to find the right level of labor.

Operator
Thank you, ladies and gentlemen. This concludes today's question and answer session. I would like to turn the floor back to Steve Anderson.

Steve Anderson – Director, Investor Relations
Thank you, Brenda. We appreciate everyone's participation on the first quarter call and thank you for your interest in Astec. As our news release indicates today's call has been recorded. A replay of the conference call will be available through May 5, 2015. And an archived webcast will be available for 90 days. The transcript will be available under the Investor Relations section of the Astec Industries' website within the next seven days. All of that information is contained in the news release that was sent out earlier today.

So this concludes our call. Thank you all. Have a good week.