Transcript of
Astec Industries
Third Quarter 2015 Earnings Call
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Participants
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David Silvious – Chief Financial Officer
Ben Brock – President and Chief Executive Officer
Rick Dorris – Executive Vice President and Chief Operating Officer

Analysts
Schon Williams – BB&T
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Joe Grabowski – Robert W. Baird
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Ted Grace – Susquehanna
Brian Sponheimer – Gabelli & Company

Presentation

Operator
Greetings, and welcome to the Astec Industries Third Quarter 2015 Earnings Conference Call. At this time all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. (Operator instructions.) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Steve Anderson, Vice President and Director of Investor Relations. Thank you, sir, you may begin.

Steve Anderson – Vice President of Administration and Director of Investor Relations
Thank you, Christine. Good morning, and welcome to the Astec Industries Conference Call for the third quarter that ended September 30, 2015. As Christine mentioned, my name is Steve Anderson. 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 third 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 will turn the call over to David to summarize our financial results for the third quarter.

David Silvious – Chief Financial Officer

Thanks, Steve, and good morning, everybody. Thanks for being with us this morning. Net sales for the quarter were $211.4 million compared to $220.2 million in the third quarter of 2014. That's a decrease of 4%, or $8.8 million decrease. International sales were $55 million compared to $77.6 million for Q3 last year. That's a decrease of 29.1%, or a $22.6 million decrease. International sales represented 26% of Q3 sales this year, and 35.2% of Q3 sales last year. The decrease in international sales compared to Q3 of last year occurred primarily in Canada, in South American countries other than Brazil, and in Australia. And those decreases were offset by increases in Europe, in Southeast Asia, and in Africa.

Domestic sales for the quarter were $156.3 million compared to $142.6 million in Q3 of last year. That's a 9.6% increase, or a $13.7 million increase. Domestic sales represented 74% of Q3 sales this year, and 64.8% of Q3 sales last year.

Part sales for the quarter were $62 million, compared to $61.5 million for Q3 last year. That's an increase of slightly less than 1%, or a $500,000 increase. Part sales represented 29.3% of Q3 2015 sales compared to 28% of Q3 2014 sales.

The foreign exchange translation of our foreign entity sales had a negative impact on those sales for the quarter of about $5.3 million. Now that is if the current year sales were translated at last year's rates they would have been $5.3 million higher. On a year-to-date basis net sales were $768.1 million compared to $736.1 million for the first nine months last year, a 4.3% increase, or a $32 million increase.

International sales on a year-to-date were $206.1 million, compared to $233.4 million for the first nine months last year. That's a decrease of 11.7%, or a $27.3 million decrease. The year-to-date decrease in dollars for the first nine month periods comparably occurred primarily in Russia, in South American countries other than Brazil, in China, in Southeast Asia, and in Mexico. Those decreases were offset by increases in Europe and the Middle East. International sales represented 26.8% of sales year-to-date, compared to 31.7% of year-to-date sales last year.

Domestic sales for the first nine months of 2015 were $562 million, compared to $502.7 million last year, a $59.3 million increase, or an 11.8% increase. Domestic sales were 73.2% of 2015 sales, compared to 68.3% of sales for the same period last year.

Part sales were $202.5 million for the first nine months of this year, compared to $191 million for the first nine months of last year, a 6% increase, or $11.5 million increase. Part sales for the year-to-date period were 26.4% of total sales, compared to 25.9% of total sales for the first nine months of 2014. Again, the foreign exchange translation of the sales of our foreign entities had a negative impact on sales for the first nine months of the year of $12.6 million. If they had been translated at last year's rates at 9/30 our sales would have been $12.6 million higher.

Consolidated gross profit for the quarter was $45.1 million, compared to $43.3 million, an increase of 4.2%, or a $1.8 million increase in gross profit. The gross profit percentage was 21.4%, compared to 19.7% for Q3 of last year. The absorption variance for the quarter was about $5.4 million unabsorbed overhead, compared to a $5 million number in the same quarter last year. So, we had a negative variance there of about $400,000. The foreign exchange transactional gain or loss that is in the income statement was $267,000 this year in Q3, compared to $712,000 in Q3 of last year.

Year-to-date gross profit was $173.4 million, compared to $162.2 million last year, an $11.2 million increase, or a 6.9% increase. That resulted in a gross profit percentage for the first nine months of 22.6%, compared to 22% for the same period last year. The absorption variance this year was $9.9 million through the first nine months, unabsorbed overhead, compared to $11.1 million unabsorbed overhead in 2014, a positive change of $1.2 million.

The foreign exchange transaction gain or loss that's in the income statement in 2015 for the year-to-date period is $817,000, compared to a $1.102 million last year. Those are all losses, by the way, on the forex.

SGA&E for the quarter was $41 million, or 19.4% of sales, compared to $38.9 million for the third quarter of last year. That's 17.7% of Q3 2014 sales. That's an increase of $2.1 million, or in percentage of sales terms a 170 basis points increase. The drivers of the increase in SG&A Q3 versus Q3 are primarily repairs and maintenance expense, and some payroll and related benefits expense, including health insurance, totaling about $2.8 million. For the year, SG&A is $128.1 million, or 16.7% of sales, compared to $122.5 million last year, or 16.6% of sales. That's a $5.6 million increase, or flat as a percentage of sales.

The drivers there, recall that last year we had Con Expo, which was about a $4 million charge in the first quarter of 2014, and this year we have, you recall discussions last quarter, computer and consulting type expenses related to ERP implementations, increased health insurance expense, and various payroll and benefit related expenses in addition to repairs and maintenance expense during the quarter, which totaled about $9.8 million.

Operating income for the third quarter of 2015 was $4.1 million, compared to $4.4 million last year in Q3. That is a $300,000 decrease, or a 6.8% decrease. Year-to-date operating income was $45.3 million, compared to $39.7 million last year, an increase of $5.6 million, or a 14.1% increase in operating income. Interest expense for the quarter was just over $500,000, compared to the third quarter of 2014 interest expense of $193,000, a $312,000 increase. And on a year-to-date basis it was $1.222 million compared to $375,000 last year, an $847,000 increase. The primary driver of that interest expense is currently the debt that we have in Brazil to get that facility built and up and going.

Other income, net of other expense for the third quarter is $844,000, compared to $860,000 for Q3 of last year, and year-to-date it's $3.2 million compared to $2.4 million for the year-to-date period last year. The primary source of that other income is license fee income, investment income in our captive insurance company. But do recall that earlier this year the year-to-date amount in 2015 includes key man life insurance proceeds that were recognized in the first quarter for approximately $1.2 million.

The effective tax rate for the quarter is 52.5% compared to 64% in Q3 of last year. And the year-to-date effective tax rate is 38.8%, compared to 37.9% for the year-to-date period last year. So, the effective tax rate, again, and the explanation is the same for both third quarters, was impacted by the net operating losses of certain of our foreign companies in those foreign tax jurisdictions that could not be utilized to offset the taxable income here in the US. And there were various true-up adjustments related to prior year tax filings. So, also recall that neither of the years during Q3 had the research and development tax credit in it, since that credit was not approved by Congress at September 30 in either of 2014 or 2015.

Net income attributable to controlling interest is $2.3 million in the third quarter of 2015, compared to $1.9 million in the third quarter of 2014. That's a $400,000 increase, or a 21.1% increase. Diluted earnings for the quarter were $0.10 compared to $0.08 in Q3 of 2014, a $0.02 increase, or a 25% increase. On a year-to-date basis net income attributable to controlling interest is $29.2 million, compared to $26 million last year. That's an increase of $3.2 million, or 12.3% increase in net income year-over-year. Diluted earnings per share for the year were $1.26, compared to $1.12 last year. That is a $0.14 increase, or a 12.5% increase.

EBITDA for the quarter was $10.8 million, compared to $11.2 million last year, a decrease of a half a million dollars, or a 4% decrease. On a year-to-date basis EBITDA is $66.1 million, compared to $59 million for the first nine months last year, a $7.1 million increase, or a 12.2% increase.

Our backlog at September 30 of 2015 is $245.6 million, and that compares to $295 million at September 30 of 2014, a $49.4 million decrease in backlog, or 16.7% decrease. International backlog at September 30 of 2015

was $58.1 million, compared to $105.8 million at September 30 of ’14, a decrease of $47.7 million, or a 45.1% decrease.
The September 30 domestic backlog was $187.5 million, compared to $189.2 million at 9/30 of 2014, a decrease of $1.7 million, or slightly less than a 1% decrease.

Sequentially, the September 30 of 2015 backlog compared to the June 30 of 2015 backlog of $229.5 million was a $16.1 million increase, or a 7% increase. The foreign currency translation impact on the backlog compared to 9/30 of last year was a decrease of $7.4 million. So, again, if the backlog was translated at last year’s rates for our foreign subsidiaries it would have been $7.4 million greater.

Our balance sheet continues to be very strong. We have receivables of $105.2 million, compared to $108.8 million at 9/30 of last year, a decrease of $3.6 million. The days outstanding are 45.9 this year, compared to 45.5 last year at 9/30. Inventory is at $384.5 million, compared to $370.4 million at 9/30 of 2014, a $14.1 million increase. The turns are at 2, compared to 2.1 turn at 9/30 of 2014.

At September 30 we owed $1.3 million on our $100 million domestic credit facility, and we had $14 million in cash and cash equivalents. Our letters of credit outstanding were $14.5 million, and our borrowing availability is in $84.2 million at 9/30 of 2015.

Capital expenditures were $4.8 million for the quarter, compared to 2015, and capital expenditures for the year-to-date period through the first nine months is $15.5 million, comparing that to the budget for 2015 that we had discussed previously of $30.2 million, however we don’t believe that we’re going to end up spending that much. We think we’re going to end up somewhere in the $20 million range.

Depreciation for the quarter is $5.1 million, and for the year-to-date period it was $15.5 million. We had budgeted for 2015 $23.1 million in depreciation, but with the sale of the Loudon facility and the reduction in fixed assets there we believe we’ll end up somewhere just north of $20 million in depreciation for the year.

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

Steve Anderson – Vice President of Administration and Director of Investor Relations
Thank you, David. And now Ben Brock’s going to provide some comments regarding the third quarter of this year’s operations. Ben?

Ben Brock – President and Chief Executive Officer
Thank you, Steve. Thanks to everyone for joining us on our call today. As we mentioned in our earnings release this morning, we were pleased with our third quarter results given the headwinds that we’re facing in oil prices, the global mining slowdown, the strong US dollar, and the absence of a long term highway bill in the United States. We were pleased with our year-to-date earnings per share, which were up 12% versus last year. In the third quarter earnings per share were $0.10 a share, versus $0.08 in the third quarter of last year, for an increase of 25%. Our year-to-date earnings per share at $1.26 versus $1.12 last year was an increase of 12.2%. And our year-to-date EBITDA is at $66.1 million, versus $58.9 million last year, for an increase of 12.2%.

Our backlog at September 30th was $245.6 million, which is down 16.7% versus last year. Our domestic backlog was down about 1% year-over-year, and our international backlog was down about 45% versus last year. Internationally our backlog remains down about the same percentage that it was down at the end of the second quarter, primarily due to the strength of the US dollar and the global mining slowdown. Regarding our international sales quoting activity in that side of our business remains active. Our Astec do Brasil facility is in the process of building a large aggregate processing plant and two hot-mix asphalt plant orders.

Our domestic backlog was down at the end of the third quarter; however, order intake has been good in our infrastructure and aggregate group since October 1st. Order intake in our energy group has remained soft. We continue to hear from our infrastructure customers that they are experiencing good business levels in the United States, particularly on the private side of work, along with good maintenance contracts in states that have increased funding through gas tax and/or other mechanisms. This has been generally good for our infrastructure business. However, large capital projects are hampered by the lack of a long term highway bill in the United States.

While it will take a long term highway bill to bring sustained growth in those large cap ex spending projects by our Infrastructure group customers, we have seen a slightly stronger hot-mix asphalt plant market this year versus last year. With regards to the highway bill, we continue to stay in close contact with our elected representatives in Washington, D.C., and we are encouraging our customers, vendors, and other industry members to do the same through our Don't Let America Dead End effort. More info on this can be found on our dontletamericadeadend.com website.

The current highway bill extension expires on October 29th. We anticipate that Congress will pass their 35th straight extension before it expires. We believe this extension will be very short, about a month in length, which will give Congress one last chance to pass a long term highway bill by the end of this calendar year.

Our optimism on a long term bill passing this year remains in place. However, should one not pass before this calendar year end, we do not envision Congress passing a long term bill in 2016 due to the presidential election 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're maintaining our international effort despite the challenge presented to us by the strengthened US dollar and depressed mining industries in some of our key markets. Our lower backlog in international is a direct result of those two developments. Our lower backlog in domestic was primarily due to the lack of a long term federal highway bill and low oil prices.

Updating everyone on our pellet plant that we delivered to Hazlehurst, Georgia, in addition to line one that has run, line two is now running, and has also met the production target in early startup. Line three is nearly installed in full, and near the testing phase. We did experience a slight delay in line three as we focused on line two startup. As a continuing reminder, it is a new product that we have chosen to finance. As a result we recognize the revenue for this plant as we're paid. This will have an effect on our cash and our inventory until it's paid in full. And as a reminder, the order for all three lines was for $60 million.

As for the timing of this recognition of revenue, we have verbally agreed with the customer to allow them more time before taking us out of the financing. We anticipate the final agreement to reflect full payment by mid-2017. As a reminder, the interest rate on the note is 6%. By agreeing to the longer term we'll help our customer retain more favorable financing by mid 2017, if not before.

We announced the sale of a new $30 million pellet plant during the third quarter to Highland Pellets. We're working to ship this order in the fourth quarter of this year, and we expect the gross margin on this sale to be in line with our infrastructure group gross margins.

Based on our current pellet plant quote activity and length of time it has taken from quote to contract on our previous orders, we believe that we will sell our next pellet plant in the first half of next year. When we secure the next pellet plant order we will announce it to the market.

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

On the energy side, we remain challenged in our drilling and pumping equipment with regards to shipment to margins in the third quarter and we are not immune to the current level of practice with regards to our oil drilling and pumper business. As a reminder, as a result of the price of oil 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. This closure was completed on May 31st. The product lines and related inventory at Loudon have been relocated to our GEFCO Enid facility in Oklahoma, and the main product lines at Loudon were oil drill rigs and pump trailers.

As an update on the Loudon facility, and as David mentioned late in his comments, we closed on the sale of the facility last week. The sale was for $10 million. We expect to have a gain of approximately $450,000 on the sale of the facility.

In other energy group news, we saw stable sales in heaters for food processing and chemical plants, and reasonable sales of wood chippers and grinders. We remain optimistic on our outlook and our energy group in the long term.

Looking ahead to the fourth quarter of 2015 and the start of next year, we have seen a lower backlog at the end of the third quarter. However, we are encouraged by our opportunities on pellet plants, recent hot-mix asphalt plant activity, and our new product development in all groups. We believe that our fourth quarter of 2015 will be in line with our fourth quarter of 2014 and that we will remain ahead of our year-to-date performance last year at the end of the fourth quarter this year.

As mentioned earlier in my comments, from our last earnings release to now, orders have been slower during the last three months, mainly due to the strong US dollar, the highway bill extension, oil prices, and the global mining slowdown, with the exception of three areas, as mentioned: complete hot-mix asphalt plants which have been okay during this season so far and to this day, but have also continued to lag historical levels due to highway bill uncertainties; our wood chippers and grinder business; and wood pellet plant quoting activity which increased during the quarter.

We continue to see growth opportunities in pellet plants, large crushers for mining, despite the industry and the mining industry being down, high recycle asphalt plants, small commercial paving equipment, concrete production facilities, and aftermarket parts and service. As a reminder, we delivered our first large concrete production facility during the second quarter from our CEI division. We see concrete plants as a growth area starting in 2016, but we are excited to have our first new plant from CEI delivered to our customer. The plant was sold for $1.7 million.

Part sales increased in the third quarter by 1% versus the third quarter of 2014, and our year-to-date part sales have increased by 6% versus last year. We remain committed to improving our part sales volume in the long term, along with working to increase our competitive part sales not only in the United States but around the globe. We continue to see results of our lean effort helping us be a better company, and we continue to focus on our gross margins as well.

Looking to the whole of 2015, we remain optimistic that we will end the year ahead of 2014 despite our backlog level at the end of the third quarter. And again, this is despite the current state of the highway bill in Washington, D.C. The majority of our customers are experiencing a stable private market, and we are focused on selling existing and new products not only in the United States but around the globe, although as we mentioned we are facing a currency challenge at the moment internationally.

We're also focused on growing our product sales targeted at multiple energy segments that are not dependent on the highway bill. Given the backlog and headwinds we are facing, we are working to manage the business to the market conditions where business warrants. To that end, we have had staff and/or work hour reductions at the most affected divisions. Acquisitions remain a key piece of our growth strategy, along with organic growth, through new product introductions like the CEI concrete plant and our new Astec Double Barrel XHR High Recycle Asphalt plants, along with targeted sales growth efforts in the United States.

That ends my comments on the quarter, the year, and what's in front of us. 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 – Vice President of Administration and Director of Investor Relations
Okay. Christine, we're ready for questions if anyone has some.

Operator
Thank you. We will now be conducting a question and answer session. (Operator instructions.) One moment, please, while we poll for questions.

Thank you. Our first question comes from the line of Schon Williams with BB&T. Please proceed with your question.

<Q>: Hi. Good morning, gentlemen. I wonder, just a little bit more clarity on the push out on the pellet plant in Georgia. I just want to make sure I understand. So, construction is still set to be finalized in mid-2016, but the customer has asked you to delay until 2017 in terms of final payment. Is that the correct interpretation?

Ben Brock – President and Chief Executive Officer
Yes, Schon. This is Ben. We will probably have it all running by the end of the first quarter, all three lines. They asked us for more time to get a more favorable rate from the bank. They're talking to a couple of banks. We have a 6% note on it. At the end of the day, they got us into the business. They helped us a lot. They helped us on the $30 million order with site visits with that customer. So, we verbally agreed that with the interest rate being what it was we thought it was the right thing to do.

I think they can potentially take us out earlier than mid-2017, talking with them, but that's what they've asked for. And we're still working through the details, but that's essentially where it will end up. They have sold well over 100,000 tons of pellets out of line one, and they're selling pellets out of line two already. So, we're encouraged about where they are and we felt like it was the right thing to do with them.

<Q>: Okay. And do you have any concerns if there's any, I guess, financial distress at this customer that they wouldn't be able to eventually pay on this order?

Ben Brock – President and Chief Executive Officer
No, no, we don't.

<Q>: Okay. That's helpful. And then I wonder if we could just dig into what the aggregate side of the business looks like versus mining. I would suspect that obviously based on your commentary the money side is quite weak. But, I don't know, is the aggregate side of the business actually running up and then that's just being more than offset by the downside in mining? Maybe just a little bit of commentary there. And then I know that weather was an issue with aggregates in the spring, is that still an issue as we've moved into the summer and the fall here? Just any commentary there would be helpful.

Ben Brock – President and Chief Executive Officer
Sure, Schon. This is Ben again. We've been to all our divisions in North America in the last three weeks and visiting with our aggregate group guys. This summer we hit the traditional summer doldrums, and on top of that internationally with mining being off that affects a lot of different things, so it affects our infrastructure side too, which would be the quarry type aggregates, that type of construction, and then you've got the building construction that goes off with that in some of our key markets. So, it was almost a perfect storm.

We had a few of our guys say "We're glad the third quarter's behind us," but I mentioned that orders have been pretty good since the first of October. The aggregate group has seen a much better order intake since October started. And you look at the mining side, you have prices for iron ore, and copper, and commodities being down, but the fact is that the large mines are pushing volumes higher to try to make up for it, which is maybe a crazy way of thinking of it. But the other thing that they think of is trying to push out some of their smaller competitors with higher costs while it's down.

Our estimate traveling around talking with our guys is that global mining may be running at about 60% capacity or utilization, with the exception of those large mines that are just going all out. Iron ore two years ago was at $200 a ton, and it's $50 right now. And a lot of that's China, but it affects a lot of things, more than just the mining side and the areas where mining goes down, and so that affects our aggregate side too. So, we've been hurt in some of those key markets where mining is big, and that hurts aggregate and infrastructure really.

We do hear from some of our guys that they're hearing that we could see some type of comeback in mid to late 2016. In the meantime, we're focusing on bringing out some new products to try to fill some niches and keep our guys focused on getting all we can in the United States while it's been stronger. Although it took a break there in the third it seems like the buying has started back up here after the first of October.

<Q>: Alright. Thanks, guys. I'll get back in the queue here.

Ben Brock – President and Chief Executive Officer
Thank you.

Operator
Our next question comes from the line of William Bremer with Maxim. Please proceed with your question.

<Q>: Good morning, gentlemen. First, let's go into the infrastructure group. Can you walk me through, your backlog there came in very, very solid, in our opinion. Do you have a sense on primarily in the infrastructure group how was pricing and the bookings of the current orders being affected there currently, and if we can take that into the other two segments as well.

Ben Brock – President and Chief Executive Officer
Sure. This is Ben again. The pricing side, given that the same environment that we're in all of our competitors are in, so the pricing is tough. It's a buyer's market for our customers, and they know it, and it is tough. And it doesn't matter which group it is. So, that would answer the pricing part of the question.

For the backlog side of the infrastructure group, part of that is the pellet plant, which is $30 million. Now, margin-wise that should be in line with the margins you're seeing in the release for the infrastructure group. And so that's where you're probably seeing a good bit of that, although the asphalt plant market has been better than this time last year, so a little bit of that is in asphalt plants, which in addition to that some of that would bleed over into the energy group through Heatec and CEI because the asphalt tanks and heaters would come through on some of those plants.

<Q>: Right. Ben, you mentioned that the fourth quarter will be equivalent to the fourth quarter of 2014. Are you talking net income here, or are you talking top line growth?

Ben Brock – President and Chief Executive Officer
On the net income side. And we have a chance to approach the volume but a good bit of that does, we have to get the pellet plant out to get there. And it's really interesting we have to balance everything - we've got with 18 divisions and 16 manufacturing plants some are doing better than others. If you were just sitting here in Chattanooga at the Astec plant you'd feel like the world's pretty good because they're all out trying to get the pellet plant out.

<Q>: So, you're looking to get the $30 million pellet plant realized in the fourth quarter, not necessarily the first quarter of 2016?

Ben Brock – President and Chief Executive Officer
That's correct.

<Q>: Thanks, gentlemen. I'll hop back in queue.

Ben Brock – President and Chief Executive Officer
Thank you.

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

<Q>: Good morning, everyone. This is Joe Grabowski sitting in for Mig this morning. I guess just I would start with a big picture question. Your backlog domestically was down 1% year-over-year, but if you back out the wood pellet plant it was down more like 17% year-over-year. How would you rank the headwinds that the domestic business is facing right now, no highway bill, energy slowdown, mining slowdown? How would you rank those headwinds as you look at the backlog being down that much, again, ex the wood pellet plant?

Ben Brock – President and Chief Executive Officer
This is Ben again, Joe. The highway bill just is really a big headwind because our customers for large cap ex projects want to have that security over a longer term for their planning, so these two, three, four month extensions just wreak havoc on the ability of those guys to really plan out. Part of what I think we're seeing for the uptick in the plant business here, just a slight uptick, is there's been a lot of maintenance contracts for the asphalt side and they're having pretty good markets on the private side. So, I think our customers are doing better than we are, and I think we're seeing a little bit of the pent up demand come through, and plants have run more in the last couple of years. I think we're just seeing some of that come through. So, that would be number one. Oil prices would be number two. But it would be number one in the energy group.

That's been the big drag there. We're focused on working to grow our backlog, but the headwinds we mentioned are real and challenging. We're facing them and our competitors are facing them. But we are being realistic about it and we're managing the business to the environment we're in. We had a head count at the beginning of the year that was approaching 4,000 in January, and so we're under 3,800 today. Our shop utilization is around 60% as a whole. Now, it differs by division, but I think averaging it out it would be about 60%. Right now it looks like 100% here in Chattanooga, but that would be the exception. But we're managing hours in our shops in addition to the head count work that we've unfortunately had to do, and we're working on expenses.

But at the same time we're staying focused on new products. We've got a lot of R&D going through. We have applied for several provisional patents during the quarter, so the R&D continues. And that's another way to help get volume in the down market, so long as those products will help our customers be more successful and they have to have an economic return for them. So, we are working on that. The concrete plant's one great example of that, because it will allow our customers to use less cement in their concrete, which is their highest cost input item at $115 a ton. So, that's the types of things that we're working on to try to help on the backlog and get through what we're in the middle of.

<Q>: Thanks for the color on that. Maybe probing a little more on the highway bill, you're still optimistic that we could get a long term bill I guess at the eleventh hour. I know you spend a lot of time in Washington, D.C. I'd just be curious of your thoughts, the retirement of John Boehner, is that potentially a negative for getting a highway bill by the end of the year, or maybe even a positive; that he might try to get it through as he's leaving?

Ben Brock – President and Chief Executive Officer
Oh, it's interesting you mention John Boehner, because I was in our Congressman's office as he retired.

<Q>: Wow.

Ben Brock – President and Chief Executive Officer
So, that was an interesting visit. But you know Congress is a mess. They can't even get a replacement for Boehner. But when you look at it both sides can see that they need to pass a long term bill, and the pay for has always been the issue and in the talks that we've had. That's why we expect an extension of October 29th. What we're hearing from our discussions, the House is, the committee has released a bill, the T&I Committee released a bill. They'll probably do the extension and then the House will pass a six year bill, and then it will go to conference. And that's the best chance we've had in a long, long time, when you've got two six year bills and conference between the Senate and the House. And that's where our optimism comes from.

It's hard, because I'd like to use the word "incompetence" when I talk about our representatives in D.C. with regards to the highway bill, because it seems like that would be the one thing they could all agree on and get done, because our country needs it. I probably travel as much as anybody around the country, and our roads and bridges are in terrible shape. And so we have to do something. And I guess the sense is if they can get it to conference that gives us a really good shot at a six year bill. But the asterisk on Washington D.C. is the fact that that's what it is, it's Washington, D.C., and it always seems like it's ready to fall over.

<Q>: Sure.

Ben Brock – President and Chief Executive Officer
But I think it's as good a shot as we've had. The funding we may not love. I think the funding will be slipping. I think it's probably in the 43 to 44 billion in a year on average range for highways. But if it could get passed it adds the missing stability that we need in our industry and it will add to the states that have taken the matter into their own hands, that have passed their own funding mechanisms, either being a gas tax, or a sales tax. So, it would be extremely positive even if it was in the 43 to 44 billion range for our industry.

<Q>: Great. Okay, well thank you. I have one last question from me. With the downturn in energy and mining, has it made the M&A market more attractive? Are you seeing acquisition multiples come down? And just the appetite for M&A here in the medium term, I guess.

Ben Brock – President and Chief Executive Officer
Well, we're not seeing multiples come down. The private equity continues to keep those higher. But as far as opportunities we're definitely active. And our strategic goal is to work to add 5% volume a year through acquisitions. We do have opportunities to do that in 2016. So, we won't do it for our ego. It's got to be a fit. It's

got to be strategic. And it's got to be in the areas that we cover; energy, infrastructure, or aggregate and mining. But we do have those opportunities and we are working on them.

<Q>: Sure. Okay, thank you. Good luck in the fourth quarter.

Ben Brock – President and Chief Executive Officer
Thank you.

Operator
Our next question comes from the line of Stanley Elliott with Stifel. Please proceed with your question.

<Q>: Hi, guys. Good morning, and thank you for taking my question. As it relates to the highway bill, so, what are the expectations? If we do get a bill how quickly can these orders come through? Would it be in time for the spring construction season? Any thoughts around that?

Ben Brock – President and Chief Executive Officer
Based on the inquiry levels we've had, Stanley, I would say yes, it could affect the first. If it's passed and signed this year it could affect as early as the first quarter, but certainly in the second.

<Q>: And playing worst case scenario, so if we don't get a highway bill what are thoughts on, are there restructuring efforts and how quickly can you take costs out and maybe framework us some plans on a contingency basis there.

Ben Brock – President and Chief Executive Officer
Well, I think from our comments and mentioning about the backlog, Stanley, we're working on that now. And it's not fun. We have great people and it's painful, but we are working on that now. We're not assuming there's a highway bill. Although in the areas where we feel like we have a competitive advantage in service and parts and sales, we're less aggressive on some of those things. So, we're right now putting plans in place in the event there's no highway bill. However, I would say that we do have some good new products coming out. We have other opportunities to try to sell internationally. We can try to use our Astec do Brasil facility in a more strategic way internationally. We have a license agreement in India that we could work to take advantage of in areas where we're not selling now, which we're looking at now. So, we are working on some things to try to help grow the business without a highway bill.

<Q>: Switching gears to the wood pellet plant, or line, rather, in the first half, I thought I heard you say that the margins would be in line on a gross level to what you're doing now. But I remember in the release that there was a fair amount of service work, service-related revenue. Should we think of that as incremental to whatever the line would end up costing?

Ben Brock – President and Chief Executive Officer
Yes, I think so. I think you would see that. But I think it's a delayed deal because in the first part of the operation in the plant there won't be as much, but I think in year two and three you'll start to see that. But the two plants, for the two lines that are running and the one that will start up, I think we won't see that until 2017.

<Q>: Great. Thank you very much.

Ben Brock – President and Chief Executive Officer
Thank you.

Operator

Our next question comes from the line of Nick Coppola with Thompson Research. Please proceed with your question.

<Q>: Hi. Good morning. So, you guys talked about the infrastructure group seeing a tough price environment. Can you just add some color there about the competitive environment maybe in the asphalt plant business first, maybe the road building equipment and Roadtec?

Ben Brock – President and Chief Executive Officer
Well, Roadtec has a unique situation. They fight a very large competitor based in Europe. Of course they're helped right now with the euro to dollar ratio too, and so they're very challenged on just about every single deal on pricing, and they're doing a really good job of working through it. But they're having to do a lot of work, they're working a lot on their shop, and flow, and trying to help margins that way. That pricing pressure though, Nick, it's across all lines. Every one of our groups has got some headwinds that our competitors have too. So, I wouldn't necessarily single out those guys. We have some competitors that seem to have no bottom on the asphalt plant side, so it's very difficult right now. But our guys are doing a nice job, and they're maintaining market share. And what's really helped us maintain our bottom line is the lean effort. And the fact that steel is down, that's been helpful in addition to the work we've done in manufacturing.

<Q>: And so is it really more about volumes picking back up so that you can get price?

Ben Brock – President and Chief Executive Officer
Yes.

<Q>: Fair enough. And then in the energy business, clearly sales and backlog were down there, impacted by lower oil prices. Any comments or color on the types of equipment the types of equipment that saw declines there given your mix inside that segment?

Ben Brock – President and Chief Executive Officer.
Yes. In the oil side it's the oil drill rigs at GEFCO and the pumper trailers at GEFCO. And then we've got the heating systems that would be out of Heatec and CEI. So, really oil is pretty depressing. It's well documented, and we're getting conflicting information from the field, talking to customers about when it would come back. We've heard as early as mid-2016 to as far out as early 2017 for oil prices to come back. The rig count year-over-year is down over 50%, so at some point hopefully we hit a rock bottom on that. But a lot of the rigs that are still running are the newer technology so the capacity, we're still getting a good volume of oil.

But oil brings opportunity. That's where you've seen some states fail to get gas taxes through to help the infrastructure. The federal government could step on that too if they would. It's crazy, because $0.12 a gallon would really fix what ails us, and at Exit 11 here in Chattanooga called the Ooltewah Exit, we have a $0.12 a gallon price difference from one side of the street to the other. The consumers could shop away $0.12 a gallon. And it's just crazy that the federal government can't just do it. Of course I'm stumping here a little bit, but it's frustrating to us.

But GEFCO does continue to struggle because of their products. And Heatec has made up for a little bit of their oil issue with the heaters, are making it up with food and chemical heater sales, those two industries. CEI, frankly, is in transition on the energy group side. We moved the small asphalt plants there to our Dillman operation to get it aligned with our Astec operation. And that really worked well, because they're doing well and we're shipping small plants to a lot of different places out of there that we never got done at CEI. So, that part of the plan has worked. And CEI, in some respects, is a little bit of a startup because we've got a new product line going through there. And they're going to be okay in 2016, but they've struggled this year. So, that shows up in the energy group too.

<Q>: Alright, well that's very helpful. Thanks for taking my questions.

Ben Brock – President and Chief Executive Officer
Okay, thank you.

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

<Q>: Hi, gentlemen. Ben, I was wondering if you could talk about 2016 at some level. I know you've framed 4Q as being maybe flattish year-on-year on an EPS basis and wood pellet presses will be a big variable. And you've walked through some of the end markets, a lot will be dependent on the highway bill, pellet presses are a big TBD, you've got A&G and energy as the headwind, but we're at the point of the year where investors are rolling forward to 2016. Any kind of hand holding you can give us on how people might want to think about next year would be really helpful. Could you maybe start there?

Ben Brock – President and Chief Executive Officer
Well, I tell you I wish we had a crystal ball on the highway bill, because we could be a little more maybe, I don't know if it's optimistic, but we'd sure have a clearer line of sight. But I think with the pellet plant as something that kind of sits there and could help us offset as a whole some of the highway bill uncertainty and in talking to our guys with some of the new products we have coming out we could see next year being slightly up, in the 5% to 8% range. I know we have people that we buy equipment from and are also competitors that think it could be down 5% or more. But I think we would take a little more optimistic view, with an opportunity to be slightly up in 2016 with the products we have today.

<Q>: That's total revenue? Just to make sure we're talking apples-to-apples.

Ben Brock – President and Chief Executive Officer
Yes, total revenue.

<Q>: Okay, so I guess, when we think about it, your energy segment backlog is down to 15 million, a really tough environment. We've talked about that a lot. Orders were down over 80%. They've been running 15 million to 20 million in the last two or three quarters. If you look at consensus expectations next year, consensus has revenue for the energy segment at 190 million, versus a quarterly run rate of, call it 15 to 20 optimistically. So, it just seems like that's a huge gap to bridge. And if you put any reasonable margins, that's anywhere from $0.85 to $1.15 of earnings power. So, can you just help us understand how you backfill energy. You talked about maybe you get an inflection in mid 2016. That's probably the optimistic view, I think most would take. You highlighted that that seemed like the more optimistic view of maybe 2017. So, how do you bridge flat revenue if we're facing that kind of challenge in energy?

Ben Brock – President and Chief Executive Officer
Well, we really have to do that through some of the new products that are coming out. The concrete plant that we sold is 1.7 million, and we've got an opportunity there to bridge some of that gap there. And then on the CEI side and the Heatec side is focusing more on other industrial uses for their heater systems. And they have a couple of larger projects that are quoted too that if they came through they would help. So, it's going to be broadening their industrial base market and also we're looking at, I think it's two new rig designs for our GEFCO unit to try and get volumes through their plant as well. So, it's really a combination of new industrial heating system opportunities for the Heatec, CEI side, concrete plants, and related equipment at CEI, and a new drill rig or two at GEFCO to help get that volume up.

Rick Dorris – Executive Vice President and Chief Operating Officer
This is Rick. Peterson is also looking at some new products that should help their sales next year also.

<Q>: Okay. And then in terms of just any incremental color you can share on orders throughout the quarter, it's obviously some of the businesses, especially with the pellet presses, can be lumpy. Can you talk about just on a, whether it's relative to internal plan or on a smooth basis how each month of the third quarter progressed and how the fourth quarter's progressing. I know you had some optimism in some of the businesses, but in terms of just how orders are trending, is that part of what underpins your optimism on next year? Was there any discernible trend that was abnormal in the third quarter on a monthly basis?

Ben Brock – President and Chief Executive Officer
Yes, I would say that in June and July, well it's really July and August, Ted, our customers were working and not buying in the US. And it was pretty slow. And then after Labor Day it opened up, and that's traditional. Our buying season on the infrastructure side, asphalt would typically run from about Labor Day through the end of May. That's a ballpark. But it just opened up a little bit. And it didn't, it was delayed a little bit on the aggregate side versus the asphalt, and it seemed to open up the last week of September, and the inquiries and then the purchases really started. It's almost like October 1st was the day. And so we saw that not only on the aggregate side but also on the wood chipper side, with our Peterson group. So, that's where that optimism comes from.

<Q>: Okay. And then the last question from me. Just I guess on the cost actions you're exploring and trying to dimensionalize, do you think there will be an update by the time you announce fourth quarter results in terms of the actions you'll take? Could it actually occur during the fourth quarter? How should we think about timing, getting visibility on what those actions will be and the cost and benefits?

Ben Brock – President and Chief Executive Officer
Well, probably that would be at the next release, Ted. We have, like we said here, our head count's down probably in the 200 range now, so from January of this year. But part of that is allowing facility closing and part of that is where the divisions where we've been challenged in volume, and that's quarter end employment numbers. But I would say we've had about 25 additional since the October 1st date. So, it's painful and we're a people oriented place here, and it hurts me personally to do that. But we've got to be realistic with the markets we're in, and so it's a case by case basis.

<Q>: Okay. Well, thanks for the color. And let's hope for a sustained turn.

Ben Brock – President and Chief Executive Officer
Okay.

<Q>: Good luck with the quarter, guys.

Ben Brock – President and Chief Executive Officer
Thank you.

Operator
Our next question comes from the line of Brian Sponheimer with Gabelli & Company. Please proceed with your question.

<Q>: Hi. Thank you for fitting me in. You've answered most of my questions, but I'm just curious as to whether in the oil and gas side you're seeing any distress from your customer base?

Ben Brock – President and Chief Executive Officer

We have on some of the contract drillers, but not a lot, not a lot. Really, one of the interesting gauges that we look at is Enid, Oklahoma, where GEFCO is, has traditionally had a very low unemployment rate. And it's still pretty low, but recently, our last visit there was two weeks ago, that town is slowing down a little bit. So, that's one of the gauges that we would have for oil and gas.

<Q>: And just as far as your foreign markets, particularly South America, your sense of distress there versus four or five months ago.

Ben Brock – President and Chief Executive Officer
Outside of Brazil it's getting a little better, Brian. Brazil itself is, everything you're reading, it's pretty well hurting.

<Q>: Right.

Ben Brock – President and Chief Executive Officer
Talk about timing to open a facility, we did the official opening right about the time all the corruption is happening while mining is going down. But we have gotten a few orders there. We've gotten a few prospects. Not all of them are in Brazil, but they're around there. And our guys are doing a good job on covering some opportunities. So, outside of Brazil South America in the last four or five months has gotten better for us.

<Q>: Understood. Thank you very much.

Ben Brock – President and Chief Executive Officer
Okay, thanks.

Operator
Thank you. Our final question is a follow up question from William Bremer with Maxim. Please proceed with your question.

<Q>: Ben, just to follow up on the pellet activity, what needs to be done for you to realize that 30 million this year, in 2015? And then, if it is realized and we push out the realization of the 60, what's the likelihood that you'll have a win and a realization in 2016 on the pellet side?

Ben Brock – President and Chief Executive Officer
For the current order we have in the shop, the way the terms are we need to finish it. So, we just have to get it out the door. So, that's good news. We're pushing hard to do that. To realize the 60, that would be the customer being able to get that payroll finance ready that they think they can get with a longer term cash flow showing. So, I think we're doing all we can to help them get there, and we've got people on site, we're staying on site. Of course we need to because we still haven't started line three up, but very encouraging on line two that we hit the guaranteed production extremely fast, much faster than we did on line one, which proves that we're learning and we're moving in a positive direction in all the changes that we have on those lines at Hazlehurst are in the new line that we're building now, so we're very encouraged about our future there.

<Q>: Okay, Ben. Thanks. I appreciate it.

Operator
We have reached the end of the question and answer session. Mr. Anderson, I would now like to turn the floor back over to you for closing comments.

Steve Anderson – Vice President of Administration and Director of Investor Relations
Thank you, Christine. We appreciate everyone's participation on our third quarter conference call. Thank you for your interest in Astec. As our news release indicates, today's conference call has been recorded. A replay of the conference call will be available through November 3, 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 seven days. All of that information is contained in the news release that was sent out earlier today. As Christine mentioned, this concludes our call, so thank you all. Have a good week.