Transcript of
Astec Industries Inc
First Quarter 2018 Earnings Call
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Participants

Stephen Anderson - Vice President and Director of Investor Relations
Benjamin Brock - President and President and Chief Executive Officer
David Silvious - Chief Financial Officer
Rick Dorris - Executive Vice President and Chief Operating Officer

Analysts

Larry De Maria - William Blair
Stanley Elliott - Stifel
Mig Dobre - Robert W. Baird
Jon Fisher - Dougherty & Company
Mike Shlisky - Seaport Global
Brian Rafn - Morgan Dempsey

Presentation

Operator
Greetings, and welcome to the Astec Industries' First Quarter 2018 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Steve Anderson, Vice President and Director of Investor Relations. Please go ahead Mr. Anderson.

Stephen Anderson - Vice President and Director of Investor Relations
Thank you, Rob. Good morning and welcome to the Astec Industries' conference call for the first quarter that ended March 31, 2018. As Rob 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 moment, I'll turn the call over to David to summarize our financial results and then to Ben to review our business activity during the first quarter.

Before we begin, I'll remind you that our discussions this morning do 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 today 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.

So at this point, I'll turn the call over to David to summarize our financial results for the first quarter.

David Silvious - Chief Financial Officer
Thanks, Steve and good morning everyone, thank you for joining us. Net sales for the quarter were $325.5 million compared to $318.4 million in Q1 of 2017, a 2.2% or $7.1 million increase in sales.

International sales were $55.4 million in this quarter compared to $64.9 million last year, a decrease of 14.7% or $9.5 million decrease. The decrease in the international sales quarter versus quarter was primarily in Australasia, Canada, Mexico and Russia. Those decreases were offset by increases in South America including Brazil and the post-Soviet states. For the quarter, international sales decreased in the Infrastructure group and the Energy group and they increased in the Aggregate and Mining group. International sales were 17% of sales in this quarter compared to 20.4% of sales in Q1 2017.

Domestic sales were $270.1 million in Q1 of 2018 to $253.5 million in the first quarter last year, an increase of 6.5% or $16.6 million increase in domestic sales. Therefore domestic sales were 83% of sales this quarter compared to 79.6% of Q1 2017 sales. For the quarter, domestic sales increased in the Aggregate and Mining Group and in the Energy group and decreased in the Infrastructure Group.

Part sales were $88.1 million this quarter compared to $81 million in Q1 2017, an increase of $7.1 million or 8.8% increase. Part sales represented 27.1% of our quarterly sales this year compared to 25.4% of sales in Q1 2017. For the quarter part sales increased in each of our groups. Foreign exchange translation had a positive impact on sales for the quarter of approximately $2.2 million. That is, if this year's rates were equal to last year's rates, sales would have been $2.2 million lower.

Gross profit for the quarter was $78 million compared to $75.8 million in Q1 of 2017, an increase of 2.9% or $2.2 million increase. The gross profit percentage then was 24% for the quarter compared to 23.8% for Q1 2017. That gross profit included an absorption variance of $4.4 million this quarter under absorbed compared to Q1 of 2017 when we had over absorption of about $700,000. That's a negative change in the absorption variance of about $5.1 million.

SGA&E was $52.1 million in Q1 this year. That represented 16% of sales compared to Q1 2017 SGA&E of $53.1 million or 16.7% of sales, so a decrease of $1 million in dollar terms and a decrease of 70 basis points as a percent of sales.

Recall that we did have CONEXPO last year of about $4.3 million in the quarter that would've been a comp of $48.8 million in Q1 2017. The increases in this quarter are that we bought RexCon in October of 2017, that added about $1 million to SGA&E in this quarter and payroll and related benefits are up, our head count is up and so is our commissions and things of that nature, so payroll and benefit related costs were up about $2.2 million in the quarter.

Operating income was $25.9 million in the quarter compared to $22.7 million in Q1 of 2017, an increase of 14.1% or $3.2 million increase.

Interest expense was $150,000 compared to $265,000 last year for the quarter and the primary driver of that interest expense, recall we do have debt in Brazil, it's about $3.4 million this year, it was about $6.3 million last year. That is there to finance their building fixtures and inventory.

The effective tax rate for the quarter was 23% compared to 34.1% last year. The decrease in the tax rate year-over-year is largely the result of the reduction in the corporate federal income tax statutory rate and that was done by the Tax Cuts and Jobs Act of 2017.

That rate included a couple of provisions to return benefits which drove it slightly lower than our expectation for the full year. Over the remainder of the year those benefits will become diluted by more income and of course then the rate, we would expect it to rise slightly through the year and end up in the 24.5% range for the full year

Net income was $20.3 million in the quarter compared $15.1 million in Q1 of 2017, a 34.4% increase or $5.2 million increase in net income. That yielded diluted earnings per share for the quarter of $0.87compared to $0.65 in Q1 of 2017, a 33.8% or $0.22 per diluted share increase in EPS.

EBITDA for the quarter was $33.2 million or 10.2% of sales compared to $29.4 million or 9.2% of sales in Q1 of 2017. That's an increase of 12.8% or $3.8 million dollar increase in EBITDA.

Our backlog at the end of March was $444.9 million compared to $377.6 million at the end of March of 2017. Recall that all those prior numbers are adjusted for RexCon, which we bought in October of 2017. That increase in the total backlog was $67.3 million or 17.8% increase in total backlog. International backlog at March 31 was $103.8 million compared to $71.8 million March 31 of 2017, an increase of $32 million or 44.5% increase in the international backlog. Domestic backlog was $341.1 million compared to $305.8 million at the end of March last year, an increase of $35.3 million or 11.6% increase in domestic backlog.

Excluding the pellet plant backlogs, the March 31 this year backlog was $378.3 million compared to $309 million at March 31 last year, a $69.3 million or 22.4% increase. Sequentially, the backlog at the end of March again $444.9 million and at December 31, 2017, the backlog was $411.5 million, that is a $33.4 million increase or 8.1% increase in the sequential backlog.

Foreign currency translation again had a positive impact on the backlog. If we had used the same rates as last year the backlog would have been $4.2 million lower.

The balance sheet remains very strong. Our receivables are at $153.9 million compared to $156.2 million at, March 31 of last year, a decrease of $2.3 million. RexCon added $1 million of the receivables that are in this year's balance sheet. Our days outstanding on those receivables were 41.7 days at March 31 this year compared to 43.2 days at March 31 of last year, a slight increase there.

Our inventories at $411.2 million this year compared to $372.6 million last year, an increase of $38.6 million and RexCon added $10.6 million of the $411.2 in inventory that we have on the balance sheet this year. Our turns are 2.4 turns and they were 2.4 turns last year at March 31, so these remain flat.

We have nothing on our $100 million domestic credit facility and we have $41.9 million in cash and cash equivalents on the balance sheet. Our letters of credit outstanding are $9.4 million, yielding a borrowing availability of $90.6 million and we currently have again, $3.4 million of debt in Brazil.

Our capital expenditures for the quarter were $4.4 million and for 2018 we're forecasting around $35 million of capital expenditures. Depreciation for the first quarter was $5.6 million and we are forecasting for the full year of about $23 million in depreciation.

That concludes my prepared remarks on the financial side, so I will turn it back over to Steve.

Stephen Anderson - Vice President and Director of Investor Relations
Thank you, David. Ben Brock is now going to provide comments regarding the first quarter of this year's operations. Ben?

Benjamin Brock - President and President and Chief Executive Officer
Thank you, Steve and thanks to everyone for joining us on our call today. As we commented in the release this morning, we were pleased with our results for the first quarter. Our earnings per share exceeded our expectations as they were aided by a favorable product mix and, as David mentioned, a lower tax rate.

Our gross margin for the quarter was improved to 24%, which has progressed toward our goal of 25% gross margin exiting 2018. Our EBITDA was 10.2%, which has improved versus our EBITDA of 6.98% for the whole of 2017. We will look to grow EBITDA as we grow gross margin.

As we mentioned on our last call in support of our focus on better financial performance, we added a new Vice President of Global Operational Excellence during the first quarter this year. Our new VP was with us on our quarterly review trips earlier this month and we're excited about our opportunities to improve gross margin as mentioned, in addition to working to increase on inventory turns from our current 2.4 turns to 4 plus turns by 2020.

Our backlog at March 31, 2018 was $444.9 million versus $377.6 million on March 31 last year. Our Infrastructure Group backlog was up 4% as the group continued relatively good order intake during the quarter, mainly as a result of good economic conditions and the Federal Highway Bill in the United States.

Ex wood pellet plants, the infrastructure backlog was up 7%. Our Aggregate and Mining Group backlog was up 38.6% as the group experienced strong order intake for the same reasons. Our Energy Group backlog was up 35.8% as the group experienced very good order intake for products serving customers in the industries of construction, industrial, oil and gas.

We also experienced increased quoting activity in the oil and gas drilling products. Our domestic backlog was up 11.6% and our international backlog was up 44.5% year-over-year. Our increase in domestic backlog was primarily due to the current long-term Federal Highway Bill, steady state and local government infrastructure spending and good private sector work levels for the majority of our infrastructure customers. Our international backlog increase was a result of improved economic conditions generally around the world. Our Astec do Brasil subsidiary continued to experience increased quoting activity.

Changing the subject to wood pellet plants, 2017 was an extremely challenging year to us with regards to these plants as we took significant charges last year related to getting the two plants to be delivered, installed it and getting them up to speed on production for our customers. As an update on our progress on the wood pellet plants, we've made good progress and believe our announced charges during 2017 are adequate to fulfill our commitments to our customers.

Updating our current pellet plant quote activity, we do have ongoing quote activity for new projects. However, as previously announced we are not going to sign a new pellet plant order until we have finished at both of the current plant sites. We believe we will be in position to add an order in time to deliver a complete plant, a complete wood pellet plant in 2019. As a reminder, if we do get an order for another big pellet plant, we will only do so as a supplier of the equipment in accordance with our traditional equipment, parts and service offerings.

Changing subjects to the Energy Group, we experienced good sales activity during the first quarter for products targeted at the infrastructure, oil, chemical and food industries, which contributed to the increased backlog in the group. Sale of the wood chippers and grinders also remain consistent during the quarter. Our concrete plants are built in the Energy Group and quoting activity is good for these plants. We are optimistic on our outlook for the Energy Group. Our new product development continues in all groups, however at a more typical rate versus the high rates of R&D in 2016 and 2017.

Looking ahead to the second quarter of 2018, we believe our second quarter of 2018 revenue will be slightly higher than our first quarter 2018 revenue, and with regards to earnings in the second quarter of 2018, we expect our earnings per share to be slightly better than our first quarter of 2018 earnings per share which was $0.87.

Our current outlook for the full year of 2018 is core revenue is up 7% to 12% versus last year last year with a much improved net income for the year versus 2017. Despite the gains we believe we will show in 2018, we still have opportunities to be an even better company for our customers. Our focus is on producing even higher quality products than we already do for our customers while focusing on operational excellence.

We continue to see our vendor partners, especially those with products that contain steel, working to increase prices. We have also seen our steel supplier vendors pushing for the same. We are working to offset these pressures through the operational efforts mentioned earlier, focused procurement efforts and price increases where possible.

From our last earnings release to now, orders have been steady in the Infrastructure group, improving in the Aggregate and Mining group and improving in the Energy group. Orders have been up internationally. Bright spots for activity are hot mix asphalt equipment sales, that includes asphalt plants and mobile equipment, concrete plant sales, so remediation plant quoting activity, wood chippers and grinders, aggregate crushing and screening equipment quoting activity and international quote activity.

Year-to-date part sales were up 8.8% versus last year and were 27.1% of sales versus 25.4% of sales in Q1 last year. Part sales remain a key piece of our business and we are focused on continuing to improve our part sales. For the whole of 2018, we remain optimistic on our outlook. We believe all of our reporting groups have the opportunity to be up on sales and net income for the year.

Acquisitions remain a part of our growth strategy along with organic growth. To that end, we continue to work on potential additions to the Astec family. However, we will only do so, if the acquisition is a strategically aligned fit within the industries we serve. That ends my comment on the quarter and what's in front of us. I want to thank everyone again for taking the time to be our call and for your support as we move ahead.

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

Stephen Anderson - Vice President and Director of Investor Relations
Thank you, Ben. Rob, if you will open up the lines we'll be glad to entertain questions.

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

Q: Hi thanks. Good morning guys. I wanted to see if you guys could be more specific on inflations in steel costs and where you're getting, how much of the portfolio maybe are getting price increases, how much were not and as it relates to getting towards 25% of gross margin at the end of the year, what kind of risk does material cost play or are we more or less, the industry is okay with putting through some price increases, so can you give some more specifics on that please? Thank you.

Benjamin Brock - President and President and Chief Executive Officer
Hi, Larry, this is Ben. In the first two weeks of the quarter here we visited with all of our subsidiaries and we're seeing price increases on steel everywhere, but the good news for us is if there is any is that by and large we're covered as we bought ahead a little through the end of this quarter, so really the effect on us probably starts third

quarter or fourth quarter and it offsets our working on operations to be a little better and working on purchasing of other items a little better.

Then the price increases that you asked about and we have done that on the pricing side. How much of that sticks remains to be seen, we did that mostly late in the first quarter. Our competition by and large is doing the same because the steel cost is a real thing. For instance we notified one customer that's a long time customer of ours that we had increased prices and they said your competitor did the same thing an hour before you called. So we do see that our customers, they buy steel, they understand that prices are going up, so we're working on making those stick. As far as the exposures, for us is probably late third or early fourth quarter, but we feel like some of the things we're doing in the background to offset it will help us, we still have our target to exit the year with 25% gross margin in place.

Q: Great, thank you and as it relates to the competition doing the same, specifically if, I don't know if you're referring to Wirtgen that's where obviously it's a Q point where people are trying to figure out what's going to happen, where now they're under new ownership, but has that been a rational process so far?

Benjamin Brock - President and President and Chief Executive Officer
Well, they've always been a mean competitor, for lack of a better way to say it and it's been about the same. We have seen areas where they raised prices, but I would say by and large they're still a strong competitor. They do have three of their—a lot of the dealers for them in the United States are also Komatsu dealers and there was a public announcement of the three Komatsu owned stores in the US are moving away from the working brands by later this year, so that's got, some of their network obviously is probably a little bit nervous about that we would assume, but for us it's still they are a strong competitor and we have to continue to fight them.

Q: Okay, is Komatsu an opportunity for you guys, is that something that can be discussed at this point.

Benjamin Brock - President and President and Chief Executive Officer
That's probably too early to tell for us frankly. We're happy with our dealer network as it stands, so we're pleased with where we are right now.

Q: Okay and then just the last question. As it relates to pellet plant issues, you said you're—I guess you're on track to potentially get an order for 2019 delivery, but can you just be more specific, what are we waiting for? It sounds like the issuers are behind you guys, but we need to see a little bit more before we can take an order or are we just—where exactly are we? Are we a quarter away from trying to get an order or how does that look?

Benjamin Brock - President and President and Chief Executive Officer
Well, we want to be completely finished at both places before we take an order and we feel like in Georgia that we passed the test, we're meeting with them next week to talk through that. In Arkansas, we actually have until June 19 now, we've had weather issues, we've had some mechanical issues and we've modified some equipment. It is tight at Arkansas. We have a pathway to finish, but it is tight and so we're all hands on deck on that, but I feel like with what we committed to we have the, the charge we took last year is adequate but we have to finish, so we're all hands on deck in Arkansas and that's where we stand. We're just not going to take an order unless we do and if we don't get one in time to deliver in 2019, we don't. We want to finish first.

Q: Okay, but June 19 is kind of the next bogie for—but that's the next deadline and if you pass that then you're in a better place to go out and bid out for new orders?

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

Q: Okay, thanks very much and good luck, guys.

Benjamin Brock - President and President and Chief Executive Officer
Thank you

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

Q: Hey guys, good morning and thanks for taking my question. Following up on that wood pellet order, you said the charges you took were adequate, you said some weather, some mechanical issues, is that related to the same sorts of issues, which I believe that the hammer mill press that you guys had last time? Any color there would be great.

Benjamin Brock - President and President and Chief Executive Officer
Well, Stanley this is Ben and I think whenever we get into these, there's always something that'll pop up, but thankfully what has popped up and mechanical issues that we corrected has not been extremely major. And so the hammer mills that piece and all that we fixed, the extra bag houses we fixed, but as you start up, sometimes things happen like shafts on a drag will break and you figure out how to correct that and fix that and have a long term fix, so it's things like that. We're in a position where we need to be cranking up and running full production and going through testing and we have a lot of people on site to do that.

Fortunately for the charge that we took for the commitments we made we feel like we have adequate coverage. It’s a little bit like an asphalt plant, every now and then and something pops up and you have to fix it fairly quickly and that's what we're doing as we get ramped up.

Q: Perfect and then earlier in the call you'd mentioned you're pushing the inventory turns I believe to four times by 2020, can you talk about the pathway to that, maybe what level of investment is going to be required to get that, assuming that I heard all that correctly?

Benjamin Brock - President and President and Chief Executive Officer
Stanley, a lot of it comes to better inventory management. You see where our inventory level is with David's comments and part of that we bought ahead some steel, which turns out, looks like it’s going to be the right strategy. Part of that was at Roadtec specifically we've built a lot of equipment ahead in anticipation of going live on a new VRP system. We have not worked through that inventory as quickly as we thought. You kind of have to guess what's going to sell and they had a pretty good quarter volume wise, but had to build a lot of it too.

So we are a little heavy at Roadtec as far as that goes and then we've done a decent job to start the steel buying and our steel turn’s pretty good, where we frankly need to manage our purchase inventory a little bit better. And then also flow through shops and cycle turns and that's where our new VP of Operational Excellence is really going to help us and the conversations with him, flying around to the different companies the first of this month and he was at one yesterday, I just think the opportunities to get there are very real.

Q: And then lastly conversations with customers at the World of Asphalt trade show, maybe you could kind of share any pearls of wisdom that you're picking up in the field in terms of how people are thinking about kind of the year, the sentiment out there or anything like that would be great.

Benjamin Brock - President and President and Chief Executive Officer
Well, the customers that I've talked with at World of Asphalt and in between after World of Asphalt, general sentiment remains strong with confidence. And one of the conversations with one of the customers was centered around an asphalt plant and delivery on that and what's the increase on steel and talked through that and he was

like well, I'll be okay because there's good work and that sounds okay. So it still feels pretty good. I was on the phone with a customer last night and I asked him how things were going, he said, it's going great if we just get the rain to stop we'll be great. There's been a lot of rain in the southeast.

Q: Yeah, for sure. Great, guys, thank you very much. Best of luck.

Benjamin Brock - President and President and Chief Executive Officer
Thank you.

Operator
The next question is from the line of Mig Dobre with Robert W. Baird. Please proceed with your questions.

Q: Thank you good morning, everyone. Ben, just looking at that 1Q results, your earnings $0.87 really materially better than what we what you were guiding to initially for $0.77 and I'm just sort of wondering from your perspective what worked out better than you expected in the quarter? Was it a factor of revenue or something else within the cost structure, how did all play out?

Benjamin Brock - President and President and Chief Executive Officer
It's interesting, we had order creep, but what didn't creep out was really good product mix that we performed a lot better on and that contributed to it and then the other thing that helped us, the lower tax rate helped us frankly, but it helped us to inch our margins up, still hard work to do to get to 25 exiting the year, that was generally it. And it was very pleasing that slightly more would have not been as high as we got for sure, but it was unexpected frankly, but we welcomed it and that's really what it was.

Q: I see, is there something at segment level that you can call out in terms of the mix because related to this I'm wondering as we're thinking about the rest of the year, if we should be anticipating any specific mix shift that would impact margin.

Benjamin Brock - President and President and Chief Executive Officer
I think in the second quarter it's going to be a similar mix and that's why we say slightly better than this quarter, I think the revenue will be slightly better as well. I think when you look at it, the Aggregate group had some pretty good mix. They did more unit sales of crushers than project sales and that always helps them and also we do fairly well on our track equipment and they had a good quarter on that.

In the Energy group side, a lot of what has helped us is, Gefco has improved quite a bit and got to profitability in a good way and the pumper trailer sales are good, got some backlog there, they've worked through a lot of inventory with that because we have some pumper inventory and engines and that type of thing, so that really specifically helped us during the quarter as well in the Energy group.

Q: Okay, I see and when you're talking about the outlook for the full year of 7 to 12 as well as your—that's for growth as well as for margin exiting the year, gross margin at 25% to be clear, we're not including the wood pellet plant revenue recognition into that in the fourth quarter right?

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

Q: Okay, then with that being said, understanding that Q2 is going to be somewhat similar to Q1, is there a sense of whether or not we should be sort of thinking about a seasonal dip in gross margin in Q3 before rebounding to Q4, is that how you think about it or a little—

Benjamin Brock - President and President and Chief Executive Officer
Yeah, it is, maybe a little—yes, I'm sorry, go ahead.

Q: I was just wondering if you sort of expect just kind of a more linear progression in terms of gross margin improvement through the year.

Benjamin Brock - President and President and Chief Executive Officer
Right, I do think we'll see a bit of a revenue dip in the third and that's pretty normal, but I think we'll be able to hold our margins up a little better. We're fighting off steel, I mean that's for sure, but I just think we're going to be a little bit better there.

Q: Right I mean historically, it looks to me like that was kind of a case of seasonality. I just want to make sure we have the expectation set properly. Then lastly on SG&A, you're running north of 16 as a percentage of sales. How do you think about this line item longer term as a percentage of sales and what can you do to potentially manage this down over time?

David Silvious - Chief Financial Officer
Hey, Mig, it's David. The SG&A, yes, you're right and we're about 16% this quarter and have been higher than that. And long-term I expect this line item to be bouncing around 16%. We want to keep it under that. That would be our goal. Part of the interplay of first quarter always is a strange quarter because of the interplay of—that's the quarter that we do things like pay out profit share and so there are increased 401K contributions and FICA taxes and unemployment taxes and all that stuff sort of piles up on you in the first quarter. We did have a show and couple of shows expensed in this quarter, Intermat and World of Asphalt had some expenses in this quarter that didn't exist in Q1 of last year, of course last year had Conex in it, but we do have increased headcount as well, especially with the addition of about eighty folks at RexCon which we bought in October of last year.

So I would expect long term to see this thing running slightly sub 16%, but I do expect it to be, from a dollar perspective, higher as our sales grow. It tends to grow with that. It includes commissions and travel and all that sort of thing, so I would expect, we're managing it to be sub 16%, but I do expect it to grow in dollar terms.

Q: Okay, I appreciate it. Thanks.

Operator
The next question is from the line of Jon Fisher with Dougherty & Company. Please proceed with your question.

Q: Thank you, good morning. Just going back to your rain comment a little bit ago, just the overall weather outlook in the quarter. When you talk with customers and you get feedback from the sales forces, has there been much in the way of delayed projects or push outs due to weather or was January and February good enough that things actually remained on schedule through Q1?

Benjamin Brock - President and President and Chief Executive Officer
Jon, this is Ben. I have not personally heard customers saying that's pushed them out on the equipment side. It has stayed steady, so I can do some double checking on that, but I've not necessarily heard that personally.

Q: Okay, thank you for the feedback, and then just from a cash standpoint. No cash flow statement yet, I can see that in the10-Q, but just the cash level before the end of the quarter was a little bit lower than what I expected and I was just wondering from a payables standpoint kind of understand and foresee the explanation on inventories, but I just wonder if there was anything one off from a payables standpoint or expense or anything that caused that cash level to drop from the end of last year.

David Silvious - Chief Financial Officer
No, there was nothing in particular. We did have to pay some taxes, make some estimated payments there. Based on this year, our expectations are a little higher than the full year 2017 turned out to be. We did add to some inventory and certainly the acquisition of RexCon last year took a chunk out in the fourth quarter and so, we haven't necessarily made that back up yet, so it's sort of normal cash flow during the quarter, it wasn't anything really odd ball.

Q: Okay and then just the incremental million dollars in SG&A from RexCon, is that something that's kind of permanent now or is it just something that was temporary short term that can be worked through over the course of the year.

David Silvious - Chief Financial Officer
No, that's going to be a permanent addition. I mean obviously the SG&A will fluctuate from quarter to quarter, but that's what it was this quarter, so I would expect it to be in that range on an ongoing basis each quarter.

Q: Okay, thank you.

Operator
The next question is from the line of Brian Sponheimer of Gabelli. Please proceed with your question.

Q: Hi, good morning. Just from a strategic perspective and I appreciate the color on any Wirtgen changes with their new parent. You've added an operating czar, so to speak, is there any discussion as to the need to also get bigger to get at least some scale benefits that may have been relatively lost now that Wirtgen has Deere?

Benjamin Brock - President and President and Chief Executive Officer
Well, as far as Roadtec goes, the strategy to get bigger there was through the distribution that we've done. We've gone to the dealer network, we've done that over a few years. We didn't know that Deere was going to buy Wirtgen when we started that process, but that will be helpful to them. The other thing that will be helpful as we work to grow and get more size is the international plan that we're working and start opening regional offices which will help us be closer than we already are to our customers, which slight changes to our products for an international market that we have not necessarily done a great job of over our whole history, but I think having those guys in the regions focusing on that little that will help us get that size as well.

I would say that we can actually get bigger with our existing footprint, particularly at Roadtec, with the work that our operating person will work with. That's probably—our very first big project will be Roadtec as far as that operational side goes. But I would still say we've had to compete with them for many years before Deere bought them and they were a multi-billion dollar company at the time and we were certainly holding our own in the markets where we're serving and mainly in US, Canada and some Latin America, but we're going to look to grow that footprint and do that through some product changes and working on the facilities where we compete with them.

Q: Okay, thank you.

Benjamin Brock - President and President and Chief Executive Officer
Okay, thanks.

Operator
The next question is from the line of Mike Shlisky with Seaport Global. Please proceed with your question.

Q: Good morning, guys. I hopped on late so if these have been answered just feel free to have me go to the transcript. First off I want to ask as about, you had mentioned you were looking to improve inventory turns, which is great news of course. Can you just give us a little color as to how you plan to get there? Is there anything that you're doing at the warehouse level or is it just ordering in advance of the—is it more ordering your parts at the same time as the order from the customer? And if you do get some good take of inventory and faster turn, is there any plan for any kind capital could squeeze out as a result?

Benjamin Brock - President and President and Chief Executive Officer
This is Ben, I think we have quite a few opportunities. I think with regards to the inventory turns and we've done it. And we started working on lean probably later than most of our competitors and did an okay job with that and I think we actually might have done better than we give ourselves credit for because when we were doing it we were in tight markets and we were able to maintain market shares and our margins, while not exactly where we wanted them, held their own through the down cycle. However, as we've gone to a bigger up cycle and looking at where the opportunities we could get better on, bringing in the new VP of Operational Excellence with his experience and he's got a lot of good experience and worked it through and helped a lot of companies it's just giving us another look from outside and opportunities to get better in cycle times and in purchasing and basically the whole order process from when the sales takes and gets all the way through to when we ship it.

So it's some just in time, it's some quality and that's quality from the actual order all the way through engineering to when it gets on the floor. We just see a lot of opportunities to increase our turns that way, so it's a multi-pronged effort and I'd love to zero in on one thing, but I think if there was one thing we can certainly manage our purchase parts on hand a lot better. I do think we've done a decent job on steel at most of our places, some better than others because some are closer to the steel source than others. But I just think we have a lot of opportunities through just getting better at managing what we're holding on to and our cycle times through our shops.

Q: And as far as the cash that might result, is there a plan for it?

Benjamin Brock - President and President and Chief Executive Officer
I know we are early enough into this, we don't have that yet, but there will certainly be a point when we—he just really fully started with us March 1, so we're just getting our arms around that. We'll probably have that in a few months and that I think it's just too early for us to put a number out like that.

Q: Okay, got it. I want to ask secondly about labor availability. Some of your facilities domestically are in smaller cities. I wanted to make sure are you, are you seeing any issues with getting enough labor or getting the people to build your previous backlog here?

Benjamin Brock - President and President and Chief Executive Officer
Finding welders and fabricators, we haven't had as much trouble as we have with machinists. Probably the toughest labor market having just gone to almost all of our places in the US and Canada last three weeks, Yankton, South Dakota is probably our toughest labor market. Everywhere else it seems like we can get welders and fabricators it's still taken us a little longer than it did in the down cycle when we needed people, but again it's the machinist and that skill trade that's the tougher person to hire right now.

Q: Okay, thanks so much for the color, I appreciate it.

Benjamin Brock - President and President and Chief Executive Officer
Thank you.

Operator

The next question is from the line of Brian Rafn with Morgan Dempsey. Please proceed with your question.

Q: Good morning guys. Question for Ben, in some of your conversations with your customers when you look at demand for hot mix asphalt plants or some of the road building equipment from say, Roadtec, is your sense that your customers are replacing obsolete equipment or do you think they're actually expanding capacity?

Benjamin Brock - President and President and Chief Executive Officer
I think right now I would say we're at about a half and half. There's still a lot of older plant replacements and then we are seeing new plants, new production or portables looking for new markets for people that are established maybe in a metro area.

Q: Got you. You were talking about some fairly nice ramp up and big quote activity in the oil and gas side or the energy side. What specific products, you mentioned pumpers trailers, anything else that's seeing some interest?

Benjamin Brock - President and President and Chief Executive Officer
Yeah, both rigs and pumper trailers, a bit more pumper trailers than the drill rigs.

Q: Okay, as you guys kind of ramp up, any capacity utilization bottlenecks, are you running any multiple ships in any of your subsidiaries, any overtime, how do you see 2018 building up?

Benjamin Brock - President and President and Chief Executive Officer
Most of our divisions are running some level of overtime right now. Some of our capacity constraints that, before we might have felt like we were fully constrained at a plant or close to high utilization, our minds have changed on that a little bit with our new look, with the operational fellow, but I would say utilization is fairly high at most of our facilities.

Q: Got you, relative to the pellet plants, as you guys move through the first couple of plants that put out pellets over the life of those plants how much did you guys focus on service parts, how much service part repair or replacement, how much of that on the pellet plant side is available versus your normal infrastructure side? Thanks.

Benjamin Brock - President and President and Chief Executive Officer
We see it as being about the same. We try not to put any too specialized purchase parts on plants because we want them to run and they need to be able to get them, but we do hold the inventory for supportive parts, but we think it will be in line with our normal run rate on parts for asphalt plants would be a good example. Although the plants do, are targeted to run higher hours per year, so the potential is there for a little bit more, but we still think it'll on line.

Q: Got you and wondering from a strategic standpoint kind of a future runway for the pellet plants is. Are you seeing, would you say over the next three to five years might you see five or ten or dozens? How big of a footprint would there be a market domestically for those pellet plants?

Benjamin Brock - President and President and Chief Executive Officer
Well, for us, just speaking for Astec, once we're through what we do and we offer the plants as they run, we see it as a potential of being about $100 million year business for us. There could be more plants sold than that and there should be based on the projections of pellets needed for—the production needed for pellets in the UK and Japan particularly, but for us we see it as a potentially $100 million a year business.

Q: Okay and then just on the infrastructure side, any specific products on the road building side? I'm thinking pavers versus screeds or anything standout demand wise?

Benjamin Brock - President and President and Chief Executive Officer
It's pretty steady right now and pavers we feel like we might be even taking a little market share. But in the plants we're maintaining our traditional strong market share. And it's active although, to the earlier question of would there be a little seasonality in the third quarter, we think there probably will be a little bit of that per normal on the asphalt side.

Q: Okay and then on the hot mix asphalt plant, what's kind of the mix between fixed site versus mobile?

Benjamin Brock - President and President and Chief Executive Officer
I don't have any scientific data on that. My gut tells me right now we're about 70% fixed and 30% mobile.

Q: Okay, alright. Hey, great quarter guys, thanks so much.

Benjamin Brock - President and President and Chief Executive Officer
Thank you.

Operator
Thank you. At this time I'll turn the floor back to Steve Anderson for closing remarks.

Stephen Anderson - Vice President and Director of Investor Relations
Thank you, Rob. We appreciate your participation on this first quarter conference call. Thank you for your interest in Astec. As our news release indicates, today's conference call has been recorded. A replay of the conference call will be available through May 8, 2018 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 concludes our call and thank you all. Have a good week.