Transcript of
Astec Industries, Inc.
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Participants

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Barry Ruffalo - President and Chief Executive Officer
Becky Weyenberg - Chief Financial Officer

Analysts

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Stanley Elliott - Stifel Financial Corp.

Presentation

Operator
Hello, and welcome to the Astec Industries Third Quarter 2020 Earnings Call. As a reminder, this conference call is being recorded. It is my pleasure to introduce your host, Steve Anderson, Senior Vice President of Administration and Investor Relations.

Thank you, Mr. Anderson. You may begin.

Stephen Anderson - Senior Vice President of Administration / Investor Relations and Corporate Secretary
Thank you and welcome to the Astec Industries Third Quarter 2020 Earnings Call. My name is Steve Anderson and joining me on today's call are Barry Ruffalo, our Chief Executive Officer; and Becky Weyenberg, our Chief Financial Officer. In just a moment, I'll turn the call over to Barry to provide comments, and then Becky will summarize our financial results.

Before we begin, I'll remind you that our discussion this morning may contain forward-looking statements that relate to the future performance of the company, and these statements are intended to qualify for the Safe Harbor liability established by the Private Securities Litigation Reform Act. Any such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions.

Factors that can influence our results are highlighted in today's financial news release, and others that are contained in our filings with the SEC. As usual, we ask that you familiarize yourself with those factors.

In an effort to provide investors with additional information regarding the company's results, the company refers to various GAAP, which is U.S. Generally Accepted Accounting Principles, and non-GAAP financial measures, which management believes provide useful information to investors. These non-GAAP financial measures have no standardized meaning described by U.S. GAAP, and therefore, they're unlikely to be comparable to the calculation of similar measures for other companies.

Management of the company does not intend these items to be considered in isolation or as a substitute over the related GAAP measures. Comments made during today's call will refer to the non-GAAP results and a reconciliation of GAAP to non-GAAP results are included in our news release and appendix of our slide deck.

All related earnings materials are posted on our website at www.astecindustries.com.

And before I turn the call over to Barry, I'd like to remind everyone of our upcoming Virtual 2020 Investor Day on December 10. Now, let me turn the call over to Barry.

Barry Ruffalo - President and Chief Executive Officer

Thank you, Steve. Good morning, everyone, and thank you for joining us on the call this morning to discuss our third quarter 2020 results. I continue to be proud and impressed of the hard work and dedication of our team members throughout the pandemic. As you can see from our results, our team has focused on operational excellence and execution to significantly contribute and ensure the success of our organization during this time.

We continue to prioritize the health and safety of our employees, suppliers and customers as we navigate through this and never stop in terms of our focus on driving long-term profitable growth.

I'll begin with key highlights from the quarter and then provide an update on our operations. I will also discuss what we're seeing in terms of demand and our supply chain, before turning the call over to Becky for details on our financial results.

We'll also highlight progress made on our strategic transformation plan and then open the call for Q&A.

Starting on Slide 4, here are today's key messages. First, as a result of the actions that we've taken over the past year to transform our company and our increased focus on driving operational excellence, we were able to drive another quarter of strong performance and improved quality of earnings with a 13% increase in adjusted EBITDA and 170 basis point increase in EBITDA margin compared to the prior year despite the challenging macro environment.

Second, in the quarter, customer demand remained resilient as our products are essential for building infrastructure and are used to facilitate the transportation needs of our communities. My recent conversation with some of our key customers confirmed that while they continued to deal with near-term uncertainties, they also continue to demand Astec solutions and we'll continue to support them and remain vigilant as we help them navigate through the ongoing pandemic.

Third, given our focus on operational excellence, we remain well-positioned to execute in all market conditions with a strong balance sheet and liquidity, including, importantly, a net cash position. We also saw further success in the quarter, in improving our working capital terms and will remain focused on further improvement.

Fourth, during the third quarter, we continue to make progress on our strategic transformation on the Simplify, Focus and Grow pillars with the completion of the sale of the remaining GEFCO assets and the acquisition of CON-E-CO and BMH. The integration of CON-E-CO and BMH is going well.

And as a result of the acquisitions, we have a stronger Infrastructure Solutions portfolio with ability to provide our customers with access to the most robust line of concrete products in the infrastructure industry.

Importantly, we seek not only to be strategic and discipline acquires, but also strong integrators of businesses. We continue to look for opportunities to support our Rock to Road strategy and build upon our strong foundational product line.

Lastly, on this slide, throughout the pandemic, we have demonstrated agility and flexibility to respond to our customers' needs. And we will continue to do so in the new economic scenario.

Our ability to execute against our strategy and drive operational excellence across the organization has served us well in this environment, and is a key driver of our success. We will continue to focus on the factors within our control and build upon the strong foundation that we have created here at Astec.

With that, let me turn to Slide 5. As a reminder, as part of our continued transformation began this year, we went from 3 segments to 2. Our revenue mix during the quarter with 35% Materials Solutions and 65% Infrastructure Solutions. The key here is that we refer to our business has been able to serve a strategic value chain that is really from Rock to Road, including our 2 recent acquisitions.

On Slide 6, we provide an update on our operations. We continue to have as many of our employees working from home as possible with the intention to gradually bring back the teams as the COVID-19 situation alleviate. Currently, approximately 30% of our office employees are working remotely. Prior to the pandemic, we had implemented Microsoft Teams across the organization, and our workforce has adapted well to using the system over the past several months of remote working.

Regarding our facilities, all of our Astec facilities around the globe are fully operational with no material interruptions during the third quarter, and we maintain the ability to flex operations as needed, and quickly adapt to the changing environment.

Now turning to Slide 7, I will touch on some business dynamics that we are seeing and hearing from our customer conversations. Our ongoing dialogue with customers to judge that they're doing well with a strong backlog through 2020 and into 2021, the recent 12-month extensions with FAST Act has provided our customers with increased visibility and confidence.

Importantly, we continue to see bipartisan support for U.S. infrastructure construction and look forward to continuing to service and support our customers as they require critical Astec solutions.

On the demand front, many of our customers remain cautiously optimistic for a rebound once the pandemic has changed. With respect to our supply chain, today, we have not experienced any significant disruptions, though, we are constantly maintaining discussions with the suppliers to identify and mitigate risks. We have also expanded the depth of our supply chain to support them risk mitigation efforts.

Overall, during the quarter, we continue to make significant progress in our results demonstrated good traction on a strategic transformation with a 2% increase in adjusted EBITDA and a 60 basis point expansion in the adjusted EBITDA margin despite the decrease in sales as our aftermarket parts sales remain strong and improved slightly from the prior year. Our third quarter performance is a direct result of the restructuring initiatives we started in 2019, in addition to our increased focus on operational excellence and strategic procurement.

Before turn the call over to Becky, I'd like to highlight a couple of initiatives that we have recently adopted here at Astec to help support our culture of continuous improvement, and operational excellence.

First, I've been hosting 1-hour meetings with a small group of different team members across the organization each week to discuss improvements that can be made to further enhance our culture of continuous improvement. These conversations have been extremely insightful, and we are already implementing some of the suggestions from these meetings and expect the trend to continue.

We're also gaining strong traction across the organization for winning behaviors to support our culture initiative. These behaviors include open and honest communication, drive for creativity, customer centric innovation, and want to Astec all that we do. I'm proud of the culture here at Astec, and I'm excited to share some more details with you at the upcoming Investor Day regarding our initiatives to drive operational excellence and grow across the organization.

Now with that, I'll turn the call over to Becky to discuss our detailed financial results.

Becky Weyenberg - Chief Financial Officer
Thank you, Barry, and good morning, everyone. I'm pleased to join you on today's call. Beginning on Slide 9, third quarter adjusted revenues decreased 9.5% to $231 million compared to the prior year quarter. Excluding the impact of foreign currency, revenue decreased around 8%. Equipment sales decreased 16%, while parts sales as Barry highlighted increased slightly compared to the prior year period.

Our backlog decreased 10% to $219 million at quarter end, driven by lower Materials Solutions and Infrastructure Solutions orders, which were down around 9% and 11%, respectively. Lower orders were driven largely by continued COVID-19 uncertainties. On a positive note, we did see an increase in equipment orders from our North American dealer order-ready program in September.

The third quarter adjusted EBITDA increased 2% to $11 million, compared to $10.7 million in the prior year period, and adjusted EBITDA margin improved 60 basis points to 4.8% compared to the prior year period. The margin improvement was driven by favorable mix and our ongoing transformation initiatives. Adjusted SG&A expenses increased nearly 3% on a dollar basis driven by acquisitions.

In relation to the company's efforts to simplify the organization, during third quarter we incurred $3.9 million of pre-tax restructuring and other costs or $0.13 per share net of taxes. These items were excluded from adjusted earnings per share, and the restructuring charges are related to asset impairment, inventory write-down, a reduction in labor force, and the closing of our Mequon, Wisconsin facility. Of note, we reduced our headcount nearly 12% year-over-year.

Adjusted earnings per share rose 18% in the quarter to $0.20, compared to $0.17 in the third quarter of 2019. Overall, we reported strong third quarter results, despite the challenging macro environment.

Moving on to Slide 10, we highlight the key drivers of our year-over-year adjusted EBITDA margin expansion. Adjusted EBITDA margin expansion of 60 basis points was primarily driven by a reduction in headcount and related savings in addition to savings from supply chain management, and other transformation savings. This was partially offset by acquisitions and increases in corporate and other expenses, as we're investing in IT and ramping up back office support.

On Slide 11, our Infrastructure Solutions business revenue decreased by 3% to $151 million in the quarter, driven primarily by COVID-19 related customer uncertainty. Adjusted gross profit increased 4% to $32.2 million and gross margin expanded 150 basis points to 21.3% driven by strong parts margins, particularly in the asphalt plant equipment.

We continue to execute on cost savings initiatives and further right-sized our business during the quarter with a large focus on reducing and controlling SG&A. We remain focused on operational excellence to drive efficiencies as well as limit discretionary spending such as travel and trade show participation going forward.

We continue to support our customers during this time, as we are seeing solid demand for highway and road building construction products across the country. As Barry noted, we are seeing increased visibility and confidence in the industry driven by the recent 12-month extension to FAST Act. There is cautious optimism that a larger infrastructure bill would provide a strong catalyst for the industry.

Turning to Slide 12, our Materials Solutions business revenues decreased 19% to $80 million compared to the same period a year ago, driven primarily by COVID-19 related uncertainties. However, as they just mentioned, we did see a bump in equipment orders in September. Adjusted gross profit declined 0.7% to $20.7 million, while gross margin expanded by 480 basis points to 25.8% driven by right sizing activities, largely related to the closure of our Mequon, Wisconsin site.

We've continued to make progress on our Materials Solutions 2020 transformation plan in the quarter as we completed the closure of our Mequon, Wisconsin facility. We expect the sale of this property to close by early 2021. As we have noted on prior calls, this closure will enable us to leverage our manufacturing footprint more efficiently as the products are transferred to other plants. This is in line with our ongoing strategy to move key products to our South Africa, Brazil, and Northern Ireland plants in order to lower our cost basis, decrease our overall manufacturing footprint and manufacture closer to our global customers.

Overall, improved earnings performance in the third quarter demonstrates the traction of our initiatives to right-size operations to market demand. We remain flexible and committed to simplifying and focusing the business to continue to drive improved profitability. And on Slide 13, I won't go over the details, though, we highlight the year-to-date results and provide some color for your reference.

Moving on to Slide 14, we continue to maintain a strong balance sheet with a minimal debt and a net cash position of over $108 million. Given the current environment, we remain focused on strong liquidity and cash preservation to withstand sustained periods of market uncertainty.

Of note, accounts receivable was down 15% year-over-year due to decreased sales and a more focused effort on collections. Overall, we have available liquidity of $260 million, including nearly $109 million of cash on hand, with only $900,000 in total debt as of September 30, 2020.

We continue to make progress on our inventory reduction efforts, as total net inventory decreased $95 million compared to third quarter year-to-date 2019. As Barry noted, we remain focused on maintaining a strong and flexible balance sheet with ample liquidity and believe that this will enable us to withstand a variety of economic situations if needed.

Now on Slide 15. Just to reminder on our capital deployment framework, which is consistent with what we have previously shared, we continue to have a disciplined approach to deploying our capital, when we consider the various avenues of capital deployment, we do so in the context of our long-term strategic objectives and related revenue, earnings and cash flows in order to maximize shareholder value.

Our capital allocation priorities remain unchanged in the current environment. On internal investments in property, plant and equipment, we will continue to target greater than 14% return on invested capital for new investments.

Regarding acquisitions, we're only considering strategic acquisitions that align with our close strategy and meet our internal financial criteria. Our strategy for M&A is to fill gaps that we see within our customer supply chain as we look to grow regionally and attractive markets. We also seek to maintain the number 1 or 2 position in the product lines that we have. We believe that M&A is a mechanism that will potentially allow us to accelerate our investment in technology and innovation.

Importantly, we remain committed to funding the dividends. We have not repurchased any shares since 2018, and do not expect to do so in the near-term, out of an abundance of caution to preserve our financial flexibility. As a reminder, on Slide 16, we summarize our strategic and disciplined approach to M&A, which helps to support our growth pillar.

On Slide 17, we highlight a recent example of the strategy being executed with our 2 acquisitions in the third quarter. As Barry noted, the integration of CON-E-CO and BMH are going well, and both businesses have strengthened our Infrastructure Solutions group by providing our customers with access to the most robust line of concrete products. In addition to being a strong acquire, we've also placed a large focus on being strong integrators. We look forward to providing you more updates on the integration at Investor Day.

Turning to Slide 18. Our downturn playbook remains the same. This summarizes actions that we've already taken, and additional levers that we can pull if necessary. Since the onset of the pandemic, we have already implemented several cost reduction initiatives across the business, including reprioritization of investments, and a reduction of headcount and discretionary expenses. We are prepared to take further cost actions if necessary, and provided examples of some of the additional levers that we can pull.

Finally, as a reminder, we previously identified certain material weaknesses in our internal controls, and have already implemented significant measures to remediate control deficiencies. During the third quarter, we continue to add measures and enhanced controls accordingly. In addition to what we highlighted on our last earnings call, we have further segregated duties to support our IT functions. We believe this along with prior actions we have implemented will effectively remediate most, if not, all the material weaknesses previously identified.

With that, I will now turn it back over to Barry for his closing comments.

Barry Ruffalo - President and Chief Executive Officer
Thanks, Becky. Now, moving on to Slide 19, I'll provide a quick overview of the 3 pillars of our strategy for profitable growth: Simplify, Focus and Grow. First, Simplify, the third quarter marked another period of successful execution on our strategy to leverage our scale, reduce organizational complexity, and consolidate, rationalize our footprint and product portfolio. I'm proud of the progress our team has made to simplify our business and drive efficiencies across the portfolio.

Second, Focus, we continue to strengthen our consumer-centric approach, driving commercial excellence and streamlining processes and instilling a performance-based culture.

Finally, Grow, we are reinvigorating innovation, leveraging technology to unlock internal synergies, while also enhancing the customer experience, exploring global growth opportunities and carefully allocating capital to maximize shareholder value.

We have made great progress so far this year within these 3 pillars, especially given the current environment. I'm confident that our team will be able to continue to execute on our strategy regardless of the economic environment.

Slide 20 outlines some of the major milestones we are executing against on our transformational journey and the progress we have made to date. Under Simplify, we have achieved 2 milestones during the quarter to consolidate our footprint and streamline our portfolio. First, we completed the closure of our Mequon, Wisconsin facility, with the last day of production occurring in August. And second, we completed the sale of the remaining GEFCO assets.

Under Focus, as I mentioned in my earlier remarks, we were able to further streamline our portfolio during the quarter with the sale of the remaining GEFCO assets to align with our Rock to Road strategy. We continue to place a strong focus on driving operational excellence across the organization and we are gaining strong internal traction on our initiatives.

Our product portfolio continues to be evaluated with our ongoing rationalization initiatives. And we look to drive further optimization over the next several quarters.

Under Grow, we completed the acquisition of CON-E-CO and BMH in the third quarter, both of which significantly strengthened our Infrastructure Solutions business. We continue to place a large focus on innovation and technology, particularly related to telematics and are confident that our efforts in this area will support future organic growth across the businesses.

Furthermore, we also just acquired Grathwol Automation on Monday, November 2. It's another strategic acquisition that supports our technology leadership vision to ride value-added solutions across the Rock to Road continuum.

Grathwol Automation has been an Astec partner for 10 years and developed the Guardian system for our Roadtec equipment, as well as a jobsite management system that will benefit our customers. It has connected equipment under the telematics platforms. Importantly, from a cultural standpoint, Grathwol Automation is also a strong fit with the company model of customer service is everything.

With the expected cost savings from the actions we have taken, we plan to reinvest in our business to drive profitable growth and maximize shareholder value. We remain focused on improving our working capital turns.

I'll conclude on Slide 21, with our key investment highlights which remain consistent. Our team continues to execute and make progress in our transformation plan to Simplify, Focus and Grow the business. I am pleased with the dedication and hard work that I see every day across the organization.

Our leadership positions within attractive niche markets, superior customer service and culture of operational excellence have truly positioned us for success throughout this challenging environment and will continue to drive our success in the future. Our success is also supported by a strong group of leaders who foster a culture of accountability and continuous improvement.

As we continue to navigate through the pandemic, we remain cautiously optimistic about the future. We remain well positioned to face the challenges ahead of us with a more efficient, streamlined and centralized organizational structure, a strong balance sheet and ample liquidity. We also remain flexible and are ready to adapt so that we can support our customers in various economic and demand situations.

I'm excited about the future for Astec as we continue to execute against our strategy to Simplify, Focus and Grow the business. I look forward to sharing more details with you at our Virtual Investor Day on December 10.

With that, operator, we're now ready to open up the call for any questions.

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. Our first question will be coming from the line of Mig Dobre with Robert W. Baird. Please proceed with your questions.

Q: Thanks. Good morning, guys.

Barry Ruffalo - President and Chief Executive Officer
Hey, Mig, good morning. How are you doing?

Q: I'm doing okay. It's an interesting day today. Let's just say that. And I'm actually not going to ask you an election-related question to kind of start us off here. But rather, I'm wondering if you can give us a little more detail on the backlog in Infrastructure Solutions. Has there been any contribution to the backlog from your recent acquisitions? And if so, can you quantify? I don't know if I missed that in your slides somewhere if you disclosed that already.

Barry Ruffalo - President and Chief Executive Officer
Yeah, the backlog, as far as the contribution from the acquisitions, I would say, yes, we have some. The concrete plant space has been one, that's been pretty active for us. We did not identify how much of the backlog was contributed to that product line; but we feel good about, again, the activity in the marketplace since we've actually finished the transaction. So they are contributing to our backlog.

I also want to say, we're looking forward to participating in next week's Baird Industrial Conference, as well.

Q: Well, thank you for that. We're looking forward to having you there. And I'm sorry to press you on this, but we're trying to do the math here on your orders, your implied orders and infrastructure, and their ops. And I'm trying to understand how much of that is sort of the core business relative to things that you might have acquired.

Can you at least talk about that? I mean, is your base business excluding the recent acquisitions, growing in terms of order intake in the quarter and going into the fourth?

Barry Ruffalo - President and Chief Executive Officer
The growth in the backlog in Infrastructure Solutions is primarily driven by the asphalt plant product line. So, the last couple of months have been very active there. We've been very pleased with that order flow. So that's what I can give you there, Mig. It's basically our core business, our legacy business.

Q: I see. And then, sticking with this theme, can you help us understand the impact from these acquisitions on your gross margins in this segment or accretion or however you really want to frame this?

Barry Ruffalo - President and Chief Executive Officer
I would say in the quarter the impact is positive, but it's not material, Mig, so we're not going to comment specifically on that. We can give you some more detail as we get into the Investor Day, which we have scheduled in early December. By that time, we'll have a little bit more time with these acquisitions, so we can give you a little bit clearer picture in regards to what their contribution really is.

Q: But you're unable to comment on gross margin and where these businesses are relative to the segment today?

Becky Weyenberg - Chief Financial Officer
Mig, it's about 3% on the full year. We don't have the specific rate in front of us on the quarter, but the impact in our outlook for the full year is about 3%.

Q: Right. I mean, I wasn't talking about the quarter, I'm just wondering about the gross margin for these businesses, just so that we layer them in properly in our estimates, Becky, that's what I'm getting at.

Becky Weyenberg - Chief Financial Officer
Yeah, on a gross profit basis, the improvement to our full year will be 3%.

Q: Okay. And then, I guess, my follow-up here is trying to understand how you're thinking about the business sequentially into the fourth quarter relative to the third. Your performance here in the third quarter has been frankly better than I expected from a top-line perspective. And I'm wondering if you view that as sustainable or there are some factors related to seasonality or the way your backlog is set for delivery that we need to be aware of here in the near term. Thanks.

Barry Ruffalo - President and Chief Executive Officer
I think there are many pieces of the margin improvement that we continue to realize that we'll

see move forward into Q4. Certainly, these are all – we're still in a very fluid situation relative to impacts of COVID. And that obviously has an impact on our customers and their willingness to take orders in time. So it's hard for us to give you a lot of confirmation, but I can tell you that, again, the margin improvement that we've actually seen in Q3 is we would expect that we'd realize that same type of improvement in Q4.

Q: And the top-line, anything about the top line?

Barry Ruffalo - President and Chief Executive Officer
I think, we're entering into Q4, obviously, with a pretty decent backlog, and we feel that should help us in Q4. But again, we don't have control over customers in regards to permitting and taking of orders. So, I hate to give you too much confidence in regards to what that's going to look like even for the rest of this year, albeit just a couple of months now. But on the margin side, we're more comfortable to comment that we should be able to see some stickiness in regards to our performance there.

Q: Okay, thank you.

Barry Ruffalo - President and Chief Executive Officer
Thanks.

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

Q: Hey, good morning, everyone. Thank you all for taking my question. Early in the call, you mentioned stronger margins in the asphalt plant. Curious, is that pricing? Well, how is pricing in the industry doing? Is that more part sales you mentioned? Just curious to get a little more color around what's happening with the plants business?

Barry Ruffalo - President and Chief Executive Officer
So, I would say generally in the marketplace, Stanley, thanks for the question. The pricing is in pretty good shape, obviously, we do see a little bit of pressure, but we haven't seen anything that's erratic. And so, I would say, we continue to look at our discounting and manage that pretty effectively. So, I think ultimately even with the market as it is we're trying to get as much price as we can on the products that we're selling. Yes, there is a little bit of impact on parts, we saw the parts business in general, took up about 32% of our sales in the third quarter, which is a little bit of an increase from the prior sequential quarter.

So, I think generally, and I also believe that we're getting with our backs, with the procurement activities we have going on and the lean that we're driving through our facilities. That's contributing to our costs in lowering that and in helping us as well.

Q: Great. Looking back over periods when we've had either an infrastructure bill or a new highway bill? When do you start to realize that in your order book? Just curious on the timing, and, I guess, then the second part of that would be with kind of a new procurement system in place and a lot of changes on the inventory sourcing side, you'll kind of speak to the confidence that that this new structure will be able to meet that elevated demand when it hopefully comes?

Barry Ruffalo - President and Chief Executive Officer

So we're pleased that the government through the reauthorization of the FAST Act has given us another – or given our market another 12 months of visibility, I think that helps. I've had the opportunity recently to spend a lot of time with different congressional offices, both Republican and Democrat, to understand where things stand. And I was pleased of the fact that on both sides whether it's the House, Senate, or Republican or Democrats, that they all see a longer-term infrastructure bill is a high-priority past this election. So that's good news.

So, ultimately, I think that as far as when we would realize impact from a longer-term infrastructure bill, I think we enter into this – we're in a timeframe, as you talk to our customers, that they have a backlog that takes them into 2021. And so, they're relatively in good shape there. The FAST Act helps. But a reauthorization or a new infrastructure bill is one that we would typically take maybe a year to start to see some of those projects actually – maybe a little bit longer to hit the market.

But I think, ultimately, we're going into it with a pretty good position. So hopefully, it gives our customers some confidence and their customers confidence to go ahead and pull the trigger on projects.

Q: Great. And then, lastly, for us, for the product class that hold inventory at the dealership level, how is that on a relative basis? And maybe any commentary about some of the customers that are renting equipment, if they're opting for the ownership opportunity. Would just love to get a flavor for what's happening on the ground.

Barry Ruffalo - President and Chief Executive Officer

No, I've been very pleased with our team's tenacity on inventory of finished goods, and working with our distribution partners to continue to drive that down to a very low level. I think today we're at a level that puts us right on top of the market. And Becky alluded to in her piece that there's been a little bit of an uptick in flow of orders. And that's because of that lower inventory that we've had over the last many months, Stanley, relative to our dealers.

So, they are very low on inventory. And as they look forward, we've seen some order-flows increase as we exited Q3. And again, that's because they're very tight with the market relative to their inventories.

Relative to the leasing, that continues to be a big part of our customers' operations model. And, obviously, through this timeframe, as we exited out of 2019 and entered in 2020, we've seen some of those leases continue on longer timeframes than what we would have expected, which obviously means they're not going to be converted over to retail orders as quickly as we would have maybe thought they would.

And I think that's a little bit due to the uncertainty relative to COVID and what's going on in the marketplace. But that's something we stay very close to and make sure that we understand how that's trending. So, when we start to build our S&OP process, we can make sure that we have those volumes predicted as closely as possible. To ensure – to your point, that we have the inventory, that we have the workforce, that we have the capacity and ability to react to them quickly.

So, I feel good from a business perspective that our team at Astec is very much on top of what's going on in the marketplace. And that allows us to then flow those demands in whatever direction through our systems in order to make sure that we're ready to take care of our customers.

Q: Perfect. Barry, Becky, Steve, thank you guys for the time.

Barry Ruffalo - President and Chief Executive Officer
Thanks, Stanley.

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

Stephen Anderson - Senior Vice President of Administration / Investor Relations and Corporate Secretary
Thank you, Rob. Again, we appreciate your participation on this conference call and thank you for your interest in Astec. As today's news release indicates, today's conference call has been recorded. A replay of this conference call will be available through November 18, 2020. And an archived webcast will be available for 90 days.

The transcript will be available under the Investor Relations section of the Astec Industries' website within the next 7 days. All of that information is contained in the news release that was sent out earlier today. This concludes our call. So thank you all and happy to connect later on with any additional questions. Thank you.

Operator
Thank you. Ladies and gentlemen, this concludes today's teleconference. Thank you for your participation. You may now disconnect your lines at this time and have a wonderful day.