Transcript of
Astec Industries, Inc.
Fourth Quarter and Fiscal Year 2020 Earnings Call
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Participants

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Becky Weyenberg - Chief Financial Officer

Analysts

Mig Dobre - Robert W. Baird
Stanley Elliott - Stifel
Steve Ferazani - Sidoti
Larry De Maria - William Blair

Presentation

Operator
Hello, and welcome to the Astec Industries, Inc. Fourth Quarter 2020 Earnings Call. As a reminder, this conference call is being recorded.

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

Steve Anderson - Senior Vice President, Administration and Investor Relations, Astec Industries, Inc.
Thank you, and welcome to the Astec Industries fourth quarter 2020 earnings conference 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 for comments, and then Becky will summarize our financial results.

Before we begin, I 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 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 are US 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 prescribed by US GAAP, and are therefore 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 for the related GAAP measures. Management of the company uses both GAAP and non-GAP financial measures to establish internal budgets and targets to evaluate the company's financial performance against such budgets and targets.

You should also note, comments made during today's call will refer to non-GAAP results and a reconciliation of GAAP to non-GAAP results are included in our news release, and in the appendix of our presentation. All related earnings materials are posted on our website at www.astecindustries.com.

And now, I'll turn the call over to Barry.

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Thank you, Steve. Good morning, everyone and thank you for joining us to discuss our fourth quarter 2020 results. I would like to thank the entire Astec team for their hard work and continued focus on our core values to serve our customers during an extraordinary and unprecedented year. As I mentioned before, the health and safety of our employees, suppliers and customers continue to be our number one priority as we continue to navigate through the pandemic.

Our fourth quarter results demonstrate our ability to execute and perform well with a focus on continuous improvement in driving operational excellence through our OneASTEC business model. 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 in our supply chain, before turning the call over to Becky for details on our financial results. We'll also highlight further progress made under strategic transformation, and then open the call for Q&A.

Beginning on Slide 4, here today the key messages. First, we had a strong finish to the year as we drove another quarter of robust performance, with adjusted EBITDA margin expanded by 490 basis points compared to the prior year, despite a decrease in net sales. The margin improvement is a direct result of our ongoing strategic transformation in our ability to gain further traction on our operational excellence initiatives.

Second, customer demand for Astec's solutions remains resilient as backlog at the end of the year increased by approximately 37% compared to the prior year. As you know, we typically comment that our backlog represents at least one full quarter of work. But now in some product lines, our backlog covers a good two quarters of capacity. We continue to provide our customers with industry-leading technology solutions that deliver value and support our Rock to Road initiatives. As we continue to stay engaged with our customers, we can share with you that many note, 2021 is already full of projects, and they're certainly scheduled work in 2022.

Third, we have significantly strengthened our positioning this year and we remain poised for future growth with our streamlined organizational structure, strong balance sheet and ample liquidity. Our continued focus on operational and commercial excellence will enable us to further strengthen our organization in 2021.

Fourth, during the quarter, we continue to execute against our strategic initiatives to simplify, focus and grow the business. We continue to leverage and build upon our OneASTEC business model, which gives us a great foundation to grow organically by having the most comprehensive Rock to Road set of customer solution, and the requisition by having disciplined processes and companywide tools.

We also completed the acquisition of Grathwol Automation during the quarter, which included bringing in an experienced Vice President of Product Management for our Controls and Automation platforms. For 2021, we will continue to transform our company with greater emphasis on the focus and growth strategic pillars.

Lastly, on this Slide, 2020 was a transformational year for Astec and our strong performance was a testament to our dedication and ability to execute throughout the cycles. In 2021, we'll build upon the positive momentum from 2020 and further transform the business with a focus on commercial and operational excellence, profitable growth and long-term stakeholder value creation. We will continue to build upon a strong foundation we have created here at Astec.

Moving on to Slide 5, for those who are new to the company, this is our business segment breakdown. Our revenue mix during the quarter was approximately 30% of Materials Solutions, and 70% Infrastructure Solutions. Under the simplified two segment structure, we were able to serve a strategic value chain that supports our Rock to Road strategy.

Turning to Slide 6, as a reminder, we unveiled our OneASTEC business model at Investor Day back in December. Our focus on operational excellence across the organization has enabled us to operate with minimal disruption throughout the pandemic. We continue to have many of our employees work from home with approximately 30% of our office employees working remotely. Regarding our manufacturing sites, all Astec facilities around the globe continued to be fully operational with no material interruptions during the fourth quarter, and we maintain the ability to flex operations as needed and quickly adapt to the changing environment.

On Slide 7, I will touch on some business dynamics we are seeing and hearing about from our customers. Although we are still in unprecedented times relative to pandemic, we could be in the early innings of an upcycle in North America, as we continue to see strong residential real estate demand, followed by improvements and non-residential. Construction demand continues to show signs of improvement in our ongoing conversations with customers to just the positive demand outlook for 2021.

Under the new administration, we're optimistic about increased US infrastructure spending, as it is a key component of President Biden's Build Back Better plan. Furthermore, the Coronavirus Response and Relief Supplemental Appropriations Act was recently signed into law. This bill will appropriate $10 billion to highway infrastructure projects. And importantly, during January alone, 25 states introduced new transportation funding measures, which should further support infrastructure spending.

With respect to our supply chain, to-date, we have not experienced any significant disruptions and we are constantly maintaining discussions with our suppliers to identify and mitigate risks. We have also expanded the depth of our supply chain to support our risk mitigation efforts. In terms of market risk, the industry has started to see commodity inflation for many raw materials such as steel, and we expect this will continue as we move deeper into 2021. Additionally, we are beginning to notice tightness in labor availability for some positions as well as container shortages in general to support the increase in backlog. As always, we proactively monitor the environment to take action and manage our business accordingly.

Turning to Slide 8, we highlight some of our important ESG initiatives. Although we are not new to innovating sustainable products, such as warm mix asphalt systems and cold planers that reclaim asphalt off of existing roads for reuse in new pavements, we're still in early days of our ESG journey as a whole. Our efforts continue to create more products such as the Double Barrel Green System and our Shuttle Buggies, which focused on reducing fuel consumption, eliminating the trucking of materials to the central site and reducing the need for virgin oil products. Enhancing our ESG profile as a company is one of our top priorities.

One of our recent accomplishments was under the governance pillar. During the fourth quarter, we remediated all prior period material weaknesses and did so approximately one year ahead of schedule. This was an impressive feat, and I am proud of Becky and her finance team and all the Astec employees involved for the hard work they put in over the past year to achieve this accomplishment.

We continue to gain traction on our ESG initiatives throughout the organization and our team is engaged and excited about our increased focus in early progress in this area. Here at Astec, we know that these initiatives will help us be better, healthier and more sustainable solutions providers. I invite you to visit the About Us page on our website to learn more about our ESG commitment. We look forward to providing you continued updates on our progress.

Overall, during the quarter, we continue to make significant progress in our transformation strategy to simplify, focus and grow the business. The fourth quarter marked another period of strong execution and performance with a 69% increase in adjusted EBITDA and a 490 basis point expansion in adjusted EBIT margin, despite a decrease in sales.

2020 was a remarkable year for our organization and I know that we will continue to build upon the strong foundation as we continue to execute our strategy and drive commercial and operational excellence and growth across the organization.

With that, I will now turn the call over to Becky to discuss our detailed financial results.

Becky Weyenberg - Chief Financial Officer, Astec Industries, Inc.
Thank you, Barry and good morning, everyone. I am pleased to join you on today's call. Starting on Slide 10, fourth quarter adjusted revenues decreased 15.6% to $238.9 million compared to the prior year quarter. Equipment sales decreased 14.7%, while parts sales increased 10.3%. Our backlog increased 36.7% to $360.5 million at quarter end, driven by higher Material Solutions and Infrastructure Solutions' orders, which increased 92% and 15.1%, respectively. Higher Material Solutions and Infrastructure Solutions' orders were driven by improved customer demand.

Fourth quarter adjusted EBITDA increased 68.8% to $23.3 million, compared to $13.8 million in the prior year period and adjusted EBITDA margin improved 490 basis points to 9.8% compared to the prior year period. The margin improvement was driven by favorable mix and our ongoing transformation initiatives. Adjusted SG&A expenses decreased 21.5%, driven by reductions in consulting fees, travel and employee expenses.

Adjusted earnings per share rose 55.6% in the quarter to $0.56 compared to $0.36 in the fourth quarter of 2019, driven by our business transformation savings. Fourth quarter 2020 GAAP earnings per share of $0.67 included and then $0.11 benefit from transformation related savings. Overall, we reported strong fourth quarter results despite the challenging economic environment as we continue to execute against our transformation strategy.

Turning to Slide 11, we highlight the key drivers of our year-over-year adjusted EBITDA margin expansion. Adjusted EBITDA margin expansion of 490 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.

Moving on to Slide 12, our Infrastructure Solutions business revenue decreased by 12.6% to $167.2 million in the quarter, driven primarily by a slowdown connected to our industrial products. Adjusted gross profit decreased 3.7% to $39.5 million and gross margin expanded 220 basis points to 23.6%, driven by strong parts margins, particularly in asphalt plant equipment.

We continue to show improved quality of earnings during the fourth quarter driven by right-sizing pricing initiatives, plant efficiencies and control spending. We remain focused on commercial and operational excellence to drive efficiencies across the business and we'll continue to limit discretionary spending going forward.

Positively, the BMH systems and CON-E-CO acquisitions have been fully integrated and are performing above our initial expectations. We remain well positioned to support our customers as we continue to see solid demand for highway and roadbuilding construction products across the country. As Barry mentioned, we are seeing strong government support for infrastructure spending, which would provide a strong catalyst for the industry.

On Slide 13, our Material Solutions business revenues decreased 22.1% to $71.7 million compared to the same period a year ago. Adjusted gross profit increased 2.3% to $17.7 million, while gross margin expanded by 590 basis points to 24.7%, driven by rightsizing initiatives taken in 2019 and

2020, to maximize utilization of our manufacturing footprint capacity, improving margin despite declining revenue.

During the quarter, we also saw additional earnings improvement from controlled spending. We continue to make progress on our Materials Solutions' transformation plan, and have efforts underway to further leverage our global footprint for deliveries to end customers. As I mentioned, last quarter, we completed the closure of our Mequon, Wisconsin facility, and the operations have been moved to other Astec's sites. As a reminder, this is in line with our ongoing strategy to optimize our overall manufacturing footprint and manufacture closer to our global customers.

Overall, improved earnings performance in the fourth quarter demonstrates the traction of our initiatives to rightsize operations to market demand. Exiting the fourth quarter, we continue to see strong domestic and international order intake for Materials Solutions' products.

On Slides 14 and 15, we summarize the drivers of our full year 2020 results versus 2019. Overall, we achieved 220 basis points of year-over-year gross margin improvement despite a decline in net sales.

Turning to Slide 16, we continue to maintain a strong balance sheet with minimal debt and a net cash position of over $158 million. We remain focused on strong liquidity and cash preservation to withstand sustained periods of market uncertainty.

Of note, operating activities were approximately a $142 million source of cash in 2020, driven primarily by cash provided by net income after non-cash items of $93.6 million, and inventory reduction of $44.7 million. We continue to invest in organic growth and strategic M&A, while paying dividends. Overall, we have available liquidity in excess of $312 million, with only $2 million in total debt as of December 31st, 2020.

Now on Slide 17, just a 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 and property, plant and equipment, we will continue to target greater than 14% return on invested capital for new investments. Regarding acquisitions, we are only considering strategic acquisitions that align with our growth strategy and meet our internal financial criteria.

Our strategy for M&A is to seek opportunities where we can build upon our strong positions in the Rock to Road value chain. We intend to use strategic acquisitions to maintain and strengthen our market-leading positions as we add on products, talent and capabilities. We believe that M&A is a mechanism that will potentially allow us to accelerate our investments in technology and innovation. As a reminder on Slide 18, we summarize our strategic and disciplined approach to M&A, which helps to support our growth pillar.

Finally, as Barry mentioned in his discussion on governance, during the fourth quarter, we fully remediated all prior period material weaknesses a full year ahead of schedule. During the past 12 months, our team has worked diligently to develop and execute our remediation plan. I am extremely proud of what we have accomplished and we now have a stronger organization with the appropriate controls and measures in place.

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

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Thanks, Becky. On Slide 19, I'll provide a quick overview of our three pillars of our strategy for profitable growth. Simplify, focus and grow. First, simplify. The fourth quarter marked another period of successful execution on our strategy to leverage our scale, reduce the organizational complexity and rationalize our footprints and product portfolio. I am 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 customer-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.

In 2021, our organization is well positioned to capitalize on global growth opportunities. We made great progress in 2020 within these three pillars, especially given the challenging pandemic environment, I am confident that our team will continue to build upon our success in 2021.

Slide 20 outlines some of our major milestones were executed against on our transformational journey and the progress we have made to-date. During 2020, we have made significant progress on our simplify pillar, as we work to consolidate our footprint and streamline our portfolio. The fourth quarter marked a pivot point for our strategic transformation, as we will now shift more energy and effort on the focus and growth pillars in 2021.

Under focus, during our December Investor Day, we introduced the OneASTEC business model for continuous improvement, and continued to gain strong traction on our commercial and operational excellence initiative across the organization. We also made significant progress on our product rationalization initiatives as we streamline the portfolio to align with our Rock to Road value chain.

Under grow, we brought on Grathwol Automation during the fourth quarter, a strategic acquisition that supports our technology and leadership vision to provide value-added solutions. We remain focused on providing our customers industry-leading technology solutions and we are confident that our efforts related to innovation and technology, particularly telematics will support future organic growth across the business.

The actions that we have taken under our transformation strategy, have and will continue to result in significant cost savings for our organization. With the expected savings we plan to reinvest in our business to drive profitable growth and maximize shareholder value.

I'll conclude on Slide 21 with our key investment highlights, which remain consistent. In the midst of the economic challenges faced in 2020, our team continued to execute and make great progress with respect to our efforts to simplify, focus and grow the business. This year was a testament to our dedication and ability to perform well throughout cycles as we increase margins despite the decline in revenue. We have significantly strengthened our positioning this year and are well positioned for future growth with a streamlined organization and a strong balance sheet and ample liquidity.

In 2021, we remain well positioned to capture industry growth opportunities for their superior customer service, leadership positions with an attractive niche markets and a culture of continuous improvement. We have a strong leadership team leading our organization through this next phase of growth, and I'm confident that we will see continued positive momentum. I'm extremely excited for the future of our organization as we enter into the next chapter of our journey.

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 the question-and-answer session. Our first question comes from line of Mig Dobre with Robert W. Baird. Please proceed with your question.

Q: Thank you. Good morning, Barry, Becky and Steve. I guess the first question for me, maybe we can talk a little bit about your Slide 15, the 2020 adjusted EBITDA margin bridge. I'm sort of curious if you can help us understand which one of these buckets has any element of cost savings that you think might be temporary in nature or you know, reaction basically to the pandemic that could potentially reverse in 2021? Maybe we can start there.

Becky Weyenberg - Chief Financial Officer, Astec Industries, Inc.
Sure. Hi, Mig, good morning. The first piece of it is on the headcount related savings. We showed 110 basis points improvement. And a lot of that was tied to incentives, which we hope not to repeat, but it's a factor of our sales being down almost 11% on a full year basis, so obviously, that impacted incentives. So there was an adjustment in the quarter. But we do expect around about 20 basis points to stick up that savings.

The supply chain savings should stick but we are seeing some pressure from steel. That's definitely up year-over-year, we're seeing in Q1, roughly 77% increase on steel. So we're managing our way through that, but there might be some deterioration there just due to that. But the other transformation savings also should stick and then we'll see some more expenses for corporate going forward as we roll out our systems and focus on innovation versus product rationalization.

Q: I see. So just to clarify here. You're saying that the incentive comp could be a 90 basis points headwind in 2021?

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Hey, Mig, you got cut off there for a second. Can you repeat that question, please?

Q: Sorry about that. I want to make sure that I understand this, you're saying that it's incentive comp could be a 90 basis point headwind in 2021, normalizing incentive comp that is?

Becky Weyenberg - Chief Financial Officer, Astec Industries, Inc.
Not on a full year, no. On a full year, we expect it to be fairly flat overall. But I'm sorry, I was talking to the quarter, not the full year, so I apologize for that. It was a just an adjustment in the quarter.

Q: Okay, but again, I'm talking about the full year. So Slide 15, if we're looking at these buckets, you know, it sounds like incentive comp is going to be flat for the full year, then the only headwind you're going to have is related to material costs. Is there a way for us to understand the magnitude of the headwind based on what you know, today, right, current pricing, and the way you've scheduled your purchasing?

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
I'll take a shot at that Mig. This is Barry, good morning. So maybe another way to look at it is, we've seen steel actually go up 77% on a year-over-year basis, at this point in time, as of 2021. We have taken pricing initiatives to the tune of about 5% across the Board. And, you know, we see steel today being roughly just under 20% of our total cost, with everything all-in.

And so that's probably the amount of detail that we give you. I think that, you know, we continue to meet regularly to talk about how do we pull the levers relative to our steel buys. And to try and understand what that means from a material margin perspective. And certainly, we'd like to think that we're buying better than what the spot price is…we take price initiatives based on spot price.

So, with all that being said, we think that steel could have an impact on our material margins, because as you know, Mig, when it goes up as quickly as it has, it's tough to keep up with it. And we're not afraid of steel going up gradually and slowly. But when a spike like this, there is some pressure. So, we're going to have to manage through that, as we move through 2021 as effectively as possible.

Q: Understood. Maybe moving away from raw materials and just asking a pure SG&A question. In 2020, your SG&A declined on an adjusted basis, I think, a little north of $20 million. Is there, I mean, you've invested a lot. As you said you remedied some of these material weaknesses, which I know was not an inexpensive task. I'm curious as to how you think about SG&A going forward. Do you think the current run rates are sustainable in 2021? Or to Becky's point earlier, should we factor in some level of inflation?

Becky Weyenberg - Chief Financial Officer, Astec Industries, Inc.
Hi, Mig. I can take a stab at that. So, certainly there are several puts and takes on SG&A. However, we do expect the dollars to be up slightly year-over-year. So, you're right. Certainly, the

remediation costs were significant but that'll go away. And we are deploying our work, which pretty much offsets that. So just basically, we think we'll be flat to slightly up.

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Yes, and some other things that will actually drive it to a little bit higher than what we had in 2020 is spend on engineering innovation. That's an area where we've underinvested for a while and want to continue to drive that. And in order to really be a market leader on the products and solutions that we provide. And we do expect to have some level of travel, come back in 2021, which would be a greater spend than in 2020, but not as high as it was in 2019.

Q: Understood. Final question for me. I'm curious where you are right now in terms of capacity utilization? I guess maybe asking a question from a hypothetical standpoint here. Let's just say that demand expand 20% from current levels. Do you have the capacity currently to convert on that opportunity? Or would that require either additional CapEx or additions to, you know, footprint in general capacity?

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Mig, this is Barry. I'd just tell you that our constraint right now relative to capacity is really manpower. We do not believe that we have to increase anything around brick-and-mortar. Obviously, as you know, we've taken action to try and reduce our footprint capacity. But we're confident that with the improvements that we've started and already seeing our operational excellence initiatives, that we should be able to, you know, achieve any type of, you know, any additional spike in demand with the brick-and-mortar that we have today.

Obviously in 2020, we only spent, I think, around $15 million in CapEx, which is low – which is lower than what we want it to be. And so, as we start to beef up our operational excellence initiatives, obviously, we want to invest in creativity over capital first, but we know that there are things that we can do more relative to automation, in efficiencies through more capital expenditure. And so, we've worked very closely and continue to work closely with our manufacturing, engineering and operational people in order to really identify those areas of opportunity that will help us with the demand we see today, but with additional demand that we see in the future.

Q: I don't know if this is how you look at the business, Barry, but I'm sort of curious if you can help us understand with the current footprint and what do you have in place, what sort of revenue base do you think the business can support? Are we talking something you know, 25% higher or 50%, I mean, how should we think about that? That's my final question. Thank you.

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Thanks, Mig. We are going to give that type of detail, but we feel comfortable with the reductions that we made and the footprint that obviously we could sustain our recent historical highs, plus some more. And, obviously, with the operational excellence initiatives we have going on, we believe that there's opportunity to deploy more material and more products through our facilities than we have ever. And so we're going to continue to invest in that. So, without giving you an exact answer, Mig, we feel comfortable that we've got quite a bit of room of expansion in capacity than what we've experienced in recent history. Even with less facilities.

Q: Understood, thank you for the color.

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Thanks, Mig.

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

Q: Hey, good morning, everyone. Thank you all for taking the question. Very nice work in the backlog. Can you talk anything about maybe anything product-specific? And then with the big jump we saw in the Materials Solutions? Curious if there was something happening within the channel in terms of some of the rent-to-own sort of customers are actually needing to refleet or restock or how you would think about that, but just curious about the dynamics within that backlog?

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Good morning, Stanley. This is Barry. Thanks for the question. I would tell you this, that if you look at 2019 and most of 2020, our customers had record years. Really, you know, even with a pandemic, most of our customers had a record year in 2020, on top of a record year in 2019.

When you look at the demand that's flowed through our business, it hasn't really matched their performance. And so therefore, we take that into consideration when you also take into consideration that at the end of 2019 and into 2020, early days, we put a big effort into trying to right size our dealer inventories, we right size our finished goods inventories. And, through that timeframe, we saw the rental duration increase. And so people weren't converting them into retail sales.

As we got through 2020 and really into the beginning of the last quarter, we do an annual order writing period or a program at that point in time. And we saw a record number of record revenue level actually come through in that program. And I think that just shows that there's a little bit of catch up in regards to the demand relative to what the dealers are seeing, what we see from a customer perspective.

And so therefore, as we talked about some of the early drivers, as we move into 2021, there are some positive aspects there. And I'll certainly I'd preface everything with, we're still in a pandemic, and you never know what's going to happen there.

But when you look at what the states have done in early January around gas tax, the miles are starting to come back on driven miles, which helps that as well, the renewable FAST Act, which has already happened, there's been some other smaller supplemental bills passed, as we say, you know, close to our colleagues in DC, there's been a lot of positive conversations around a longer-term infrastructure bill.

So, we feel good that, obviously, we're close to the market relative to our inventories, our dealers are starting to restock. We're seeing that flip over even now quicker to retails from a conversion perspective from rentals. So I think that's what's really driven the Materials Solutions pieces, a lot of those different elements put together.

Q: That's great. And maybe if you could also kind of talk a little bit about some of the technology uptake that you're talking, maybe even some things beyond, you know, telematics. And then curious if that makes you think that maybe parts and services could ultimately be a higher percentage of the revenue mix. You know, whatever this cycle is going to end up looking like?

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
So, a couple of pieces to that. You're absolutely right, you know, and so not just on top of telematics, but as we look at the Rock to Road value chain, as we talked about in the Investor Day in December, you know, we're in the works of starting to build a platform in which our customers are really, in many cases, 30% of our customers have a value chain where they have quarries, they have plants and they have road construction crews.

And so giving them a chance to actually use one platform to see all other equipment and understand how to manage that internal supply chain more effectively, we see a benefit there. And yes, that absolutely will give us a tighter connection into service and parts related types of opportunities. You know, we've been typically running between 25% and 30% of our sales being from parts. And we think there's a huge opportunity to make that a bigger portion of our revenue.

On top of the technology, we've also changed the structure of our leadership team. And so now we actually have someone who reports to me that is directly accountable for our strategy around parts sales as their overall company, versus having you know, someone individually for groups or sites. And so we think that with that type of a focus that will also help improve our parts sales.

Q: Perfect, guys, that's it for me. Thank you. Best of luck.

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Thank you.

Operator
Thank you. Our next question comes from line of Steve Ferazani with Sidoti. Please proceed with your question.

Q: Hi. Good morning, everyone. I'm wanting to ask about you noted the acquisitions, perhaps outperforming your expectation so far, and then the bigger contribution from aftermarket this quarter? Can you give any kind of sense of how much the bigger aftermarket piece and the acquisitions contributed to your gross margin?

<u>Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.</u>
Yes, I would. We haven't given the detail on the acquisitions, Steve, by the way, it's nice to meet you. Nice to talk to you. But for me a meeting in person these days –

Q: Absolutely.

<u>Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.</u>
You know, when we completed the two concrete plant company acquisitions, we alluded to the fact that on a full year basis, they would typically realize about $55 million in sales, and they would be immediately accretive to our overall company's performance. And I can tell you that on an annualized basis, we already have seen that if we projected forward, that they're going to be a greater contributor to our revenue than when we actually closed the two acquisitions. And we've found a lot of synergies relative to procurement. And so, we expect on the margin side they'll continue to be accretive as well. So without giving you the details since we haven't and we're not going to. I just wanted to let you know that relative to those statements that we made at the closing, they're in good shape.

Q: Okay. And then, you know, as we've gotten through earnings season, certainly a few weeks ago, it was all about steel prices. But as we've gotten further along, some companies have certainly sounded the – I don't want to say sounded the alarm, but increasing concerns on supply chain, whether it be shipping containers, accessing components, have you seen a shift over the last month? And at this point, would you say there's that is rising concern or no?

<u>Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.</u>
Yes, I would say that today it hasn't affected us too negatively, Steve. I would tell you that if we do see it as a risk, and therefore we stay on top of it and we have many conversations. And we've done several things as far as you know, deepening our supply chain and having to redundancies, making sure we're looking at our inventories. So, we're doing that. I feel comfortable, we're doing the right things to protect us to get into exposed to those risks. But as you and I both know, whether it's the cost of container or the availability of the container, those are all things that could have an impact on us moving forward. So, we'll stay very close to that.

We have seen, you know, and may be one of our sites in South Africa, we've seen a little bit of an impact. But I'd say on an overall basis to the company, it's not really material at this point in time. And we're continuing to work our way through that. So, we feel good that we've done a great job of managing our supply chain and our procurement through the pandemic. And I think it ultimately is going to continue to make us sharper as we move forward to ensure that we're not exposed to any risk.

Q: Then the last one for me, during the Investor Day, you sort of read through some of the new international products that you figured that are aligned with demand from international markets. Can you talk a little bit about traction in terms of introducing some of those new products there, the lower say, lower-priced mobile plants, et cetera?

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Yes, so we've made great traction there. I would say that on some of those product lines, where we're just getting to the launch phase, you know, where the prototypes we've seen great acceptance and excitement around us launching them. So, some of our first units are already sold into international markets, which is great. Obviously, as you and I both know, a lot of times when you introduce something that you think is just for international, you also find that it could be of use and have an application in the domestic market.

If I were to show you today, our roadmap relative to new product development, there's a fair share of those products that are really focused on the international market, which in some cases, we don't really participate at all. And so, we're doing that by obviously understanding the specifications, understanding our competitive position, understanding the footprints.

And so what I think has really been great, as you look at some of our spike in the backlog which has also supported or maybe accelerated our movement to use the footprint that we have today, whether that's Northern Ireland, whether that's Brazil, there's a site in Johannesburg we're trying to find ways to look at all the capacity, all the landed costs, and, you know, improve our position relative to supply and margins through the whole situation, also continue to look at outsourcing initiatives.

In the past we have been very vertically integrated. And if you walk through one of our facilities, maybe versus our competition, that may be more assembly, we've been very vertically integrated. So, we're looking at, what does it make, you know, how do we use our capacity and our square footage more effectively in the future to ensure that we're doing the things that really add value from our perspective versus things that we can get from someone else through a global supply chain.

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

Q: Okay. Hi, thanks. Good morning, everybody.

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Hey, Larry.

Q: Hey, guys. I just wanted to clarify, you know, from the comments earlier around material costs. I'm doing the math, right. A 5% increase in price doesn't really offset a 77% increase in steel. So, could we just cut down to like, how much of a headwind do we expect on an annual basis? And how protected hedged on material costs are we now? And when did the price increase going?

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.

So, the price increases have already been put in place, Larry, and that's not an average. I would say that in areas where we have bigger contents of steel, we probably have done more. We won't go into all those details here. But I would tell you that we've done a good job of protecting our material, our steel buys. Certainly, through first quarter and the second quarter and I feel confident that we have a team of people, including myself to look at this on a regular basis, since it is an important part of our cost structure to ensure that we're on top of it.

We're not saying there's not an exposure. We're not going to identify what that dollar value of the exposure is today on this call, but I just want to give you assurance that we're on top of it, we're looking at it and we're doing everything we can to minimize it. And in some cases, maybe even take advantage of it, as we've done a good buy, and we can pass some of that spot price increases to the customers.

Q: Okay, so we're fairly protected on the near-term, and obviously can be flexible with price, et cetera, as the year goes on. And so far, price increases have held obviously.

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Larry, let me just give you a little bit more color maybe. So, you know, in the past, we've talked about our backlog lasting a quarter or so, with a backlog increase that we've seen here over Q4 or a little bit further out in a quarter. So, I just want to give you some perspective that we do have some exposure past the quarter on some of those material price increases, but we're doing everything we can to manage it.

Q: Okay, thank you. And then the second question was around backlog. What kind of backlogs do the customers have now that, you know, FAST has been renewed and we're post-election, et cetera? And I'm curious how they've changed and how your backlog has changed in 2021 so far, obviously you finished 2020 on a strong note?

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
As I spent a lot of time talking to customers as they're close to the market Larry, I can tell you that most of the customers I talked to have a full book of work for 2021. And they're already starting to book projects in 2022, so their backlog is very strong. I would tell you that from a quality, as they quoted projects, and one projects through the back half of 2020 to some of the margins that they would see in that backlog, starts to get a little bit compressed as you go through the year of 2021, if that helps you a little bit.

But generally, I think they're in pretty good shape. I would say that as we've moved from 2020, where we did see a spike in backlog, we've been pleased with some of the order activity, and certainly quoting and order activity that we've seen in early days of 2021.

Q: Okay, thank you very much. Good luck, guys.

Barry Ruffalo - Chief Executive Officer, Astec Industries, Inc.
Thank you.

Operator
Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Mr. Anderson for any final comments.

Steve Anderson - Senior Vice President, Administration and Investor Relations, Astec Industries, Inc.
All right. Thank you, Melissa. Again, we appreciate your participation on this conference call. Thank you for your interest in Astec as today's news release indicates today's call has been recorded. A replay of the conference call will be available till March 15th, 2021. The transcript will be available under the Investor Relations section of the Astec Industries' website within the next five business days. All of that information is contained in the news release that was sent out this morning. Again, this concludes our call and thank you all for your time and attention, and be glad to connect with you know as the week goes on. Thank you very much.

Operator
Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.