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

Analysts
Joe Grabowski - Robert W. Baird
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Presentation

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

I would now like to turn the conference over to your host, Mr. Steve Anderson, Vice President, Director of Investor Relations for Astec Industries. Thank you. You may begin.

Steve Anderson - Vice President and Director of Investor Relations
Thank you, Melissa. Good morning and welcome to the Astec Industries' conference call for the fourth quarter and the fiscal year that ended December 31, 2015. As Melissa mentioned, my name is Steve Anderson. And 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 minute, I will turn the call over to David to summarize our financial results and then to Ben to review our business activity during the fourth quarter.

Before we begin, I will remind you that our discussion this morning may contain some 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. Dave?

David Silvious - Chief Financial Officer
Thanks, Steve. Good morning, everyone. Thanks for dialing in this morning.

Net sales for the quarter were $215 million, compared to $239.5 million in Q4 of 2014, a 10.2% decrease or $24.5 million decrease.

International sales were $54.7 million in Q4 2015 compared to $87.9 million in Q4 of 2014; 37.8% decrease or a $33.2 million decrease in international sales. International sales were 25.5% of Q4 2015 sales compared to 36.7% of Q4 2014 sales.

The decrease in those international sales in Q4 2015 versus the same period last year occurred primarily in South America outside of Brazil and Australia, and Canada, Africa, Southeast Asia and Central America. Those decreases in those geographic locations were offset by increases in the Middle East and in Europe. For the quarter, international sales decreased in each of our groups.

Domestic sales for the quarter were $160.3 million, compared to $151.6 million in Q4 of 2014. That's a 5.7% increase or an $8.7 million increase. Domestic sales were 74.5% of Q4 2015 sales compared to 63.3% of Q4 2014 sales.

Part sales for the quarter were $62.6 million compared to $63.8 million in Q4 last year, a decrease of 1.9% or $1.2 million. Part sales were 29.1% of Q4 2015 sales compared to 26.6% in Q4 of 2014. For the quarter, part sales increased in the infrastructure group and then decreased in the Ag and Mining and the Energy Groups.

Foreign exchange translation had a negative impact on sales for the quarter of $4.9 million and that is to say that if rates this year were equal to the rates last year we would have had $4.9 million more in sales as those foreign sales translate across to US dollar.

Net sales year-to-date were $983.2 million, compared to $975.6 million last year; an increase of slightly less than 1% or $7.6 million.

International sales for the year were $260.9 million, compared to $321.4 million last year, an 18.8% decrease or $60.5 million decrease.

For the year, international sales decreased in the following geographic locations, it was in South America outside of Brazil, then Russia, Canada, Southeast Asia and China and in Central America. Those decreases were offset by increases in Europe and the Middle East for the year.

International sales were 26.5% of the 2015 full year sales compared to 32.9% of 2014 year-to-date sales. For the year, international sales decreased in each of our groups.

Domestic sales for the year were $722.3 million compared to $654.2 million for 2014, a $68.1 million increase or a 10.4% increase. Domestic sales were 73.5% of our total sales for 2015 compared to 67.1% of total sales for 2014.

Part sales for the year were $265.1 million, compared to $254.7 million in 2014, a 4.1% increase or $10.4 million increase. Part sales for the year were 27% of total sales this year compared to 26.1% of total sales last year.

Foreign exchange translations for the year had a negative impact on sales of $17.5 million and again that is to say if rates were the same this year and last year, the sales figure would be $17.5 million higher as those foreign sales translate into US dollars.

Gross profit for the quarter was $45.4 million, compared to $53.1 million in Q4 of last year, a decrease of 14.5% or $7.7 million decrease. Gross profit percentage was 21.1% for Q4 of 2015 compared to 22.2% for Q4 of 2014.

The absorption variance had a negative impact over the quarter, we had unabsorbed overhead in the quarter of $4.4 million, compared to $1.1 million of unabsorbed overhead in Q4 of 2014, that's a $3.3 million negative impact. Foreign exchange transaction gains or losses that went to the income statement for the quarter were we had a $72,000 gain in the fourth quarter of 2015 versus a $470,000 loss in Q4 of 2014.

Gross profit for the year was $218.8 million compared to $215.3 million in 2014, that's an increase of $3.5 million or 1.6%. Gross profit percentage on a year-to-date basis is 22.3% this year compared to 22.1% in 2014. The absorption variance had a negative impact on the year as well, unabsorbed overhead for the year was $14.3 million, compared to $12.2 million of unabsorbed overhead in 2014, that's a $2.1 million negative increase in unabsorbed overhead.

Foreign exchange transaction gains or losses that went through the income statement again for the year was $700,000 loss for the year, compared to $1.5 million loss in the prior year.

SGA&E for the quarter was $[indiscernible] million, [audio disruption] 18.9% of sales compared to SGA&E in Q4 2014 of $41.1 million or 17.2% of sales, that's a decrease in dollar terms of $400,000 with an increase on 170 basis points as a percent of sales. So it's relatively flat Q4 to Q4.

For the year SGA&E was $168.9 million or 17.2% of sales compared to $163.6 million in 2014, or 16.8% of sales for that year, an increase of $5.3 million or an increase of 40 basis points as a percent of sales. Recall that in 2014, we had ConExpo for about $4 million and so your true difference is about $9 million in SGA&E and the following-on were increases in SGA&E year-over-year.

We had computer and consulting expense increase of about $2 million that was related to ERP implementations going on during the current year. Health insurance increases were about $2 million, payroll and related increases were another $2 million. Repairs and maintenance on, especially on aircraft during the year was about $3 million increase over the prior year.

Operating income for the fourth quarter was $4.7 million, compared to $12 million in Q4 of 2014, a decrease of $7.3 million or 60.8% decrease. And on a year-to-date basis, the operating income was $50 million compared to $51.7 million last year, a decrease of $1.7 million or 3.3%.

Interest expense for the year—sorry, for the fourth quarter was $389,000 compared to $345,000 last year in Q4 and for the year interest expense was $1,611,000 compared to $720,000 last year. The primary driver of that interest expense increase year-over-year is the debt that we're carrying in Brazil related to the construction of that facility plus stocking of machinery and equipment and inventory.

Other income for the quarter was $1.2 million compared to $0.5 million last year in Q4, and for the year it was $4.4 million compared to $2.9 million for the full year in 2014.

You will recall that the primary source of other income is license fee income, investment income related to our captive insurance company. The year-to-date amount also includes some key main life insurance proceeds that occurred in the first quarter and that was about $1.2 million.

The effective tax rate for the quarter was 36.06% compared to 30.4% in 2014 Q4, and for the year the effective tax rate was 38.5% compared to 36.2% for the full year 2014. The effective rate for Q4 and for the year compared to last year was impacted primarily by losses in certain of our foreign jurisdictions for which company could not recognize the benefit and the reduction of research and development credits in the current year compared to the prior year. We did claim research and development credits, but it was lower than what we were able to claim last year. We also had some true-ups in R&D credits that went through the current year related to prior year returns.

Net income attributable to controlling interest in the fourth quarter was $3.6 million compared to $8.5 million in Q4 of 2014, a $4.9 million decrease or 57.6% decrease. Diluted EPS for the quarter was $0.16 compared to $0.37 in Q4 of 2014, that's a decrease of $0.21 per share or a 56.8% decrease.

For the year, net income attributable to controlling interest was $32.8 million compared to $34.5 million, a decrease of $1.7 million or a 4.9% decrease. And diluted EPS was $1.42 compared to $1.49 last year, a $0.07 decrease per share or 4.7% decrease.

EBITDA for the fourth quarter was $11.8 million, compared to $18.5 million in Q4 of 2014, a $6.7 million decrease or 36.2% decrease in the quarter. However, EBITDA for the year was $78 million compared to $77.4 million in 2014, $600,000 increase or slightly less than 1% increase.

Our backlog at December 31 of 2015 was $313.3 million compared to $332.1 million at December of 2014, an $18.8 million decrease or 5.6% decrease. International backlog at the end of 2015 was $54.1 million compared to $109.7 million at the end of 2014, a $55.6 million decrease or 50.7% decrease.

The domestic backlog at the end of 2015 was $259.2 million, compared to $222.4 million at the end of 2014, a $36.8 million increase or 16.6% increase in domestic backlog year-over-year.

The December 2015 backlog of $313.3 million on a sequential basis compared to September of 2015 was up $67.7 million or 27.6% and the January 31, 2016 backlog of $348 million is an increase of $347 million--$340.7 million for 11.1% compared to the December 2015 backlog. So, sequentially, January over December up $34.7 million or 11.1%.

Our balance sheet continues to be very strong. Our receivables are $102 million, compared to $107.3 million in the prior year, a $5.3 million decrease. The days outstanding increased slightly to 43.1 days from 41.5 days at the end of 2014. Our inventories of $384.8 million at the end of 2015, compared to $387.8 million at the end of 2014, a decrease of $3 million.

Our turns are at 2 and were 2.1 for 2014. We owe nothing on our $100 million domestic credit facility that we have and we had $25.1 million in cash and cash equivalents on the balance sheet. Letters of credit outstanding were $17.7 million, so that gives us borrowing availability of $82.3 million currently.

We do have $10 million as I previously mentioned in debt currently in Brazil used to finance our buildings and furniture and fixtures and machinery and equipment and their inventory.

Capex for the quarter was $5.7 million and for the year it was $21.2 million and we have a schedule to look forward to about $34.5 million of CapEx in 2016, but we'll see if we get there. Depreciation for the quarter was $5.2 million and $20.7 million for the year and in 2016 we are budgeting $22.5 million of depreciation.

So that concludes my prepared remarks on the quarter and the year. I'll turn it back over to Steve.

Steve Anderson - Vice President and Director of Investor Relations

Thank you, David. At this time, Ben will provide some comments regarding our fourth quarter operations and then offer some thoughts going forward before the Q&A. Ben?

Ben Brock - President and Chief Executive Officer
Thanks, Steve, and thanks, everybody, for joining us on our call today. My comments today will reflect the following statements. We were disappointed in our fourth quarter performance even though the big things that hurt us were out of our control; however, some very good things are happening on the whole here and I really feel like our future is bright.

The headwinds of the low oil prices, the global mining slowdown, the strong US dollar and the absence of a long-term Highway Bill in the United States persisted and challenged us during the quarter. Despite the headwinds, we still had a chance at a better quarter, but we fell short in the end.

On the downside our earnings per share were $0.16 per share versus $0.37 per share in the fourth quarter of 2014 and our year-to-date earnings per share were $1.42 versus $1.47 last year, below the last year mainly as a result of our fourth quarter performance.

On the upside, our year-to-date sales were $983.2 million versus $975.6 million for an increase of $7.6 million and our year-to-date EBITDA was $78 million versus $77.4 million for an increase of $600,000 and an EBITDA on that $7.6 million increase in sales.

Our backlog at December 31 was $313.3 million which was down 5.6% versus last year, and while the Q4 backlog was down at 5.6% versus last year it was an improvement year-over-year versus the backlog that we had at the end of Q3, which was down 17% versus the prior year.

As you saw on the release, domestic backlog was up 16.5% year-over-year and international backlog was down 50.7% versus last year. International backlog remains down about the same percentage it was down at the end of the second and third quarters, primarily due to the strengthening of the US dollar, the low oil prices and the global mining slowdown.

We are happy to report our backlog at January 31, 2016 was a record at $348 million, most of the activity was on the infrastructure side and I'll talk more about that in a minute.

Regarding international sales, quoting activity in our international sales remained okay, however, the US dollar strength remains a big headwind. Our Astec do Brazil facility is also experiencing everything that you read about in Brazil with regards to slow economic times. We continue to work for orders in surrounding countries to help fill that facility.

Domestic order intake has been very good in our infrastructure group since the United States long-term federal Highway Bill was signed in early December. Aggregate mining group order intake has been slightly below normal since January 1st mainly due to the mining and equipment and international sales being slow.

Order intake in our energy group remains somewhat soft with the exceptions of asphalt storage and heating systems for hot mix asphalt plants, mainly due to the infrastructure group order intake and our new concrete plants.

We continue to hear from our infrastructure customers that they are experiencing good business levels in the United States, particularly on the private side along with good maintenance contracts in states that increased their funding through gas tax increases and/or other mechanisms.

That's been generally good for our infrastructure business and now as anticipated, we see better order activity in the large capital projects that were hampered by the lack of a long-term Highway Bill in the US.

On our last call, we said that we were optimistic on a long-term bill passing in 2015 and we were generally alone in our view that that would happen. We want to thank our elected officials in Washington DC for passing the long-term Highway Bill that is five years in length.

As a result of the Highway Bill passing and the fact that our infrastructure and aggregate groups have experienced better market conditions in the United States, we are pleased to report that our backlog at January 31 was a record $348 million versus the $313 million backlog we had at December 31, which David mentioned was an increase of $34.7 million or 11.1%.

We continue to pursue new business with new products in the US and we're maintaining our international efforts despite the challenge presented to us by the strong dollar and depressed mining industries in some of our key markets.

We're taking the long view with regards to international and we do see a strong US dollar low oil prices and depressed mining conditions remaining in place for the balance of this year at the least. Our lower backlog at international was a direct result of these three headwinds.

Our higher backlog in domestic was primarily due to the passing of long-term federal Highway Bill and good private sector work levels for our infrastructure customers.

Changing subjects to the Hazlehurst, Georgia pellet plant that we have discussed on several calls, as a continued reminder it's a new product that we chose to finance and as a result will recognize the revenue for this plant as we are paid. This will have an effect on our cash and our inventory until it is paid in full. The order for all three lines was for $60 million.

Also as a reminder from our last call, we agreed with the customer to allow them more time before taking us out of the financing and expect the final payment in 2017. As a reminder, the interest rate on the note is 6%.

We announced the sale of a new $30 million pellet plant during the third quarter in 2015 to Highland Pellets. We mentioned on our last call that we are working to ship this order in the fourth quarter and that we expect that the gross margin on this sale to be in line with our infrastructure group gross margins.

I am proud of our team's effort on this order. We did successfully complete the plant during the quarter. However, we were not able to count it as our customer was not ready. This significantly hurt our expectations for the quarter as it was $30 million in revenue and our margin was in line with our estimate.

As a reminder, estimated margin for this pellet plant was to be in the range of our normal margins in the infrastructure group. If we could have counted this plant order, we would have been near our expectations for the quarter and up for the year as a whole versus 2014.

Despite the issue, I'm proud of our entire Group's effort in increasing full year 2015 EBITDA of $600,000 on our revenue increase of $7.6 million while increasing our cash on hand at year end to $25.1 million.

Updating our current pellet plant's quote activity, we are optimistic that we will announce our next pellet plant order very soon. The potential order is in the $115 million to $125 million range and it would ship this fiscal year.

As a reminder, these deals are long and complicated to get across the line. While we are very optimistic this order will be announced in the coming weeks, and it always could be longer than we anticipate. In either case, our focus would be to ship it this year.

With regards to international sales overall, given the well-documented challenges globally with regards to the US dollar, strength global mining in the global economic environment overall, we believe that we will remain challenged for at least the rest of this year with regards to sales internationally.

We remain committed to growing international sales over the long-term and we will continue to maintain our sales and service coverage around the globe. On the energy side, we are extremely challenged in our drilling and pumping equipment sales activity. Again, we're not immune to the current low oil prices with regards to our oil drilling and pumper business. We are moving some overflow work from the infrastructure group to the most affected facility at Enid, Oklahoma.

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. Our concrete plants are built in the energy group and we are pleased to report that we are the supplier of choice for two large concrete plants for delivery this year.

The total sale amount of these plants is just over $7 million. The plants will be operated at a department of energy project. We remain optimistic on our outlook in our energy group for the long term.

Looking ahead to the first quarter of 2016 and the balance of the year, we're encouraged by our backlog at $348 million at the end of January, our opportunities on pellet plants, and our strong infrastructure group's sales activity. In addition, our new product development continues in all groups, especially with our concrete plants as we announced our second model earlier this year at the World of Concrete Show in Las Vegas.

As a side note, I did attend that show and it was very well attended versus the previous five years that I've attended it and I think it's a sign of the private work being pretty good for in the concrete side and the Highway Bill.

We believe that our first quarter 2016 will be in line with our first quarter 2015. On our last call, we were asked to give an outlook on revenues for 2016 and we said up about 5% versus 2015. Our current revenue outlook for the balance of 2016 remains up 5% with an improved bottom-line performance.

As mentioned earlier in my comments from our last earnings release to now, orders have been strong in the infrastructure group since early December, mainly due to the Highway Bill. Orders are not strong internationally, mainly due to these strong US dollar and mining slowdown and I would add oil into that as well.

Energy group orders are soft for products targeted at the oil and gas industry. Aggregate mining group orders are soft for products targeted at the mining industry. Bright spots for activity for us are the concrete plants, wood pellet plant quoting activity and wood chippers and grinders.

We continue to see growth opportunities for aftermarket parts, sales and service. Part sales for 2015 increased by 4.1% versus last year and were 27% of total sales versus 26.1% of sales in 2014. Part sales volume was also a record at $265 million, our previous record was $262 million in 2012.

We remain committed to improving our part sales volume in the long-term along with working increase our competitive part sales, we continue to see results of our lean effort helping us be a better company and we are going to continue to focus on our margins.

Looking to the whole of 2016, we are optimistic that we will end the year ahead of 2015. The majority of our customers are experiencing a stable private market and we are focused on selling our existing products and some of the new products that we're coming up with.

Given the headwinds we are facing, we are working to manage the business to the market conditions where that business warrants. To that end, we did have staff and/or work hours reductions at the most affected divisions during the fourth quarter and already in the first quarter.

Acquisitions remain a key piece of our growth strategy along with organic growth. Our goal is to add at least one company to our Astec family during 2016 so long as the company is a cultural and strategic fit within the industries we serve. We are very active in this part of our effort to grow and we believe that we will grow our company this year not only organically, but through acquisition as well.

That ends my comments on the quarter, the year and what's in front of us. I want to thank you again for taking the time to be on our call and for your support as we move ahead.

I will now turn it back over to Steve Anderson.

Steve Anderson - Vice President and Director of Investor Relations
Thanks, Ben. Melissa, if you would open the lines up for questions, we'll be ready to answer any questions that come through.

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

<Q>: Hi, good morning everyone. It's Joe Grabowski on the line for Mig this morning.

Ben Brock - President and Chief Executive Officer
Hi, Joe, good morning.

<Q>: I guess, I just wanted to start off by confirming the infrastructure group backlog was up $59 million sequentially. None of that was wood pellet plant, correct? The wood pellet plant backlog was comparable quarter-over-quarter?

Ben Brock - President and Chief Executive Officer
We had the Highland Pellet plant order during the fourth quarter and that was in the backlog at the end of the fourth.

David Silvious - Chief Financial Officer
Yes, not at the end of the third.

<Q>: I see, okay. So, of this $59 million sequential increase, $30 million was the $30 million wood pellet plant?

David Silvious - Chief Financial Officer
Yes.

<Q>: Okay. So, $29 million increase was, I guess the increase in orders, asphalt orders and so forth from the Highway Bill or?

Ben Brock - President and Chief Executive Officer
Joe, let me correct myself. We did announce that during the third quarter.

<Q>: Okay. Yes, that's what I thought originally.

Ben Brock - President and Chief Executive Officer
I'm sorry.

<Q>: No, that's okay. So the entire $59 million sequential increase was non-wood pellet plant-related?

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

<Q>: And then the backlog from December to January, in total is up $35 million and you mentioned a lot of that or most of that was from the infrastructure group. So, all of this increase in backlog, I guess, it's related to asphalt plants and paver orders that you received sort of in conjunction with the Highway Bill? Am I thinking about that correctly?

Ben Brock - President and Chief Executive Officer
It's, for the most part, yes. We've had orders in other areas, but that's where the bulk of it is.

<Q>: Okay. And then, just kind of getting back to the wood pellet plant, the $30 million Highland Pellets plant, you didn't recognize revenue in the fourth quarter, but you'll probably recognize it soon in the first quarter?

Ben Brock - President and Chief Executive Officer
That's our goal. We feel comfortable that that will happen.

<Q>: Okay.

Ben Brock - President and Chief Executive Officer
I would say, very comfortable.

<Q>: Okay. And then, I think you mentioned on the call, a pending wood pellet plant order for as much of the $115 million to $125 million, is that with one of the first two customers or is that a new customer?

Ben Brock - President and Chief Executive Officer
It is with one of the first two customers.

<Q>: Okay. And again, the thought would be that that would ship in 2016 and the revenue would hit in 2016. Is that correct?

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

<Q>: Okay. So, I guess, putting that all together, it seems like, the surge in orders around the Highway Bill and as much as $150 million of revenue from wood pellet plants in 2016, I mean it would seem like, just those two factors and I know there is some offsets that revenue would be up a lot more than 5% in 2016. I mean, again, I know that your other two groups are facing some headwinds, but that's a lot of incremental shipments and revenue that's going to be recognized in 2016. Is the 5% perhaps on the conservative side or?

Ben Brock - President and Chief Executive Officer
Joe, this is Ben, it may be that given what's happened in oil and mining and with the dollar, we have to be a little more conservative because you've seen where it hit us in the fourth quarter, what we just experienced. I mean, it was just a challenge, when we say a challenge, it was pretty darn slow and for what we had quoted we felt pretty good that we were going to be in pretty good shape and if we had counted the $30 million pellet plant and gotten some of the orders we thought we were going to get and ship in the fourth quarter, we'd have been okay in the fourth. But it gut checked us a little bit to see how things can just kind of slow quickly in those areas that are focused on that with the mining and the oil. And so, that's why we hold at 5%.

<Q>: Yes, okay, I appreciate that. I guess, final question from me, just sort of big picture, you had been expecting a Highway Bill. We got the five year Highway Bill, you had expected a nice surge in orders post Highway Bill, it looks like they've come through. I mean, did all that sort of play out the way you had expected with the Highway Bill , the duration in the funding kind of what you hoped it would be and were the subsequent orders sort of what you had hoped they would be?

Ben Brock - President and Chief Executive Officer
Yes, I'd say so. I mean, we are pleasantly surprised, You never really have a great crystal ball sometimes, but this one just kind of played out exactly the way we saw it with the quick two month rush in orders with some pent-up demand and it's the way we had talked about it was, we'd see maybe a few months where it would kind of go pretty quick and then maybe it slows a little bit while people wait to see where the work is going to hit. And then maybe it picks up sooner than the normal buying season, maybe in mid-summer. So we will see how that plays out, but I think that's how it'll will play out. We were at the National Asphalt Pavement Association Annual Meeting a few weeks ago and I probably talked to over hundred people at that meeting and I would say that everybody's attitudes, everybody is just feeling really good and the Highway Bill only helps that. So again, most of our customers had good years last year and that's a good sign.

<Q>: Okay, great. I'll turn it over. Good luck in the first quarter.

Ben Brock - President and Chief Executive Officer
Thank you.

Operator
Thank you. Our next question comes from the line of Schon Williams with BB&T Capital Markets. Please proceed with your question.

<Q>: Good morning. This is Rob Nichol on for Schon Williams. Thanks for taking my questions. I guess, my first question is, when should we expect to see the aggregate piece of the Ag & Mine segment really start to pick up and kind of offset that softness for mining?

Ben Brock - President and Chief Executive Officer
Rob, this is Ben, I really am not sure we'll see it from the Highway Bill on our equipment for aggregate until fall. I think there is a little bit of a lag, I think the asphalt pent-up demand was a little more than the aggregate and I think if you go back and look at our numbers over the last three, four years, the aggregate has been hanging in there pretty good. Part of that was international, so that split off and part of that was mining and that split off. The US is doing okay. So I think we'll see that start maybe more in the fall.

<Q>: Okay. That's helpful. And then, you mentioned a little bit of headcount reduction moving into the first part of the year here. I guess, does more restructuring need to happen in some of the slower segments? Just trying to think about gross margins. Can we expect that gross margins should stay where they have been in 2015 or in 2016, excuse me, or should we be looking for another leg down as we move through the year?

Ben Brock - President and Chief Executive Officer
Well, certainly, Rob, I don't think we'll be going down. We are working in being in the right sizes in the most affected divisions, I mean, our GEFCO division who builds the oil drill rigs and the pumpers, that's our most affected and we have unfortunately had staff reductions there, where we've had hours and restrictions there and days restrictions and we're doing everything we can now. We're shifting some work from the infrastructure group to there that they can build. So, I wouldn't think it would be down. I think we have a chance to be up in gross margin this year overall before it's over.

Our headcount at the last quarter, we had 3880 and our headcount at the end of the fourth quarter was down 147 people at 3733. So it's kind of one of those things where you have your hand in the hot boiling water and your hand in ice water and we're adding people in the infrastructure group right now. So, we're keeping an eye on it and we're trying to manage for the business level we have, depending on actually down to the subsidiary level.

<Q>: All right. Thank you. That's helpful. I'll hop back in the queue.

Ben Brock - President and Chief Executive Officer
Thank you.

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

<Q>: Good morning gentlemen.

Ben Brock - President and Chief Executive Officer
Good morning, Bill.

<Q>: Okay, I'm not sure if I missed this or not. Are we expecting the realization and the recognition of the Highland plant in the first quarter?

Ben Brock - President and Chief Executive Officer
Yes.

<Q>: Okay, great. Secondly, I want to go through a little bit to add on the last question, in terms of pricing. Infrastructure, you pretty much avoid saying you're holding your prices where it is. Can we touch upon the aggregate there in terms of a little bit more in terms of maybe the first half, you mentioned the international sales had hurt you, should we expect a few hundred basis points in gross margins to deteriorate in the first half?

Ben Brock - President and Chief Executive Officer
I don't think so. With some of the activity we're actually doing a pretty good job on our pricing in the infrastructure group and I would hedge that a little bit in saying that we do face some pressure from our European competitors bringing in their equipment and they have a currency advantage coming this way right now versus what they've had in the past. But, I don't think we'll see an erosion overall on margin because it's where the aggregate group is or where the energy group is. We've been kind of fighting a little bit with that all year during 2015.

<Q>: So, Ben, I should make the assumption, you're pretty much holding your prices throughout all three of your segments at this time.

Ben Brock - President and Chief Executive Officer

Yes.

<Q>: Okay, excellent. And one for David, can you supply an overall tax rate for 2016?

David Silvious - Chief Financial Officer
Yes. Actually, we have some planning going on. So I think we'll probably be in the 35% to 36%.

<Q>: Okay, and Ben, can you give us a sense of your capacity utilization? What is your company overall running at or maybe if you want to go through each one of the segments, can you give us a sense on your capacity utilization and maybe have you added some shifts on? I'm assuming definitely in the infrastructure group, but just give us a little more granularity there please?

Ben Brock - President and Chief Executive Officer
Sure, in the infrastructure group, now, I'd say our manufacturing divisions there, we're in the 80% range, maybe even a little higher. In the aggregate mining group and the energy group, we are in the 60% to 65% range, of course that varies by division in those groups. I mean we wouldn't be anywhere near that probably at GEFCO, we'd probably be little lower than that. But that would be overall if you put them all together, we're probably in the 70% to 75% range, mainly the infrastructure group, they're working—it's kind of like last call, we talked about if you were sitting here in Chattanooga you'd think that world is on fire and the economy is perfect because they have a big backlog and their activity is still strong on our asphalt plants and the pellet plants.

So, we are going to add a bay on at Astec and it's mainly for the pellet plant drums. They're heavy; we don't have a crane to hold them and so end up building the balance of it outdoor. That's our bottleneck in the shop with the drums. So, on the asphalt side, and the infrastructure side too, so we are going to add a bay on to Astec.

<Q>: Okay, and my last question would be on is there any particular state the Department of Transportation or just even on the private side, that you're seeing more of a demand than usual? Is there any one or two states that you're seeing just a flush of orders coming through?

Ben Brock - President and Chief Executive Officer
Bill, I wouldn't say one that just completely stands out, it's very balanced right now. We always kind of take a look and say, what are the hot states thinking about the quarter and it is very balanced. We have orders from California to New York right now. And so, the one thing that is interesting is, that even though the Highway Bill is passed, there are still states working on increased funding, Tennessee being one of them.

And then the other thing that we're seeing that you didn't ask this question, but there is some underneath conversations about still an opportunity to raise the gas tax in the United States at the federal level when there is a new President because there will inevitably be tax reform and the last two gas tax increases came through tax reform. So there is actually still an underlying current starting to think maybe 18 to 24 months from now we might be talking about a gas tax increase, which is interesting. But who knows on that. We're not bragging that that's going to happen, please don't anyway take that, if that's going to happen; it's just interesting the discussions that are going on.

<Q>: Well, I thank you for the color, Ben. Thanks.

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

Operator

Thank you. Our next question comes from the line of Ted Grace with Susquehanna International Group. Please proceed with your question.

<Q>: Thank you. Good morning, guys.

Ben Brock - President and Chief Executive Officer
Good morning.

David Silvious - Chief Financial Officer
Good morning.

<Q>: Ben, I am just wondering, kind of coming back to the revenue guidance. So, I think we all appreciate the challenges out there in energy and mining and some of the impact of the dollar. But if you get $30 million of carryover from the Highland Pellet plant, and you get $120 million from this new opportunity and it's kind of like $150 million which would be 15% growth contribution versus your 2015 sales, which means the rest of the business is down 10% on an underlying basis? Can you just walk through kind of how we should think about each of the divisions? I know you get hesitant to give too much granularity, but could you maybe give us a little better handholding about infrastructure versus AMG versus energy?

Ben Brock - President and Chief Executive Officer
Well, of course you know the infrastructure is pretty straightforward, I mean you see the backlog and the orders, it feels pretty good there. But, I think when we tour and we do our quarterly reviews and we go through the plants and it just feels a little uneasy because of the strength of the dollar and we have some divisions that depend more on international than others. We have some divisions that depend more on mining than others and it sounds that on oil and I know that seems pretty basic, but there is just not a lot of work in them and that just makes us gut check saying a bigger number. And not to say that we're not out pounding the pavement trying to get orders, I mean, we know we're doing that. We're staying on top of that, but the business is just pretty slow and challenging in those, in the energy and the mining side.

And you throw on top of that where the dollar is, we're getting what we can and our guys are doing a nice job of getting what we're getting but it's still a challenge. I mean, we do have technology that will sell internationally, even where the dollar is, I mean against the euro. We have a new plant that I'll visit later this year that's going into London of all places. So, we're getting it where we can, but it's an uphill battle in some of these right now.

<Q>: When you gave us the initial plus five guidance for 2016, did that contemplate that the $115 million to $125 million of pellet press orders?

Ben Brock - President and Chief Executive Officer
We thought we'd get the $100 million to $115 million, it's a little higher than we thought. That was kind of in my thinking.

<Q>: Okay, and you have $30 million of carryover, so, from an underlying basis, it seems like, the underlying or the organic expectations are actually down versus what you would have thought three months ago?

Ben Brock - President and Chief Executive Officer
I think so and I think, Ted, it's just the uneasiness out there in the market and you just look at our space and what's going on around us and what people are releasing around us. We are just being conservative when we say 5%.

<Q>: Yes, look it's consistent with what your peers are saying across machineries, so you're certainly in very good company. I guess, when we think about the replacements, demand opportunity whether it's the asphalt plants or the mobile asphalt paving group, can you just maybe walk us through where you see the biggest opportunity? Whether it's framing, the averaging life of a mobile paving unit is x and we're at y and, or the plant, how should we think of that just a relative opportunity for replacement given the Highway Bill is in place now and states are doing a lot of things at their own level?

Ben Brock - President and Chief Executive Officer
Well, I think in general, we're moving toward a historical more normal type market where 100 to 125 or 135 asphalt plants will be sold in the year. I think, we are probably going to see that for the next couple to three years. And then on the average life of an asphalt plant, 20 to 25 years depending on who's running it, I will say that we do have a customer that just keeps rebuilding and rebuilding the very first asphalt plant that we ever built and it's running today at Raleigh, North Carolina and that was shipped in 1973 I think. And so, that was the first complete plant we built. But the average is about 20, 25 years.

On the mobile equipment side, most of our customers have a three to five year timeframe on it. Some customers go a little longer and I think we'll be going to a more normalized replacement cycle in the next two, three years with that equipment as well.

<Q>: Okay. So, last thing, if I could just squeeze it in. In terms of presenting free cash generation this year, presumably, you have working capital tied up in this big pellet press order, can you just give us any handholding for how we should think about working capital dynamics or anymore kind of granularity around free cash?

Ben Brock - President and Chief Executive Officer
Our goal would be to stay debt free and maintain cash flow in positive area, or cash in the positive zone. The place where that would change is if we did execute an acquisition. We would take a little debt for the right acquisition, but not a lot.

<Q>: So some of the acquisitions out there are big enough they could consume kind of the—

Ben Brock - President and Chief Executive Officer
Not the whole line, but, some of the ones that we're talking about could take a little bit for a short period.

<Q>: Okay, great. Well, thank you very much and best of luck this quarter and this year, guys.

Ben Brock - President and Chief Executive Officer
Thank you, Ted.

Operator

Thank you. Our next question comes from the line of Todd Vencil with Sterne Agee. Please proceed with your question.

<Q>: Thanks a lot. Good morning, guys.

Ben Brock - President and Chief Executive Officer
Good morning.

<Q>: Thinking about those infrastructure orders you saw kind of come through after the fact that got passed, you sort of suggested and you said earlier on the call that you're going to see probably a surge of like pent-up orders

as people who have put them through, once that went through and then maybe the settle in, have you seen it, have you seen the order flow start to tail-off or is it still in the strong pent-up demand wave?

Ben Brock - President and Chief Executive Officer
Todd, I think, this minute, I'd say we're still in the strong phase.

<Q>: Okay.

Ben Brock - President and Chief Executive Officer
Again an interesting—here's an interesting story to wrap around that. We had a customer that was looking for a portable asphalt plant and they ended up getting the job and we now are trying to figure out how to get it out quicker, but they were going to get it regardless after the Highway Bill passed. They didn't know where the job is going to be, but they figured they'd get one. So, I mean, that's the kind of thinking that that Highway Bill changes. Without the Highway Bill, they wouldn't do it.

<Q>: That's good. We need more of that, right?

Ben Brock - President and Chief Executive Officer
Amen.

<Q>: This is a nit, but a lot of the more standard questions have already gone by. That January 31 backlog, what was that up year-over-year?

David Silvious - Chief Financial Officer
I have that right here. The January 31 backlog was $348 million. It was up $13 million over January of 2015 or 3.9% over January 2015.

<Q>: Got it. Perfect. Thanks. And then, thinking about the FX, thanks for all the detail, David, on what the impact was last year. Just on a top-line basis, if rates stay where they are right now, do you have a sense of what the headwind is going to look like for 2016?

David Silvious - Chief Financial Officer
That's hard, that's really hard. With the rates fluctuating so much, the South African Rand is a big one for instance, that thing has gone to when we bought Osborn, it was at 7 and now it's 16. So, it's really hard to say. The Brazilian Real, again, it comes down to product mix and where you're selling the products and things of that nature. So, it's really hard to say. I don't know that I can answer that question with any clarity for you.

<Q>: Okay, well, I appreciate that. That's all I got. Thanks a lot.

David Silvious - Chief Financial Officer
Thank you.

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

<Q>: Hi, good morning.

David Silvious - Chief Financial Officer
Good morning.

<Q>: So, you talked about being active in the M&A market and the goal of closing a deal this year. Can you just talk more about what the M&A environment looks like and where the folks would be and where you want to add on to the business?

Ben Brock - President and Chief Executive Officer
Well, Nick, this is Ben and I can tell you this, we're not looking for a company that makes equipment for the oil business. But, I would say that, anything that is close to what we do, energy, infrastructure, aggregate mining, we're not looking to get outside of that range of what we do. Potentially, could be a supplier that we don't want to be the main customer if it is a supplier, but in our space, and we're not looking to leverage this company up, we would take on a little bit of debt for the right acquisition and the culture would have to be a fit, we don't want to turn the culture of a company. So they have to be good at customer service and that's a big deal to us and treat their employees the right way. So really inside of the industries we serve now and a cultural fit and a strategic fit would be what we were looking for right now. Now to say that, we're not wanting to do an acquisition for our ego. It has to make sense. So we're not just going to pull the trigger to pull the trigger.

<Q>: Yes, that makes a lot of sense. And then, I also wanted to ask about your concrete plant. You were saying a couple of orders there, what have enquiries looked like and how should we think about the long-term potential for that concrete plant business?

Ben Brock - President and Chief Executive Officer
Well, we are excited about it. It's not huge numbers in the scheme of what we do, but at the division where it is, it's huge numbers and their activity was very good through our booth at the show at World of Concrete. Rick Dorris is in the room and he may want to speak a little bit to the quoting activity as he is looking after the energy group right now. He is our COO. Rick, do you want to mention?

Rick Dorris - Executive Vice President and Chief Operating Officer
Yes, the quoting activity has picked up on the concrete products just as it has on the asphalt products. There is a fair amount of interest in the new product that we're going to be introducing there also. So, it's definitely improving.

<Q>: All right. Thanks for taking my questions.

Ben Brock - President and Chief Executive Officer
Thank you.

Operator
Thank you. Our next question comes from the line of Larry De Maria with William Blair. Please proceed with your question.

<Q>: Thanks. Good morning, everybody. Few questions, but first off, can you just discuss on the new plant you opened to book and the obviously in the near future, the financing, how feasible the financing is, and then the timing of the shipment, that would be all third and fourth quarter presumably?

Ben Brock - President and Chief Executive Officer
Hi, Larry, this is Ben. Feel very good about their financing. I have met with their lender personally, very, very solid, so we are very comfortable with that. The timing of it possible to get a part of it even in the second quarter, if timing is good, because we've held some space for that and then third and fourth quarter for the balance.

<Q>: Okay, thank you. Another one, you mentioned, I think 130 asphalt plants as the potential market, if I heard you correctly. I guess, where were we last year, where do you think the market is this year and what's the path towards that 130?

Ben Brock - President and Chief Executive Officer
I would say that last year, we were in a 35 to 45 plant market. It was pretty depressed. I think if you look at our third and fourth quarters, it's fairly reflective of that and I think this year, we could be in a 75—this is a gut number. There is no huge science behind this, but 75 to 85 plant market, I would say, and as part of that, that will include component sales. So, it might not be 75 complete all new asphalt plants, it might include a drum and a bag house sale and everything starts adding up to where it is a 75 to 85 plant market.

<Q>: Okay.

Ben Brock - President and Chief Executive Officer
And so, everybody kind of counts that differently. We have competitors that count a drum and a bag house as a complete plant sale. So, we would count that as component sales here at our place.

<Q>: And then getting towards that 130, so it's essentially doubling your view I think going towards 130 by 2018?

Ben Brock - President and Chief Executive Officer
I think, yes, 2018, but it's going to be up, I think it's going to be pretty strong in 2017 with the Highway Bill, just the visibility everybody has, as the work starts to come out and everybody gets a better feel for what that is. But the dollar amount as the Highway Bill is not huge increases, what's huge in it is the time of it and the visibility that our customers have and their psychology around being able to pay for the plant over time, is they have the baseline of that Highway Bill there, it just changes their thinking in how they act and we've seen that in the first two months of the bill.

<Q>: Great. And then finally, Ben, you mentioned on M&A obviously there are some things that you are thinking about doing, but what are your thoughts on the opposite of doing some divestitures at this point, or is everything considered relatively core or could we kind of trim down since some of the markets are obviously not cooperating?

Ben Brock - President and Chief Executive Officer
At this stage, we're not considering divesting anything. On the oil drill rig business, we have customers or competitors that are in really tough shape. Some that have gone into receivership. We could be one of the few on the other side of this thing if we can hold on and so that's why we're moving products into that facility and that's why we're doing our best to sell more water drill rigs to help profit up, because on the backside we may be a very viable supplier when this all gets done. So we're hanging on, but we're having to do some tough decisions there as far as people and time and how much we're working. But then on the other side, we may be in really good shape.

<Q>: Okay. I appreciate that, that's really good color. Thanks and good luck.

Ben Brock - President and Chief Executive Officer
Thank you.

Operator
Thank you. Our next question comes from the line of Brian Rafn with Morgan Dempsey. Please proceed with your questions.

<Q>: Yes, good morning, guys.

Ben Brock - President and Chief Executive Officer
Good morning.

<Q>: Ben, you were talking about, you framed the pent-up demand on the infrastructure side. I'm just wondering, and you said that, you thought we were still kind of in a fairly strong pent-up demand. Would you say if you look back in history that I think we had 29, 30 extensions, you go back to TEA-21 or SAFE TEA-LU would you say this opportunity here with the new bill, as is good a pent-up demand market as you have ever seen in your career?

Ben Brock - President and Chief Executive Officer
That'd be tough, Brian, that 2006 to 2008 timeframe was fairly, fairly strong and I think we'll find out, the jury is still out, but it feels like as good a start to that run. But, the jury is still out on that.

<Q>: Okay, okay. Let me ask, do you guys see any differentiation in tranches between, you said, you had I think over 100 conversations, when you are talking at some of these trade shows, do you see any difference between the local or regional road builder guys versus a design build bunch like say Granite or Peter Kiewitt relative to how aggressive they're going to be in adding equipment?

Ben Brock - President and Chief Executive Officer
It's about the same. Everybody has kind of not been investing very heavily, and most everybody is saying that we're going to look at more equipment in the next year. I didn't have anybody saying we're in great shape and we're not going to need to do any replacing. Although, there are people out there that won't do that, but by and large most of the people were upbeat.

<Q>: Okay, and within that, is your sense that initially they're just substituting obsolete equipment for new equipment or do you think anybody is adding capacity?

Ben Brock - President and Chief Executive Officer
There are a few that are adding capacity, but most of it is replacement.

<Q>: Most of it's replacement, okay. As this thing moves out, how do you see over the next few years with more accumulation of new mobile equipment sales? How do you see what may be a deterioration in the parts sales if you're not repairing and fixing older equipment or is it more a function of what's in-field?

Ben Brock - President and Chief Executive Officer
I think, obviously, the new plants won't need as much many parts in the beginning, but, the offset to that for us is working on more service and parts, not just on our equipment, but on our competitors' equipment and I think that's showing up in our volume, particularly our Astec division had a record year in parts and we're adding more boots on the ground that's one area that we're encouraging our subsidiaries. Everywhere when we add boots on the ground in parts we get more volume and more exposure, not just to our customers, but our competitors' customers. We have one deal that we got during the quarter in the fourth quarter that was a direct result of our good parts effort on our competitors' equipment. So, we're going to stay focused on that and try to maintain if not increase that rate of 27% of sales.

<Q>: Where you guys are constructing the oil drillers, the pumpers that area? What in the short-term can you actually produce in those plants to kind of fill overhead absorption? What can you transfer down there?

Ben Brock - President and Chief Executive Officer

Well, that plant is set up to do more mobile type equipment. So, we can do some of that equipment and also the non-technical pieces for aggregate blending or aggregate, so what we call feed bins or conveyors they could build, which they are building some of that now.

<Q>: All right. Thanks, guys.

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

Operator
Thank you. Ladies and gentlemen, we have come to the end of our allowed time for questions. I'll now turn the floor back to Mr. Anderson for any final concluding remarks.

Steve Anderson - Vice President and Director of Investor Relations
Thank you, Melissa. We appreciate everyone's participation on our fourth quarter conference call. 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 March 8th, and an archived webcast will be available for 90 days. A transcript will be available under the Investor Relations tab 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 Melissa said, this will conclude our call. Thank you all, and have a good week.