Transcript of Astec Industries, Inc.
Fourth Quarter 2016 Earnings Call
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Participants

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David Silvious - VP, CFO and Treasurer
Ben Brock - President and CEO
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Presentation

Operator
Greetings and welcome to the Astec Industries' Fourth Quarter 2016 Earnings 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 - VP, Director of IR
Thank you, Melissa. Good morning and welcome to the Astec Industries' conference call for the fourth quarter and fiscal year that ended December 31, 2016. As Melissa mentioned, I am Steve Anderson, VP of Administration and Director of Investor Relations for the company. Also on today's call are Benjamin G. Brock, our President and Chief Executive Officer; Richard J. Dorris, Executive Vice President and Chief Operating Officer; and David Silvious, our Chief Financial Officer.

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

Before we begin, I will remind you that our discussion this morning may contain forward-looking statements that relate to the future performance of the company, and these statements are intended to qualify for the Safe Harbor liability established by the Private Securities Litigation Reform Act. Any such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions. Factors that could influence our results are highlighted in today's financial news release and others are contained in our annual report and our filings with the SEC. As usual we ask that you familiarize yourself with those factors.

At this point, I will turn the call over to David to summarize our financial results for the fourth quarter and the full year 2016. David?

David Silvious - VP, CFO and Treasurer

Thanks, Steve. Good morning, everyone. Thanks for joining us this morning. Net sales for the quarter were $326.6 million, compared to $215 million in Q4 of last year. That's a 51.9% increase or $111.6 million increase in sales. International sales were $61.6 million, compared to $54.7 million in Q4 last year, 12.6% increase or $6.9 million increase.

International sales represented 18.9% of Q4 sales this year compared to 25.5% of Q4 2015 sales. The increase in international sales quarter-over-quarter occurred primarily in Mexico, Japan and then Australia. These increases were offset by decreases in the Middle East, Africa and in Russia. Domestic sales for the quarter were $265 million compared to $160.3 million in Q4 2015, an increase of 65.3% or $104.7 million increase.

Domestic sales were 81.1% of Q4 2016 sales compared to 74.5% of Q4 2015 sales. Part sales for Q4 2016 were flat at $62.5 million compared to $62.6 million in Q4 of 2015. That makes part sales 19.1% of quarterly sales in 2016 versus 29.1% in Q4 of 2015. For the quarter, part sales increased in the Infrastructure group, and decreased in the Ag and Mining group and in the Energy group.

Our fourth quarter revenues were boosted by the recognition of higher than expected pellet plant revenues based on where we are in the delivery and in the construction schedule on that project.

Foreign exchange translation had a negative impact on sales for the quarter of $600,000. That is if the rates this year were equal to last year's rates then the fourth quarter sales would have been $600,000 higher.

On a year-to-date basis sales were $1.147.4 billion that compares to $983.2 million in the last year of 2015. That's an increase of 16.7% or $164.2 million increase in sales year-over-year. International sales were $206.2 million for the year compared to $260.9 million in 2015. That's a decrease of 21% or $54.7 million decrease in international sales year-over-year.

The decrease in international sales year-over-year occurred primarily in Canada, the Middle East and in Africa and those decreases were offset by increases in Japan and Mexico for the year. International sales were 18% of net sales in 2016 compared to 26.5% in 2015. For the year international sales decreased in each of our groups.

Domestic sales year-to-date were $941.3 million compared to $722.3 million for 2015, a $219 million or 30.3% increase. Domestic sales were 82% of 2016 sales compared to 73.5% of 2015 sales. Part sales year-to-date were $263.5 million, compared to $265.1 million in 2015. That is a decrease of a little less than 1% or $1.6 million decrease. Part sales were 23% of total sales in 2016 compared to 27% of sales in 2015.

Again the foreign exchange translation had a negative impact on sales for 2016 of $10.1 million. That is, if the rates this year were equal to last year's rates, the sales would have been $10.1 million higher.

Gross profit for the quarter was $64.5 million compared to $45.4 million in Q4, 2015, a 41.9% increase or $19.1 million increase. Gross profit percentage then for Q4 was 19.7% compared to 21.1% for Q4 of 2015. The absorption variance was $9 million unabsorbed for the fourth quarter compared to $4.4 million of unabsorbed. That's a negative change of $4.6 million.

Foreign exchange transaction gain or loss was a loss of $0.5 million in Q4 2016 compared to a slight gain in Q4, 2015. On a consolidated basis for the year, gross profit was $265.3 million compared to $218.8 million in 2015, a

$46.5 million increase or 21.3% increase in gross profit dollars. That made the gross profit percentage in 2016 23.1% compared to 22.3% for the full year of 2015. Our year-to-date absorption variance was $16.5 million unabsorbed compared to $14.3 million unabsorbed in 2015. That's a $2.2 million negative change in the absorption variance.

Foreign exchange transaction gains or losses for the year were flat. They were just under $1 million loss in 2016 and in 2015.

SG&A for the quarter was $45.4 million or 13.9% of sales compared to $40.7 million or 18.9% of sales in Q4 of 2015. That is a $4.7 million increase or a decrease of 500 basis points when considered as a percentage of sales. The dollar increase was driven primarily by payroll and related expenses, including profit share expenses, health insurance expense went up. Those increases were offset by a decrease in repairs and maintenance expense for the quarter.

For the year SG&A was $178.1 million or 15.5% of sales compared to $168.9 million or 17.2% of sales, an increase of $9.2 million or a decrease of 170 basis points as a percent of sales. Payroll and related expenses drove some of that increase as well as profit share expense year-over-year. Exhibit expense, recall that we had BAUMA earlier in the year and we had decreases offsetting those increases during the year of health insurance expense and repairs and maintenance, which were both down year-over-year.

Operating income for the fourth quarter was $19.1 million, compared to $4.7 million in Q4, 2015, an increase of $14.4 million or 306.4% increase. For the year operating income was $87.2 million, compared to $50 million in the prior year, an increase of $37.2 million or 74.4%.

Other income was $63,000 for the fourth quarter compared to $1.2 million in the fourth quarter of last year and was $1.5 million in the year compared to $4.4 million for the year of 2015. Recall that primary source of our other income is license fee income and investment income by our captive insurance company. The year-to-date prior year amount in 2015 also includes key man life insurance proceeds of approximately $1.2 million.

The effective tax rate for the quarter was 34.2% in 2016 compared to 36.1% in 2015 and for the year the effective tax rate was 36.9% compared to 38.5% last year. The effective rates for both the quarter and the year were favorably impacted by state tax jobs credits, federal and state R&D credits, increases in domestic production activity deduction and a decrease in our foreign subsidiaries losses for which the tax benefit cannot be recognized.

Net income attributable to controlling interest in the fourth quarter was $12.4 million, compared to $3.6 million in Q4 of 2015, an $8.8 million or 244.4% increase. Diluted EPS for the quarter was $0.53 compared to $0.16 in Q4 of 2015, a $0.37 increase or 231.3% increase in diluted EPS.

Net income for the year was $55.2 million compared to $32.8 million for the full year of 2015, an increase of $22.4 million or 68.3% increase. And that made diluted EPS for the year of $2.38, compared to $1.42 in the prior year, a $0.96 increase or 67.6% increase in diluted EPS.

EBITDA for the fourth quarter was $25.6 million, compared to $11.8 million in Q4 of 2015. That's $13.8 million increase in EBITDA or 117.1% increase in EBITDA for the quarter. And for the year EBITDA was $112.7 million compared to $78 million in the prior year, a $34.7 million increase or 44.5% increase in EBITDA year-over-year.

Our backlog at December of 2016 is $357.4 million compared to $315.9 million at the end of 2015, and remember that we always adjust prior years when we have an acquisition to reflect the backlog of that acquisition so you get a true apples-to-apples comparison. We did have the acquisition of Power Flame on August 1 of 2016. That's an increase of $41.5 million in December backlog compared to last year or a 13.1% increase.

International backlog at the end of this year, or at the end of 2016 was $62.6 million compared to $54.1 million at the end of 12/31/15. That's an increase of $8.5 million or 15.6% increase in international backlog. Domestic backlog at the end of 2016 was $294.8 million, compared to $261.8 million at the end of 2015, a $33 million or 12.6% increase.

The December backlog of $357.4 million compared to the September 30 backlog as we previously released, was down $31.9 million or 8.2% sequentially. The January 2017 backlog is $386.3 million. That's a record high for our January month end at $386.3 million. That's an increase of 9% over last January's backlog at the end of January restated for Power Flame as well and an increase of 8% sequentially over the December 2016 backlog.

Foreign currency translation impact on the backlog compared to December of last year was a negative impact of $1.4 million. Some folks like to ask about the backlog without the various pellet plants, and there so, the backlog without pellets at December of 2016 is $279.9 million compared to $229.6 million at the end of 2015. That's an increase of $50.3 million or 22% increase in backlog without pellet plants in there.

Our balance sheet continues to be very strong. Our receivables were at $110.7 million compared to $102 million at the end of last year, an $8.7 million increase in receivables. However our days outstanding are down to 30.5 days at the end of 2016, compared to 43.1 at the end of 2015. Our inventory is at $360.4 million, compared to $384.8 million at the end of last year. It's a decrease of $24.4 million, making our turns in 2016 2.3 inventory turns compared to 2.0 inventory turns in 2015.

We owe nothing on our $100 million domestic credit facility and we have at the end of 2016 $82.4 million in cash and cash equivalents. Our letters of credit outstanding are $8.9 million, making our borrowing availability $91.1 million on that facility. Recall, we have financed some of the construction, the building, the fixtures, the inventory in Brazil, with debt in that country and that debt is at $6.7 million at the end of 2016.

Capital expenditures for the fourth quarter were $8.4 million and for the year CapEx was $27.4 million. For 2017 we're looking at somewhere around $30 million in capital expenditures.

Depreciation in the fourth quarter of 2016 was $5.3 million and for the year of 2016 depreciation was $20.8 million, and for 2017 we're looking at around $23.5 million of depreciation.

So that concludes my remarks on the financial details. I'll turn it back over to Mr. Anderson.

Steve Anderson - VP, Director of IR
Thank you, David. Ben will now provide some comments regarding the fourth quarter of this year's operation and will offer some thoughts going forward. Ben?

Ben Brock - President and CEO
Thank you, Steve, and thank you to everybody for joining us on our call today. Before going into my comments on our earnings release, I do want to take a minute just to say a word of thanks to our entire team at Astec for a very good year in 2016. We ended the year with a record $1.15 billion in sales, a strong EBITDA of $112.7 million and a new record backlog at the end of the months of December and January. And that takes a total team effort to execute a very good year and we look forward to getting even better in 2017.

As we commented in earnings release this morning we're pleased with our fourth quarter and our full year 2016 results. Our headwinds are still constant, the low yet stabilizing oil and natural gas prices, the global mining industry glut and the strong US dollar all continue to present challenges to us. We've continued to secure and ship orders as a result of the passage of the federal highway bill in the United States, which allowed us to earn good result for the quarter and for the year in our traditional business areas.

As David covered during his comments we recognized a much larger than anticipated $70.6 million in pellet plant revenue during the quarter. Frankly we're just ahead of where we thought we were. It's a big project but I guess if you're going to be ahead it's better than being behind, but $70.6 million in pellet plant revenue during the quarter.

Our earnings per share were $0.53 per share versus $0.16 per share in the fourth quarter of 2015, an increase of 231%. The sales in the fourth quarter were $326.6 million versus $215 million, an increase of 52%. Year-to-date, sales as I mentioned were right at $1.15 billion versus $983 million last year, an increase of 17%. And earnings per share were at $2.38 per share for the year versus $1.42, an increase of 68%. As mentioned our EBITDA was up to $112.7 million versus $77.7 million, an increase of 44.5%.

Again we mentioned our backlogs. Our January 31st backlog was a new January record at $386.3 million. Our Infrastructure group continued good order intake during the quarter mainly as a result of the federal highway bill in the US. Our Aggregate Mining group also saw increased backlog again mainly as a result of the federal highway bill.

Our Energy group backlog was down slightly. However we experienced good order intake in the group during January for products targeted at the construction industry. We also experienced a slightly increased quoting activity for our oil and gas drilling products.

Domestic backlog was up 13% year-over-year and international backlog was up 16%. Our higher backlog in domestic again was primarily due to the passage of the long-term federal highway bill and good private sector work levels continued for our infrastructure customers.

Regarding our increased international backlog, we continue to experience slight improvement in international quoting in sales. Our increase in backlog in international is once again a direct result of pent-up demand and our team executing where we could for orders. One thing I would add to that is I did travel to Europe already this year and the feedback is things seem to be getting better there as a whole.

Despite our gains internationally, the strong US dollar remains a significant headwind for our export efforts. Our Astec do Brasil facility experienced a very, very slight increase in quoting activity in Brazil. However we believe that economic and political environment remains a challenge to us for at least the rest of this year in Brazil. We continue to pursue work for the facility in countries that surround Brazil.

We're maintaining our international effort despite the challenges presented to us by the strong dollar and depressed mining industries in our key markets. While we are keeping our long view with regards to international, we do see the strong dollar, flat oil prices and flat mining conditions remaining in place for the foreseeable future.

Changing subjects to the Hazelhurst, Georgia pellet plant that we have discussed on several calls—and this is the first pellet plant that we built. Sometimes it gets a little confusing with Hazelhurst and Highland, but this is the Hazelhurst the first pellet plant. As a continual reminder, it was a new product that we chose to finance. As a result we'll 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, the order for all three lines was for $60 million.

In December we agreed with the partners at Hazelhurst to extend the loan term to final payment due in December 2018 in lieu of July 2017. Given the fact that Hazelhurst has been a good partner, they helped us get into the business, and have allowed several potential customers including, Highland Pellets, our second pellet plant we sold, to visit the site for sales purposes we agreed to the extension. The main reason for the extension is a temporary low in wood pellet demand that is widely expected to recover late this year. We now expect the final payment in December 2018 and as a reminder the interest rate on the note is 6%. With regards to Hazelhurst please keep in mind that we are carrying it on our books at breakeven. So its effect to us is really only our inventory and cash.

As a reminder from David's comment, our cash at year end stood at $82.4 million versus $25.06 million last year. So we also feel comfortable with the extension with Hazelhurst from a cash standpoint. The plant sits in our inventory at $60 million.

As most of you on the call know today we were pleased to be on schedule all year long during 2016 in our revenue recognition of our $122.5 million with pellet plant order with Highland Pellets. This was the $122.5 million portion of a total order of $152.5 million.

As a reminder our plan was to recognize the $122.5 million order as follows: in the second quarter about $20 million, and ended up about $18 million; in the third quarter about $20 million and ended up at $19 million; in the fourth quarter we expect to recognize about $35 million for a total of about $105 million in 2016. And as mentioned earlier again during David's comments and in mine we ended up recognizing $70.6 million in the fourth quarter.

This leaves us with approximately $15 million to $20 million that we expect to recognize on the Highland Pellets project during 2017. Margin on the amount left to recognize is slightly below normal major equipment margins, as it is site work, installation, start-up type work.

Now turning to our current pellet plant quote activity, we do have ongoing quote activity for new projects and we anticipated that we would have an added new large order late last year, early this year for delivery in 2017. We do not have this order yet. We still believe an order will be becoming in 2017. However, the timing of it remains elusive to us. Given what we know we believe the next sizable order will come in the second half of this year. We are also working on other projects that are in the $75 million to $100 million range each. That would not happen until late this year at the earliest.

Based on what we know today and because we are now ahead on the Highland Pellets revenue recognition we project that our pellet plant revenues will be in the range of $40 million to $50 million in 2017. This includes the remaining $15 million to $20 million that we anticipate from the Highland Pellets project. As we have said many times wood pellet plant deals are long and complicated to get across the line. While we are optimistic that a new project will happen in the timeframe mentioned it always could be longer than we anticipate.

Changing subjects to the Energy group, we remained challenged in our drilling and pumping equipment sales activity during the fourth quarter. However we have seen a slight increase in quote activity this year. We continue to increase our street broom equipment line production in Enid, Oklahoma which is our most effective facility in Energy group and that line does remain a Roadtec branded name line and is sold and serviced by Roadtec.

We've offset sales challenges in heaters for oil and natural gas industries with sales of asphalt terminal systems and hot asphalt storage tanks during the quarter. Sales of wood chippers and grinders remained consistent during the fourth quarter. Our concrete plants are built in the Energy group and quoting activity is good for these plants. However our sales of these concrete plants have not been where we would like them to be at this point.

We remain optimistic on our outlook in the Energy group in the long-term. However barring an unexpected change in some of the markets we serve, we will be challenged in this group during 2017.

Our new product development continues in all groups. Regarding new products the CONEXPO Trade Show starts just 14 days from today. We spent around $4.2 million on the prior CONEXPO and we expect to be in that range for the upcoming CONEXPO. We have been working on new products for this show for some time. And we are proud to announce that we will display 65 of our products at the show.

We are equally proud to announce that of the 65 products, 27 will be new products and an additional 22 products displayed will be improved products. So with 49 out of 65 products being new and/or improved, we're energized and excited about our opportunities at CONEXPO. Given the current industry economy, we expect attendance to be very strong at CONEXPO.

Looking ahead to the first quarter of 2017, we are encouraged by our backlog, our domestic sales outlook and our strong Infrastructure group sales activity. Given these encouraging signs, we believe that our first quarter 2017 revenue will be slightly ahead of our first quarter 2016 revenue.

With regards to our earnings in the first quarter of 2017, as we mentioned in our earnings release this morning, we do have a larger than normal level of new products in our manufacturing plans this quarter, which will temper our bottom line results to more in the range of our first quarter 2015 results rather than our first quarter 2016 results. While still a profitable bottom line and historically a good bottom line for us, it will feel more like a slight step back versus our first quarter 2016 results.

These new products are good for our long-term outlook but they are also likely to affect our margins and our warranty costs in the first half of this year, which will likely put our net income behind our 2016 performance at the end of the first half but ahead of our first half of 2015 performance. Our current outlook for the full year of 2017 is revenues up 5% to 10% versus last year with an improved net income for the year as a whole, which indicates that we believe that we will have an improved third and fourth quarter in 2017 versus 2016.

Our outlook for 2017 combined with our 2016 performance also indicates we believe that by the end of 2017 we will have grown our company sales in the range of 22% to 27% over the two-year period along with increased net income. This would represent strong growth and good performance in our industry segment. Despite the gains we still have opportunities to get even better and our focus will be on increasing gross margins again this year.

Our Infrastructure group is performing well and we are slightly more than cautiously optimistic on our outlook for the Aggregate Mining group. We remain cautious on our outlook for the Energy group, with the main headwinds for this group being very real and persistent. From our last earnings release until now, orders have been good in the Infrastructure group and improving in the Aggregate Mining group mainly due to the highway bill. Orders are slightly better internationally, however not strong internationally mainly due to the strength of the US dollar and the mining slowdown.

Energy group orders are still soft for products targeted at the oil and gas industry with slightly increased quoting activity. Orders in the Energy group are improved for products targeted at infrastructure customers. Aggregate Mining group orders are soft for products targeted at the mining industry.

Bright spots for activity are hot mix asphalt equipment sales, including hot mix asphalt plants and mobile paving equipment, concrete plant quoting activity, and as I mentioned earlier we need to start selling activity, wood pellet plant quoting activity, wood chippers and grinders, aggregate crushing and screening equipment quoting activity, and international quote activity despite the strong dollar. For competitive reasons we won't be indicating regions of activity. However we do feel the responsibility to indicate our quote levels do remain slightly increased. As David mentioned we did have sales increases in Japan and Mexico.

Year-to-date part sales were down by just under 1% versus last year and with 23% of total sales versus 27% of total sales in 2016. This basically represents flat part sales versus last year, however, our part sales activity picked up in January in the start of the year, well ahead of last year's pace. We remain committed to improving our part sales volume in the long-term, along with working to increase our competitive part sales and service sales.

With slightly increased gross margins in 2016, our focus will be to continue to increase gross margins during 2017. The majority of our customers in the United States are experiencing a stable product market and we're focused on selling existing and new products.

Peaking ahead to 2017, we are optimistic with regards to our Infrastructure group's outlook on infrastructure related equipment, we remain cautiously optimistic on wood pellet plants in the group. We believe our Aggregate Mining group will be up slightly next year and we believe our Energy group will improve on the bottom line in 2017 despite the challenges we face.

Taking all that together, we will have the opportunity to successfully grow and operationally improve our company through the fourth year in a row in 2017. Acquisitions remain a key piece of our growth strategy along with organic growth. To that end we continue to work on potential additions to our Astec family. Given our current financial position overall, we do have the ability to execute a larger than historically normal acquisition. However we will only do so if the acquisition is strategically aligned with the industry we serve.

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

I'll now turn it back over to Steve Anderson.

Steve Anderson - VP, Director of IR
Thank you, Ben. Melissa, if you'd open up the Q&A we would appreciate it.

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

Q: Good morning, gentlemen and congratulations on a good 2016. Ben I really appreciated all the detail in terms of the puts and takes on the guidance. Maybe my question to kind of clarify things a little further, by my own math you have done close to $137 million of pellet plant revenue in 2016. You're saying that you're going to do $40 million to $50 million in 2017. You only have $15 million to $20 million left in Highland that would be in the backlog. I don't know if the remainder would be an additional order or if there is something else in the backlog that I need to be aware of. So that would be first part of the question.

And the second part would be, so when I'm looking at the headwind that you're going to have from pellet plants, 2016 versus 2017 it looks like about $92 million. Your guidance implies, call it, $85 million worth of growth. So net-net we're looking at your core business, excluding pellet plants increasing something to the tune of $180 million in 2017 versus 2016. How confident are you that the end markets are strong enough to support this kind of growth to this point in the year?

Ben Brock - President and CEO

Hi, Mig, this is Ben. I'm confident enough to say I think we'll still be at 5% to 10% for the year. And we had the National Asphalt Plant Association meeting this year and attended that and more than just a hello we asked everybody to track how many people they talked to, more than just a pass by hi. And I talked to over 70 customers during that week and I just feel pretty comfortable that that market is going to stay pretty strong this year.

Aggregate has got a pretty good heartbeat coming in with seeing the highway bill results. And I still think we have an opportunity to get some pellet plant business, at least to the number we said and possibly more, but at least to the number we said. So taking those together with a slight heartbeat in international that’s where we came up with the 5% to 10% number.

Q: Well, I guess the thing that confuses me, I understand that we have a multi-year highway bill in place, which in theory probably should have helped demand in 2016. But when I'm looking at the ARTBA Construction Forecast, when I'm looking at the contract, the highway contract, I'm, for one, not seeing a whole a lot of growth out there. So I guess what I'm wondering here is how sustainable is this growth, because when I'm looking at your infrastructure orders for instance in the fourth quarter, to me they didn't seem like they've accelerated in any meaningful form.

Ben Brock - President and CEO
When you look at the highway bill, the 2016 number is $37.8 billion, the 2017 number is $39.7 billion, the 2018 number is $41.8 billion, goes to $42.3 million and $43.4 million. That's the baseline that our customers are looking at to go ahead and invest the capital in the equipment. And so the confidence level outside of the ARTBA number, is I feel pretty good about replacing what I have, or getting a new plant and that's what we're experiencing.

So we have a little bit of a feel for what's going on and talking to guys on the ground and that’s just doing that and travelling and seeing customers and going to Europe and talking to people. And that's where we are and that's how we feel about this year sitting where we are today.

Q: All right. Can you however confirm to me that you did recognize $137 million of wood pellet plant revenue in 2016 and headwind based on your guidance would be about $92 million from wood pellets in 2017?

David Silvious - VP, CFO and Treasurer
Yes, it was about $135 million, Mig. This is David, so you’re right there on the number. That number is correct, yes.

Q: Okay, and the last question before I go back in the queue. Maybe a little more color on the gross margin in the fourth quarter in infrastructure, specifically. I suspect that the reason why we’re looking at sub-18 percent is because of the incremental pellet plant revenue that has been recognized in the quarter. Can you sort of confirm that that’s what drove the year-over-year margin contraction and maybe a comment on how the core business is operating ex-pellet plants?

David Silvious - VP, CFO and Treasurer
Hi Mig, this is David. You’re right that additional revenue that was booked on the Highland pellet plant was related primarily to construction and that bears a much lower margin. A lot of that is subcontracted out and so it carries a much lower margin than equipment does and our traditional equipment margins. So you’re correct. As far as without that number in there you’d wind up in a much more traditional margin profile than you’re used to seeing.

Q: Okay, thank you.

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

Q: Hi guys, good morning and thanks for taking the question. So just make sure I heard that right, so the gross profit ex the wood pellet would be more on the normal side. I want to make sure that the profitability of the wood pellet plant is going to be at least in line, maybe even ahead of expectations. And then kind of roll that forward, thinking about the year with the goals of helping to improve margins but in all likelihood higher material cost, right, some of the mix issues, can you talk about the confidence of being able to drive margin growth on the gross line in 2017?

Ben Brock - President and CEO
Thanks, Stanley. This is Ben. On the total margin for the wood pellet plant I think going ahead we feel really good about being in line with our major equipment gross margins and frankly a little ahead. I think we've made in fact good momentum on that and the lines are repetitive and they're 20 ton per hour lines, so feel good about the equipment margins.

As far as growing gross margin this year, I still think we can do that. We do feel like we're going to see a steel increase later in the year. We're okay on steel to the third quarter. We have booked in the third quarter some of our divisions, but we're on top of it. We're talking with our presidents and making sure we're watching pricing. But yes, we do think we're going to see increases in steel prices in the third quarter.

The mills are talking, again similar ranges to last call. I think we were talking 12% to 15% last time, if I recall it correctly and that's about what we're hearing this time. Again it remains to be seen if they can get through, part of that is depending on what the president does with tariffs and that type of thing, and border taxes and all like that good stuff, of course there's a lot that remains to be seen on that, but as soon as anything happens there they'll increase the prices. So we're guarding and watching and watching pricing as a result of that.

But we're doing a lot of things, a lot of things we put in place over the last few years is on the lean side and how we're doing purchasing. We're working to just continually chip away. It's never a single thing that helps you get gross margin up and we're just trying to keep executing the basics to try to keep getting gross margins up. Again in the cycles our high side gross margins, 25.5% to 26% we're still talking with our guys that's where we want to get to during the cycle.

We didn't go as high as we wanted to for the year, as we brought in the lower margin $37 million worth of additional revenue on the pellet plant construction, but we're close to two without it. So our guys are doing a good job but we can do better. I mean we still have opportunity despite how well we've done, and that's kind of an energizing exciting thing for us that we can do better and we're going to keep working at it.

But I do think we'll be challenged in the first half a little bit with the new products, and it's only fair that we mention that because there's a lot and it's not just in one place. I mean there are several divisions. So for competitive reasons I don't want to name each division, but when you have 27 new products at a show and some of those are going through—and they're sold already—there is always going to be some fun around that, I guess I'd say, challenges.

Q: I hear you. Ben, you always have a good read on the pulse of what's happened in this space. I'd love to hear kind of some high level thoughts, what you're hearing from your customers and then also kind of what you're hearing around the BOLD Act and kind of the prospects of that, or really any other infrastructure sort of program coming down the pipe in 2017.

Ben Brock - President and CEO
Well, coming out of the Asphalt Association Meeting which was very well attended, I didn't talk to anybody that wasn't having—had a really good year last year and expected a really good year this year. I had some contractors who wanted to be off the record saying they're already full for the year. So that means it's pretty good.

Aggregate side we're starting to sell more into quarries, which is kind of what we thought and we said on a few calls that we thought it would be little bit delayed there. So we're seeing a little bit uptick, that's reflected in the backlog for the Aggregate Mining group.

On the mining side, we're seeing some upticks in production at some of the larger mining companies and we have inquiries. But it just doesn't feel great. Osborn is right in the middle of mining country in South Africa. They held in there okay for the year, given what's around them. So they did a good job considering what the environment was.

In the oil and gas side for Energy group, there is a little bit of a heartbeat there, oil's been kind of hanging around in the $50s. I mentioned the activity we did get an order, in our GEFCO facility for two pumpers in January for $4 million. It felt really good but until there's another something or other that keeps coming on order side it's hard to call that a trend but it sure felt really good, because it's been a long time since we had a nice order like that at GEFCO.

So I guess that kind of covers the three groups. The equipment in the Infrastructure group or Energy group that goes in the infrastructure industries, I have seen an uptick. So we're seeing good quoting activity there.

Q: And any comments around the BOLD Act, kind of what you're hearing in the field?

Ben Brock - President and CEO
Yes, sorry about that. I think it's too early to call. The people that we have talked to that we know still think we'll see something in the neighborhood of $400 billion to $500 billion that would be spent over five to ten years, that the money would start falling in 2018. But gosh, projecting and predicting what our current President's going to do is interesting.

So we certainly would welcome that and would love it. But that's kind of what we are hearing now. BOLD Act, I haven't heard much on that on the momentum side, I have just heard the number on the size of the bill and not how to pay for it.

Q: I hear you. Great, guys. Well, thank you and the best of luck.

Ben Brock - President and CEO
Thank you.

Operator
Thank you. Our next question comes from the line of Mike Shlisky with Seaport Global Securities. Please proceed with your question.

Q: Good morning, this is Jordan Bender on for Mike this morning. I was just wondering if there is a specific segment that you can point to that drove the January backlog increase.

Ben Brock - President and CEO

Well, David has those numbers, but I know in our Astec division had a great order intake in January and that our Energy group had a good January. So I don't think we have that number in front of us. But if somebody asked me the order of where it came from, to me it's infrastructure, energy had a good January and then aggregate had an okay January.

Q: Got it. Do you guys get the sense that the increased order activity is from increased business confidence coming out of this new administration or is it just more of a general business trend?

Ben Brock - President and CEO
In talking to our customers, they really like President Trump, it feels better—and not just our customers. I mean if you go talking to people in another industries they just feel better. But I think the highway bill and the general private side for our customers is driving it more than just having Trump in office.

Q: Okay. I'm going to squeeze one more in here. Do you think once the early warranty issues are ironed out your new products will be positive for margin mix or they are going to be more in line?

Ben Brock - President and CEO
I think they will be in line with major equipment margins. And maybe to be helpful, I mean on the CONEXPO show, to give you an example of some of the new products, we'll have a fusion plant for CEI model. It's a small concrete plant. GEFCO will have a new Strata-Star five drill rig, that's a geotech rig. KPI, our crushing screen division will have a new dual power track mounted pressure system. It's a diesel electric unit. Peterson will have a new small drum chipper that will fit in a container and that can go international.

Roadtec will have a new material transfer vehicle, an MTE1100 and a new eight-foot paver RP175E. Telsmith will have a brand new 500 ton hour T500 cone crusher on the floor. Carlson will have a brand new eight-foot paver, CT130. Heatec will have a new redesign of terminal models that they've done for asphalt terminals. So those are just—that's a quick cross section of new things we'll have at the show, that some of those things end up in shops pretty quick as we start to develop them as sales.

And we're also going to have something that will probably draw people in to the show that's a smaller dollar item that what we call it, Astec will release the Silobot at the show which will be a robot with magnetic wheels that will climb up the inside of a silo and take fitness measurements of the steel and do a video inspection of inside a hot mix asphalt silo so that customers don't have to put people in the silos to do those inspections.

So that will probably get a lot of play, because it's going to be really neat looking and be climbing up a wall in the booth. Pretty exciting things but the first round of what we do, and we're doing new products always with lower margin.

Q: All right, well, I appreciate it.

Ben Brock - President and CEO
Thank you.

Operator
Thank you. Our next question comes from the line of Mario Gabelli with GAMCO Investors. Please proceed with your question.

Q: Thanks, it was good to follow-up on the list of products that you guys are showing at CONEXPO. When I watch a movie being released this industry would speculate on kind of how much money that might gross domestically. What's your gut on what you think your orders would be and might you tell me what that the Silobot would cost; I may want to have that in lieu of something else in our firm?

Ben Brock - President and CEO
The Silobots are going to be pretty inexpensive. It's probably not going to be more than—I think it's not even more than $15,000 but what it replaces, the safety for our customers is the big deal. That's a confined space issue for them and unless they have to get in the silo they don't understand.

Q: Yes, no, no, I was just curious because I can see those Silobot equivalency going through pipelines through inspection which they are doing now in water.

Ben Brock - President and CEO
Yes.

Q: Lot of potential, where do you produce that one and how much of the value added is internal technology and software?

Ben Brock - President and CEO
We produced it here at Astec, Inc. It came out of our controls department. I'm not sure on the value added piece of that but it's almost—

Q: That's okay. I will get offline another time, but just your gut on the total size of your orders. What would be a good number that we should think about come the middle of April that you're going to report in Q1?

Ben Brock - President and CEO
For the Silobot?

Q: No, just for the entire CONEXPO product line ups that you have; you've got to have a dream list.

Ben Brock - President and CEO
Dream coming out of CONEXPO, I think if we can say we came out with $20 millionish to $30 millionish. That would be incredibly good because it's not a selling show normally.

Q: Yes, no, I got it. And what is your cost to attend the show and are you expensing that as part of what you gave us as an estimate for Q1?

Ben Brock - President and CEO
Yes, we are expensing it and it's in the range of $4.2 million.

Q: Thanks

Steve Anderson - VP, Director of IR
Well he may have dropped. Melissa, let's go on to the next call.

Operator
Sorry. 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. I want to ask about sales in backlog were up in the quarter despite the drag you talked about with the stronger US dollar. Is there any lumpiness in there that you would call out and what do you expect going forward in terms of your international performance?

Ben Brock - President and CEO
Hi, this is Ben. I think I referenced pent-up demand on the call and then in my mind there is a pent-up demand for US-made products. And I think some of the countries have gotten used to the spread and thinking well it's just not going to change soon, I want to go ahead. So it feels really good because it's been so down. And so we hate to say that it's back and it's going to continue to go up just because the currencies aren't moving and in some cases they move the still stronger US dollar.

So I would almost say that's why we're cautiously optimistic. We want to keep reporting on that and if becomes a trend that will be awesome. But with the currency where it is, it's hard to say that it's going to be consistent.

Q: Okay, that makes sense. And I then I want to shift gears a bit to the energy segment. I think you've called out pockets of demands in certain segments of industrial. And so I was hoping if you could elaborate on that where what segments of the market are you seeing strength, what product types and that kind of thing.

Ben Brock - President and CEO
In the industrial side, Rick Dorris is here, who's been speaking with them recently. You might want to speak to couple of those.

Rick Dorris - EVP and COO
Yes, they sold heaters into chemical plants, and some even food processing plants. They've also recently started selling some small heaters for gas processing pipelines or heating the gas as it's let down in pressure. And that's been a pretty good market for them recently.

Q: Okay that's helpful. Thanks for taking my questions.

Ben Brock - President and CEO
Thank you.

Operator
Thank you. Our next question comes from the line of John Fisher with Dougherty & Company. Please proceed with your question.

Q: Yes, good morning. Just looking at your backlog ex wood pellet, the roughly 20% year-over-year increase through December, would you expect a similar type of increase in 2017, driven by the FAST Act and since the FAST Act, it's a five year bill, does the slope of the line from a demand standpoint for you, is kind of where does that start to level off? Is it at year five, is it past year five or does it start to level off from a growth and demand standpoint in kind of year two or three?

Ben Brock - President and CEO
Jon, this is Ben. It'll vary by group, but in the Infrastructure group on the asphalt equipment side it typically would tail off about a year to a year and a half before the end of the bill, so two to three years from now. It would maybe go a little longer in the aggregate side, because it started a little slower on the aggregate side.

The asterisk on all of that is not having a crystal ball on what President Trump will do, and what comes out of his infrastructure plan. That could change the normal model for us, a normal outlook would be it's going to tail off at some point, and that's logical. But if there is another $400 billion or $500 billion that comes in on top of what's there that would change what we just mentioned.

Q: Sure, okay. And then again just looking at the year-over-year 2016 versus 2015, the roughly 20% increase there, a lot of that I'm sure driven by the FAST Act, is 20%, give or take a good expectation for 2017 over 2016 ex wood pellets? Or would you expect a greater increase off that $280 million exit rate?

Ben Brock - President and CEO
I have to apologize, I didn't follow the question. Your question was—

Q: Well you talked about backlog as of the end of December being 280 versus 229.6. I'm just trying to get a feel for ex-wood pellet plant, kind of what would be a good expectation for backlog growth in 2017 versus 2016?

Ben Brock - President and CEO
I think in terms of the growth of backlog, it would somewhat mirror what we're saying on our total revenues, so 5% to 10%.

Q: Okay, okay. And then when you look at growth out of the Aggregate Mining and the Energy groups, and in international I guess too, if that were to be better than expected over the course of 2017 is that margin dilutive or would that be margin accretive?

Ben Brock - President and CEO
It would be accretive.

Q: Okay, thank you.

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

Q: Hi, good morning. Thanks for having me on. Ben, just to ask a similar question a different way when you're talking to your customers, particularly at the Asphalt conference, was there any sense that some of them were waiting to pull the trigger on orders until they get clarity on how CapEx and interest is going to be treated should tax reform begin to take hold?

Ben Brock - President and CEO
Brian, this is Ben. I didn't have anybody mention that when I talked to them.

Q: Okay, that's good. Also just thinking about Astec as an export base, what would you say the amount that you export from the US is on a year-to-year basis?

Ben Brock - President and CEO
We have a few divisions outside of the US, our Osborn division and Telestack that manufacture outside the US, and Brazil which has not been great. But those are the three locations where we actually—and BTI, Breaker Technology. So of that about 19% of our business last year, probably half of that was exported from the US.

David Silvious - VP, CFO and Treasurer
Yes, in a good year, in a good international year when international was 40% or whatever it would be, probably be up at 75% when the dollar is weak and encouraging those folks overseas to buy. But with the US dollar headwinds, I think Ben is right.

Ben Brock - President and CEO
The other thing I would add to that is that I did visit Telestack, too, when I was over in Europe and I'll tell you we've been very pleased with that acquisition, those guys are going a great job. And they have good backlog. So they have been really a pleasure to have with us.

Q: That's helpful, just two other smaller ones, regarding the slowdown of wood pellets that you spoke to with some confidence for the back half of the year, what's driving that?

Ben Brock - President and CEO
There is frankly an oversupply of pellets because it's been warm on the private market and in Europe they haven't needed as many pellets for the housing and so there is an oversupply of pellets. And so there's some stock buying going on that slowed it down. And the other thing that helps us feel good that it's going to come back is there's utilities coming online in 2018 and the demand is going to go up. So they have to have the housing market for the demand to go up.

Q: And just finally the Power Flame contribution in the quarter?

David Silvious - VP, CFO and Treasurer
Yes. Let me get that number for you. In the quarter Power Flame was about $8 million in revenues. And ex-amortization, which we've buried amortization of their intangibles as you know in acquisition accounting, they did about $300,000 to $350,000 of contribution to profit before amortization.

Q: All right, terrific. Well thank you so much and good luck on another successful year.

Ben Brock - President and CEO
Thank you.

Operator
Thank you. Our next question comes from the line of Ryan Hamilton with Morgan Dempsey Capital Management. Please proceed with your question.

Q: Good morning guys. This has kind of been asked, I might ask in a little bit different way. Can you give us a feel as far as what you're seeing in your Infrastructure group, if you're getting a feel of it's more pent-up demand versus maybe expansion? Could you maybe just—I know you kind of touched on that a little bit, but just to kind of get a feel for that?

Ben Brock - President and CEO
Hi, this is Ben. Actually until about two or three months ago, I'd say most of it's pent-up demand. But we have had some new plants for new area of purchases in the last two to three months. So there is now—it's past the pent-up demand stage in my opinion.

Q: Okay. Are there any regions in the US that you're kind of seeing accelerate faster than others? Anything of note?

Ben Brock - President and CEO
I'll tell you it's really consistent across the US. It's more where it's not and where it's not is more the Dakota's still depressed, but it's pretty active consistently across the country right now for us.

Q: Okay, thanks. The rest of my questions have been answered.

Ben Brock - President and CEO
Thank you.

Operator
Thank you. At this time there are no further questions. I'd like to turn the floor back to Mr. Anderson for final remarks.

Steve Anderson - VP, Director of IR
Thank you, Melissa. We appreciate your participation on this fourth quarter conference call and thank you for your interest in Astec. As our news release indicates today's conference call has been recorded. A replay of the conference call will be available through March 7, 2017 and an archived webcast will be available for 90 days. A transcript will be available under the Investor Relations section of the Astec Industry's website within the next seven days. All of that information is contained in the news release that was sent out earlier today.

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