Transcript of Astec Industries, Inc.
First Quarter 2016 Earnings Call
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Participants
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David Silvious – CFO
Ben Brock - President and CEO
Rick Dorris - EVP and COO

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Mig Dobre - Robert W Baird
Schon Williams - BB&T Capital Markets
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Presentation

Operator
Greetings and welcome to the Astec Industries First Quarter 2016 Earnings Conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

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

Steve Anderson - VP and Director of IR
Thank you, Melissa. Good morning and welcome to the Astec Industries' conference call for the first quarter that ended March 31, 2016. As Melissa mentioned, my name is Steve Anderson, Vice President of Administration and Director of Investor Relations for the company. 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 will turn the call over to David to summarize our financial results and then to Ben to review our business activity during the quarter.

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

At this point, I will turn the call over to David to summarize our financial results for the first quarter.

David Silvious – CFO
Thanks, Steve. Thanks to each of you for joining us this morning.

Net sales for the quarter were $278.7 million dollars. That compares to $288.7 million dollars in Q1 last year, a decrease of 3.5% or $10 million dollars.

International sales were $44.5 million dollars for the quarter compared to $77.7 million dollars in Q1 of 2015, that's a 42.7% decrease or $33.2 million dollar decrease. International sales were 16% of our Q1 sales this year compared to 26.9% of Q1 2015 sales.

Those decreases in the international sales occurred primarily in Canada, in the Middle East, Australia, Africa, in post-Soviet States and in South America outside of Brazil. Those decreases were offset by some relatively small increases in Mexico, Japan and China. For the quarter, international sales decreased in each of our groups.

Domestic sales for the quarter were $234.2 million dollars, compared to $211 million dollars in the first quarter of 2015, an 11% increase or $23.2 million dollar increase. Domestic sales were 84% of Q1 2016 sales compared to 73.1% of Q1 2015 sales.

Part sales were $74.1 million dollars compared to $73.1 million dollars in Q1 of 2015, that's a 1.3% increase or $1 million dollar increase. Part sales represented 26.6% of reported quarterly sales in 2016 versus 25.3% in Q1 2015. For the quarter, part sales increased in the infrastructure group and then they decreased in the Aggregate and Mining and the Energy Groups.

The foreign exchange translation impact on the sales number was $4.1 million dollars to the negative. That means that if rates this year had been equal to the ForEx rates in Q1 of last year, sales would have been $4.1 million dollars higher on a comparative basis.

For the quarter, gross profit was $72 million dollars compared to $66 million dollars in Q1 of 2015, a 9.1% increase, or a $6 million dollar increase. That lends the gross profit percentage of 25.8% for the first quarter compared to 22.9% for Q1 of 2015.

The absorption variance for the quarter was $1.5 million dollars under absorbed, which was an improvement over last year's Q1 number of $2.1 million dollars, so we had a positive change in absorption rates of $600,000 dollars contributing to the uptick in the gross profit percentage.

Also impacting gross profit percentage was the foreign exchange gains or losses that we recognized during the quarter. We had a $115,000 dollar gain in the first quarter of 2016 compared to a $734,000 dollar loss in the first quarter of 2015.

SGA&E for the quarter was $43.8 million dollars, or 15.7% of sales. Practically the same number in Q1 of 2015, $43.8 million dollars, but it represented 15.2% of sales in that quarter, so it was flat in dollar terms but a 50 basis points increase as a percent of sales.

Some of the things that impacted SGA&E on the upside, some things that increased SGA&E were exhibit expenses and travel. Payroll related expenses, some travel expenses, bad debt expense and R&D expense increased, each of those increased fairly small. On the other side impacting SGA&E on the downside was our health insurance expense, which was down compared to the prior year.

Operating income for the quarter was $28.2 million dollars, compared to $22.2 million dollars last year in Q1, an increase of $6 million dollars or 27%.

Interest expense was $467,000 in Q1 of 2016 compared to $297,000 Q1 of 2015. Remember that we do have some debt in Brazil to finance the building, furniture, fixtures and equipment there in that facility in Brazil.

Other Income for the first quarter was $0.5 million dollars compared to $1.8 million dollars in the first quarter 2015. Remember that the primary source of Other Income is license fee income, investment income at our captive insurance company. Last year we did have some key man life insurance proceeds of approximately $1.2 million dollars that we recognized in the first quarter.

The effective tax rate was 37.4% in the first quarter of 2016 compared to 37.1% in the first quarter of 2015. That rate was impacted negatively which caused it to increase by losses in some of our foreign jurisdictions where we couldn't claim a benefit for those losses. Also, we did have some higher state income taxes in certain of our domestic subsidiaries, and so that negatively impacted the effective tax rate.

Net income attributable to controlling interest for first quarter was $17.7 million dollars compared to $15.1 million dollars in Q1 of the prior year, $2.6 million dollar increase or 17.2% increase. Diluted EPS for the quarter was $0.77 compared to $0.65 in first quarter of 2015, that's a $0.12 increase or 18.5% increase.

EBITDA for the quarter was $34.3 million dollars, compared to $30.1 million dollars in the first quarter of 2015, a $4.2 million dollar increase or 14% increase in EBITDA.

Our backlog at the end of March was $432.8 million dollars compared to $291.2 million dollars at the end of March of 2015. That's a $141.6 million dollar increase or 48.7% increase. Our international backlog at the end of March this year was $50.4 million dollars compared to $90.2 million dollars of international backlog at the end of March of 2015, a $39.8 million dollar decrease or 44.2% decrease. However, our domestic backlog at the end of March of this year was $382.4 million dollars compared to $201 million dollars at the end of March last year, a $181.4 million dollar increase or 90.2% increase in domestic backlog.

On March 31, backlog this year compared to the 12/31/2015 backlog was $313.3 million dollars, represents $119.5 million dollar increase in backlog or 38.1% increase sequentially. The foreign currency translation impact on the backlog compared to March 31 of last year, again, as rates were even, then the backlog would have been $3.6 million dollars higher at the end of this March compared to the end of March of 2015.

The balance sheet continues to be very strong. Our receivables were sitting at $119.4 million dollars and that compares to $129.9 million dollars last year, a decrease of $10.5 million dollars, and that represents days outstanding of $38.7 million dollars compared to $39.7 million dollars at the end of March of 2015 or a reduction of one day outstanding.

Inventories $389.5 million dollars compared to $388.7 million dollars last year, that's an increase of about $800,000 dollars and we are sitting at 2 terms this year compared to 2.1 terms last year.

Domestically we owe nothing on our $100 million dollar credit facility and we have $62.4 million dollars in cash and cash equivalents globally. Our Letters of Credit are sitting at $17.6 million dollars outstanding right now, so our borrowing availability on that credit line is $82.4 million dollars.

Like I said before, under the interest expense discussion we had $10.9 million dollars of debt outstanding in Brazil to finance that company's building, fixtures, inventory and imports.

Capital expenditures for the first quarter were $4.9 million dollars and we're forecasting for 2016 to be in the $30 million dollar range. Depreciation for the first quarter was $5.1 million dollars and we are forecasting depreciation for the full year 2016 to be about $22.5 million dollars.

That concludes my prepared remarks and the financial details, so I'll turn it back over to Mr. Steve Anderson

Steve Anderson - VP and Director of IR
Thank you, David.

At this time Ben will give some comments regarding the first quarter of the operations, also some comments for the year going forward. Ben?

Ben Brock - President and CEO
Thank you, Steve. Thank you to everyone joining us on our call today.

As we commented in our earnings release this morning, we were pleased with our first quarter results. We do still have headwinds of low oil and natural gas prices, the global mining slowdown and the strong U.S. dollar persisting that challenge us here in the quarter.

Despite those headwinds, we were able to secure and ship orders mainly as a result of the passage of a federal highway bill in the United States, which allowed us to earn a good result for the quarter in our traditional business areas and we were also able to recognize our $30 million dollar pellet plant order during the quarter.

As David mentioned, our earnings per share for the quarter was $0.77 versus $0.65 in the same quarter last year. And our year-to-date first quarter sales were $278 million dollars versus $288 million dollars for a decrease of 3.5%.

Our first quarter EBITDA was $34.3 million dollars versus $30.1 million dollars, and that's an increase of $4.2 million in EBITDA on a $10 million dollar decrease in sales. EBITDA was up mainly due to historical high gross margins as a result of a favorable product mix and higher capacity utilizations and infrastructure in aggregate and mining groups.

Our backlog at March 31 was a record at $432.8 million dollars and that was up 48.7% versus last year. Our backlog is at a record level mainly as a result of the $122.5 million dollar pellet plant order we announced during the quarter; however, backlog without the pellet plant order would have been up $22.9 million dollars versus last year, again, mainly in our infrastructure group. Domestic backlog was up 90.3% year-over-year and international backlog was down 44.2%.

At the end of last quarter, our international sales were down 50.7% year-over-year, which was near our trend for the full year 2015. So we did at least experience some slight improvement in the international on a percentage basis, but international is a challenge.

While the strong U.S. dollar has been more than a significant headwind for our export efforts, we have seen better quoting and sales activity in the infrastructure group internationally in the last three weeks. International activity remains low in other groups though.

International backlog remains down versus our norms primarily due to the U.S. dollar strength, lower oil and natural gas prices and the global mining slowdown. Our Astec Do Brasil facility continues to experience everything you read about in Brazil with regards to the slow economic times and the terrible political environment in Brazil is not helping at all. We continue to work for orders in surrounding countries to try to help this facility out.

Domestic order intake has been very good in our infrastructure group since the United States long-term federal highway bill was signed in early December. Aggregate and Mining Group order intake has been fairly flat since January 1, mainly due to mining equipment and international sales being slow. The group's backlog was up 2.1% for the quarter. We believe that this group will start to see benefits from the federal highway bill in the United States late this year.

Order intake in our energy group has remained soft with the exceptions of asphalt storage and heating systems for hot mix asphalt plants. One other bright spot in this group is concrete plant quoting activity. We did continue to hear from our infrastructure customers that they're experiencing good business levels in the United States particularly on the private side along with good maintenance contracts in those states that have increased funding through gas taxes and/or other mechanisms.

We did continue to pursue new business with new products in the United States and we're maintaining our international effort, despite the challenge presented to us by the strong U.S. dollar to present mining industries in our key markets. We are keeping our long view with regards to international and we do see those headwinds of the strong dollar, lower oil prices and depressed mining conditions remaining in place for the balance of this year at the least. Our lower backlog in international is a direct result of those headwinds.

Our higher backlog in domestic was primarily due to the passage of the long-term highway bill, good private sector work levels for our infrastructure customers and the pellet order we announced during the quarter.

Changing subjects to the original pellet plant at Hazlehurst, Georgia that we discussed on several calls, as a continuing reminder, we did choose to finance that product as a new product and as a result we're recognized revenue for this plant as we're paid. This will have an effect on our cash and our inventory until it's paid in full. As a reminder, the order for all three lines at that site was for $60 million dollars.

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

We were pleased to report the $122.5 million dollar pellet plant order during the quarter. It is an add-on to the $30 million dollar order that we recognized during the first quarter with Highland Pellets, bringing the total project order amount to $152.5 million dollars. Our plan is to recognize the new $122.5 million dollar order as follows. In the second quarter approximately $20 million, in the third quarter approximately $20 million and in the fourth quarter approximately $35 million, bringing the total for the three quarters left in the year to about $75 million. And if you add the $30 million dollars we just recognized, that would be a total of around $105 million dollars in recognized revenue this year for the pellet plant. With the balance around $45 million dollars to $50 million dollars being recognized in 2017, and that would include site work installations, startup and other items.

Updating our current pellet plant quote activity, we do have an ongoing quote activity for new projects and we do believe that we will add a new large order late this year. As a reminder, these deals are long and complicated to get across the line, and while we're optimistic that a new project will happen by the end of this year, it always could take longer than we anticipate.

With regards to international sales overall, given the well-documented challenges globally that we've discussed and the global economic environment overall, we believe that despite our recent quote and order activity internationally in the infrastructure group, we will remain challenged for at least the rest of this year with regards to sales internationally. But we do remain committed to growing our international sales over the long-term and we will continue to maintain our sales and service coverage around the globe.

On the Energy Group side we remain extremely challenged in our drilling and pumping equipment sales activity and we are immuned to the current lower oil prices and lower natural gas prices with regards to our drilling and pumping businesses.

We're moving our street broom equipment line production to the most affected facility at Enid, Oklahoma. However, it will keep its Roadtec brand name and will be sold and serviced by Roadtec. Demand for our brooms has been strong as we have released new products in the last year and the federal highway bill has been signed.

We have slightly offset sales challenges in heaters for oil and natural gas industries with sales to food processing and chemical plants. We have also continued to see reasonable sales of wood chippers and grinders in the Energy Group.

Our concrete plants are also built in the Energy Group and quoting activity is good for these plants. We remain optimistic on our outlook in our Energy Group in the long-term; however, barring an unexpected change in the majority of the markets we serve, we will be challenged in this group overall in 2016.

Looking ahead to the second quarter of this year and the balance of the full-year, we are encouraged by a record $432.8 million dollar backlog, our domestic sales outlook and our strong infrastructure group sales activity. In addition, our new product development continues in all groups. Most notably this quarter, our new previously unannounced five foot Double-Barrel plant sold to NCC in Sweden and displayed at the BAUMA show a few weeks ago in Munich, Germany. BAUMA attendance was okay overall; however, the quality of visitors to our stand was very high and as a result we were fortunate to sell all salable units at the show during the show and secured additional orders in some new international markets. For reference, as David mentioned, our exhibit expense is up in the quarter. We spent approximately $2 million dollars on the BAUMA show.

Next-year is a CON Expo year, speaking of shows. We spent around $4 million dollars on the prior CON Expo and expect to be in that same range for the upcoming CON Expo. We are also working on new products for this show, which will slightly increase our R&D for the balance of this year and into the first quarter of 2017.

Changing subjects to our outlook for next quarter and the balance of the year, we believe that our second quarter will be in the range of our first quarter of this year. Our current revenue outlook for the balance of 2016 remains up 5% versus last year with improved bottom line performance. While our infrastructure group is performing very well, we are cautious on our outlook for our Aggregate and Mining Group and Energy Group with the main headwinds for these groups being very real and very persistent.

As mentioned earlier in my comments from our last earnings release to now, orders have been strong in the infrastructure group since early December last year mainly due to the highway bill and pellet plant. Orders are not strong internationally mainly due to the headwinds we mentioned of the strong U.S. dollar and the mining slowdown and low oil prices. The energy group orders are soft for products targeted at the oil and gas industry; aggregate and mining group orders are soft for products targeted at the mining industry.

Bright spots for activity are hot mix asphalt equipment sales, including asphalt plants, mobile paving equipment, concrete plant quoting activity with pellet plant quoting activity, and wood chippers and grinder sales and quote activity. We continue to see growth opportunities for aftermarket parts and service. Parts sales for the first quarter increased by 1.3% versus last year and were 26.6% of total sales versus 25.3% last year.

We remain committed to improving our parts sales volume in the long-term along with working to increase competitive part sales. We continue to see results of our Lean effort helping us be a better company. We continue to focus on gross margins as well. These efforts played a part in our higher gross margins during the quarter.

Looking to the whole of 2016, we're optimistic that we will end the year ahead of 2015. The majority of our customers in the United States continue to experience a stable private market and we're focused on selling both our existing and new products. Given the headwinds we're facing, we are working to manage the businesses where our businesses warrants, and that's on a division by division basis. To that end, we did have staff and or work hour reductions at the most effected divisions during the quarter.

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

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

I'll now turn it back over to Steve Anderson

Steve Anderson - VP and Director of IR
Thank you, Ben. Melissa, if you would open the queue for questions, we'll be glad to take those now.

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

Q: Hi, good morning guys. I have lots of questions, but I'm going to try to only stick to two or three before going back in the queue. I guess the first one for me looking at infrastructure, if I am to take the wood pellet plant out, it looks like your bookings in the quarter were roughly $150 million, which is largely consistent with what you've seen in the prior quarter, in the fourth quarter. And I guess, my question is this, how's demand progressing thus far? What have you seen through the quarter in terms of customers for this kind of asphalt plants in a core infrastructure product? And then how do you think we should be thinking about in terms of demand going forward for the rest of the year?

Ben Brock - President and CEO
Mig, this is Ben. We've seen it be very strong. I think in prior calls we've mentioned we thought we'd see a pretty quick two month run of pent up demand orders once the highway bill was signed. I think we've absolutely seen that. I think it's been a little longer than that.

Our customers will go back to work heavy in the summer, so I suspect we'll see a slowdown although activity right now is still very good. But I think what that will translate into is that we have a better backlog between what we have now in infrastructure and the pellets to put us in a much better position for the third quarter than we've been in the last couple of years.

And then I think we'll see more of the highway bill effect in the next buying season and for the next couple of years. Which buying season for us would start after September 1st, typically. It was a little delayed last year, that's why we struggled so much in the fourth last year, but customers seem to be in good moods and we feel good about the work they have.

Q: I see, okay. Well, you did a good job outlining how your revenues from the wood pellet are going to flow though this year, what is your assumption for infrastructure revenues - core infrastructure revenues for the year based on sort of where you see demand and what you've got in the backlog?

Ben Brock - President and CEO
I think it will be up. It's the reason we gut check our full year of 5%. I think we're a little bit of a product of our prior two years and what's going on around us. Our guys have done a great job of holding in there, but energy and aggregate, probably energy is going to continue to be a challenge and aggregates will be flat to slightly up, but I think the infrastructure side could be up 10% to 15%, if you take out the pellet plant. And on the aggregate, when you put them all together, it's still just feels a little sluggish. We've got plenty of work to do despite how good it feels.

Q: Okay. And then last one, before I jump into the queue. Maybe you can talk a little more about your concrete plant product. I'm trying to understand why to begin with this is flowing through your energy segment. And, you know, do you have any orders that you booked, where do you see opportunity for this product in terms of revenue over the next 12 months to 24 months, however you want to frame it?

Ben Brock - President and CEO
It's a new product and it's a little bit of paradigm shift for traditional concrete manufacturing because it's been a batch process and we're basing ours off a continuous process, similar to what we have with asphalt plants and that just takes a long time.

It's in the Energy Group, mainly because CEI's in the Energy Group, but the second piece is that the continuous plants lend themselves to dam projects, building dams. And the first sale, big sizable sale that we have with two plants we've mentioned that we go into a DOE project to start. So you could make an argument if the volume grows big enough for CEI, should it move into the infrastructure group, but for the moment where the sales are, Energy Group is where it belongs. And that first order was two plants, well it's really a second order, but most recent order is two plants with some conveying equipment from our aggregate group, so it's around a $7 million order that will deliver this year.

We're developing - eventually we'll have nine different lines, nine different models of concrete plants and some of those will get into the more traditional batch plant line model areas. But our heritage is new products and trying to change the rules of the game and that's what the first one is.

The second plant we have in design, which would be more traditional ready-mix plant. I was out in CEI about two weeks to three weeks ago and we're starting to build that now. We're building it for stock for testing, but we're just slowly building that line. I wouldn't say it will be significant to us for another year, year and half only because it just takes so much time to build up that base in the field that customers can go see the plants running.

Q: I appreciate that but can you sort of size this market, this opportunity?

Ben Brock - President and CEO
I think for us, of course year one looks like it could be $10 million to $15 million dollar range in sales. That might be high side on $15- because some of these plants will be much less dollar volume, because they can range in anywhere from a couple of hundred thousand up to $1.8 million to $2 million or more depending, especially the ones that we sold are more. But I think in a couple of years $20 million to $30 million in revenue would be accurate for us for a target.

Q: Thank you. I appreciate that.

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

Q: Hi, good morning. Wondered if we could just talk about maybe surprises in the quarter. I mean, I think last time we came on the call here you guys were talking about kind of flattish kind of year-over-year growth on the earnings versus my model a lot of the upside came on the margin side. So I just want to get kind of your perspective on maybe what went better than you thought in the quarter. And then as a follow on, how sustainable are some of the margins, some of the gross margins that we saw this quarter, how sustainable are those going forward?

Ben Brock - President and CEO
Sure Schon, this is Ben. For a lot of it had to do with product mix and being able to get orders out that we got after December 1, and that was a pleasant surprise. Our absorption was improved quite a bit, I think David mentioned around 600,000 in his comments. The foreign exchange, sometimes that's a win and sometimes it's a loss, but it was a pretty good win this quarter, about $800,000 I guess. And our parts volume, up $1 million and we have better pricing on parts, because of demand right now, so that helped us.

We have a little bit – and when I say a little, if your put your finger and your thumb together, they should almost be touching, but we have a little bit of pricing power on major equipment right now with what's happened in the infrastructure side, but it is not much and we have some pretty fierce competition and we have very savvy customers, not just us on jobs.

Steel prices have remained fairly low, although we do see they're talking about increases on the horizon, but we're fairly protected everywhere through June and into the first part of July with our agreements. The Lean work started to show up and, again, product mix has a lot to do with it.

Now, going ahead, I don't see us having this high, I mean this is a little early in our cycle to have this high a margin; I think we've talked about that on the calls before. I think we'll probably see some steel increases and we'll see some of that flow through our purchase parts. We don't have as great a product mix in this quarter that we had last quarter, and we have a more visibility on that now that we have some backlog and we never really know exactly what's going to happen with Forex, that seems to be a pretty good swing for us.

But typically when we sustained gross margins, we have a little bit of international, so a little weaker dollar; our utilization is a little more consistent, because right now company-wide, we're probably running between 70% and 75%. But if the Energy Group is lower and Infrastructure Group is higher and Aggregate Group is probably right there about that 70%, 75% range so. And we have a little better oil prices to help on our Energy side too. So somewhere between where we were at the end of last year and where we ended up this quarter I think is a better target for our margin going ahead this year.

David Silvious – CFO
Schon, this is David. Just a couple of things. Loudon went away and so that was a cost savings that we - there were cost in first quarter of last year that we don't have this year. And also, if you noticed on the segment page, we had a recapture of inter-company profit and that goes through Cost of Goods Sold or goes through the gross profit as well. So that's helped us pick up, last year we had a deferral just because of inter-company sales and this year we had a pick up because we moved some equipment in some locations that were sister companies that had bought it from one of our manufacturers. And so those things sort of added to— none of them had a huge impact but all added to the gross margin line.

Q: Okay. And just so I'm clear, even though you're saying the mix is not shaping up quite as well going into Q2 as it was in Q1, you're still talking about kind of earnings in line with the Q1 figure? Can you help me reconcile that?

Ben Brock - President and CEO
I do think that, and I think our volume might be a little bit better and margin might not be as strong. Although I would love to be surprised; our guys are doing a pretty good job. I think the Lean is showing up at where we are right now is kind of what we see.

Q: That's very helpful. And one more, if I may. One of your competitors was out yesterday talking about pickup in some of their aggregate business, specifically in North America. Can you just talk about any signs of maybe – I understand the international headwinds, I understand the mining headwinds, but any thoughts on kind of domestic aggregate business perking up?

Ben Brock - President and CEO
The inquiries are up, the business is still fairly flat, and I think that's reflected in our backlog in the group. Our Aggregate Group also includes Brazil, which is pretty difficult and Osborn in South Africa, which is pretty difficult now as it just continues to drag on. Although we're more in the maintenance side at Osborn, so we're probably maybe not as down as others, but yes, we would say that our guys are feeling a little better about the second half right now.

Q: All right, that's helpful guys. I'll get back in queue.

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

Q: Hi guys, good morning and thanks for taking my question. On the wood pellet plant could you talk about just the number of conversations that you guys are having? Is it above and beyond kind of potentially another plant with Highland? Just help us frame out some of that opportunity as we think about 2017.

Ben Brock - President and CEO
Sure, this is Ben. We had five customers really – we could argue it's six, but really it's five – that are pretty serious about plants and are looking at not current pellet demand, right pellet demand would be really off because they've had a couple of warm winters in Europe. But as utilities have planned switch overs to using pellets, their contracts are being made now and people are looking at plants to be able to supply that future need. So that's where our comfort level comes to say we'll get about one by the end of the year. Potentially is there more? Yes, but we feel good about one. And that's out of the five that we're talking to.

Q: Would that be one line or is this similar to $150 million three line plant? How should we decide that out?

Ben Brock - President and CEO
I think closer to the $100 million dollar range. At one point we thought that Highland was going to be more like that. So it really requires patience on our part because it feels like the ball is always moving on these projects, but I think as we're thinking about, we're thinking of it in the $100 million dollar range right now.

Q: Perfect. And with more of the profits or revenues coming from North America, how should we think about the tax rate this year?

David Silvious – CFO

I think the tax rate is going to be down from what it was in the first quarter. We have some planning going on and we did incur a couple of oddities in the first quarter that drove it up a little bit, some state income taxes and things. So I think you're going to be back down to 36, and depending on the planning that we implement, it could even go lower than that. But I think I would stay in that 35% to 36% range.

Q: Lastly, looking at international backlog, on a year-over-year basis, this is really kind of big step down. Sounds like while international markets are still pretty tough that we should see maybe more of a stabilization in this business. Is that a kind of way to possibly think about how the backlog might build through rest of this year and then kind of whatever happens on the domestic side would be really what drives the overall?

Ben Brock - President and CEO
Well, we love the idea of that but it's just been tough. Now on the flip side, as we mentioned during the comments, we have started to get some spot orders in areas that we weren't necessarily sure we were in the game on. So we do think that possibly Canada is getting more used to where the value is now. And possibly we are seeing that a little bit in Australia. So those are two markets where we really traditionally have done very well. So we really would like to say there is a bottom, but I think to be fair with the experience we had, we are saying that maybe we don't see anything moving again until after this year.

But certainly this is the case -- I mean the case is we are still staying in front of customers and still working, because eventually it will swing and we want to be known that we didn't leave and that we are there for the long term. So we're still invested in our coverage and in our service coverage in international, because on the long term we think that's in our best interest.

Q: That sounds great. One last one, I was on a conference call last week, they talked about some pretty large-sized infrastructure spending bills in Canada. Is that something you all have heard about recently? And then I think that would be kind of interesting given the business trends you're seeing there.

Ben Brock - President and CEO
Yes, we've seen and heard the same thing. And we'd be obviously all for it. Our customers talk about it. I think they've done some of that already, but we will be ready when it happens for sure.

Q: Perfect guys. Thanks you a lot.

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

Q: Good morning guys. I wanted to talk about the large pellet plant order. Is there a difference in the timing of the margins that you actually get from this order compared to the revenue recognition? Is there a thing where you're going to have to wait until it's installed to get a good chunk of that operating profit out there or is it pretty much scaled the same way that the revenues are?

David Silvious – CFO
We'll count it as we have the revenues in margin. And the margins are in line with our major equipment margins.

Q: And there is no difference in the installation margin at the end? There is no kind of clean up as to what's being held back until the actual plant is installed? It's all going to be --

Ben Brock - President and CEO

The margin on the backend is slightly less, but still in the range of our major equipment margins. The parameters around the last payment, because it's a big project, our parameters we are very, very confident we'll meet or we wouldn't have taken the job. We have enough experience in what we are doing in Hazlehurst to feel very good about that.

Q: Excellent. I also wanted to touch on the free cash outlook for 2015 into 2017. Do you see Astec getting a little bit more positive on the free cash in 2016, or will we have to invest in inventories for the pellet plant at the end of the year here and would have either outlook for 2017 perhaps once the payments start to kind of roll in?

Ben Brock - President and CEO
I think we'll be okay on our cash. We have a payment schedule on the pellet plant. Of course we recognize and get the cash on Hazlehurst next year. I think what we'll be looking to do with that is acquisition work.

Q: Got it. Makes sense. I'll jump back in queue guys. Thanks.

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

Q: Good morning. Can you talk about the strength of the infrastructure group post highway bill? And so is there any distinctions for the ramp on Asphalt plants, maybe some equipment in Roadtec? And so really what you're seeing within that infrastructure group, whether it's pent-up demand or what kind of the need that's out there?

Ben Brock - President and CEO
Both sides have seen strong activity as far as the asphalt plant and the paving side, so that's Astec and Roadtec, also Carlson. It makes the screeds that go on the back of pavers and there are the small commercial-class pavers are doing very well. So we've seen pretty good activity across the line there including our Dillman division. Good strong activity.

Q: Okay, that makes sense. And then really just another question on that infrastructure business. By region where are you seeing particular strength and then what are you seeing in energy intensive areas like Texas?

Ben Brock - President and CEO
Texas has been good. And regionally, it has been pretty consistent. Probably maybe better to talk about where it's not as strong would probably be more in the Western US, California. Everywhere the demand is pretty spread out. Maybe not up in the Dakotas so much, but northeast, mid-south, mid-Atlantic, southeast, I'm just going through my mind thinking about orders and where they're coming from, it's fairly consistent.

Q: Okay. That makes sense. Thanks for taking my question.

Operator
Thank you. Our next question comes from the line of Morris Ajzenman with Griffin Securities. Please proceed with your question.

Q: Hey guys. My question is on allocation of capital. You've mentioned it earlier in the conversation as a positive outlook, looking out ahead in the year for the Energy Group. How are you allocating capital? Is there being any shipped away from energy into other groups? Just share your thoughts on that process please.

Ben Brock - President and CEO
The biggest one we have going right now is we are adding a bay on at our Astec Inc. facility mainly to build the large drums for the pellet plant and that should be completed by September. Also that is a bottleneck for our asphalt business, so the ability to build more drums is something we need over the next few years.

We are managing, so our CapEx for the year is around $30 million, but we always say that with an asterisk, because we'll manage the businesses to the business that we have, to the demand. So some will get probably less and some will get probably more based on how the year is playing out.

But thinking in that range of $30 million is the right place to think for our CapEx this year. Where we've been really running about depreciation in the last several years, which depreciation is about $23 million, so we'll spend maybe a little bit more this year. However, if things turn, we are very quick and we can slow it fast.

Q: And just a clarification. I thought earlier in the call you had stated revenues would be similar in second quarter as the first quarter. And then in answering another question, I thought you then said EPS would be aligned. Can you just kind of clarify what you have said about the second quarter versus the first quarter for revenues in EPS?

David Silvious – CFO
That's a good point, Morris. We really feel like the whole quarter is going to be pretty close to what we just had. That's earnings per share, and then the volume may be a little higher if the margin is off a little bit. So we do think we'll be in the range.

Q: Thank you.

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

Q: Thanks, good morning guys. I believe my questions have been answered, but I will ask this one. Thinking about the 5% kind of topline growth that you guys have reaffirmed you said in last quarter and again today. Looking out at what you can see in your backlog and what you see in your order trends and what you expect, I mean, what do you think is the swing factor is on that? Are they going to be positive or negative? If you end up north of 5%, what's going to be the driver and similarly if you end up under that?

David Silvious – CFO
If we end up over it, I think it will be Aggregate and Mining waking up a little bit in the second half. And if we end up under it, I think that it will be flat to down. I think the Infrastructure is going to have a good year overall and I think the Energy is doing a good job of what they have but it's going to be a challenge for the rest of the year.

Barring a huge swing from what we see right now, I don't see us being down on that 5%, but I think that opportunity would be to be above it. I think, again, as I said earlier, I think we're a little bit – our experience in the last few years, it's just been kind of tough. We get a lot of questions, why not higher, but I think based on what we know right now the 5% range is the right number.

Q: Okay, good. And given that the aggregate and mining amount you said the swing factor is that, I'm going to guess that's more on the Aggregate side than on the Mining side, is that right?

Ben Brock - President and CEO
That's correct because we don't think the Mining side is going to get much worse or much better.

Q: Okay. I don't want to pick at you anymore on the gross margin, I think you've done a good job of answering questions, but I just want to say really nice performance in the quarter on that.

Ben Brock - President and CEO
Thank you.

Q: Thanks a lot.

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

Q: Hi, thanks, good morning. Curious on the sustainability and outlook for pellet plants. What are the prospects beyond what we are quoting and what can the industry do, where do we get to point where we can talk about more than one-off plants, when could this be a sustainable business and you're competing for a few plants in the marketplace?

And secondly, where would you estimate annual sustainable part sales would be from the pellet plants? In other words, if you did $109 million in sales this year, would that lead to $25 million or around 25% parts annually in a recurring basis? Thanks.

Ben Brock - President and CEO
Larry this is Ben. It's still such a relatively new industry, it could be years before it's a sustainable industry. We kind of feel like it is. If you went with the pellet projections, even with being down right now, you would still think there would be 25 to 35 pellet plants built in the Eastern Seaboard, large plants over the next 5 to 8 years or so. We're in a really good position on that.

I will give you an example. We lined three at Hazlehurst when we turned it on and ran full production in under two weeks on a tons per hour basis. That is crossing the line, it's kind of a "never been done" line, so we feel really good about our abilities. But on the other hand, we still have to be able to support it, so that's another—being able to build it.

I think we're in a good position, I think if we do as well as we feel like we are going to do at Highland, people will be coming to us first and we might have the ability to work on our pricing too to get our margin up little more. But we're excited about it. We feel like if we can get 1 to 1.5 in the next year, in the next two years and continue to build that, we will be in a good position, but I think it's hard because some of it is policy driven to say exactly when that turning point is where you say this is an ongoing business for a long, long time.

We still continue here, but South Korea and Japan and China are looking at it pretty hard. There is a pellet conference in Japan coming up, so maybe stay tuned on that. But I think it will be in line volume to current parts that we have on asphalt equipment. So as we look at volumes of pellet plants, and, of course, the early stages of them they don't need very many parts, but as they get older they start to need parts, and then it depends on how well it's maintained by the company that owns it. So I think thinking of it in terms of in the long run being the same percentage of parts business would be a good way to look at it.

Q: Okay, thanks. That's very helpful, part of it is that you get that one or two large plants and then you don't know about the year ahead and that creates some uncertainty with regards to the outlook. So is it safe to say that you have the visibility that at least as a base level business that you'll at least do 1 to 1.5 reached in one to one and a half a years so that that would end provide a hole in the outlook? And secondly, you did mention Mine Expo, would that I guess does that mean that won't be significant then?

Ben Brock - President and CEO
Mine Expo will not be hugely significant, that's in Las Vegas in September and then Con Expo we'll start to see expenses on that probably midway through this year and then the total expense will be like it was last time which is around $4 million.

I think though our goal that we're working for is to make sure we can get 1 to 1.5 pellet plants a year for a while. And we're putting ourselves in a position to be able to do that with how we are doing it at Hazlehurst and how we feel like we're going to do it at Highland given what we know.

Q: Great, thanks a lot, good luck.

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

Q: Hi, I just wanted to follow-up – you mentioned some of the capacity expansion here in Tennessee, but at what point do you get concerned about capacity as the infrastructure business starts to ramp up? I mean, do you feel comfortable that you can still significantly ramp infrastructure and then layer on another kind of 1 to 1.5 pellet plants for the next, as we look out over the next 12 to 24 months, is that still plausible given the capacity expansion that's already in the works?

Ben Brock - President and CEO
Schon, for the moment the answer to that is yes because the pellet plants are planned out far enough that we're able to talk with our infrastructure customers and get their deliveries in and around them which has really been great to see. I mean, I'm still a peddler at heart, I've been involved in some deals and we've had some customers say, okay, I'll wait till December, because we said could you wait till December.

So far, to my knowledge, we haven't lost a deal on delivery on asphalt plants. And so we've been okay on that, but we are consistently keeping our eye on that. And we do have capacity to help with that, particularly in Oklahoma where we are working on some infrastructure products there now, not just the brooms but we're building some filler silos there. So we have capacity if it really went going, but for the moment we have been okay and we think we would be okay even into the next couple of years with the expansion we are doing here at Astec and some of the things we are doing at Dillman on the shop flow, I think we will be okay.

Q: All right, thanks guys.

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

Steve Anderson - VP and Director of IR
Thank you, Melissa. We appreciate everyone's participation on our first quarter conference call. Thank you for your interest in Astec.

As our news release indicates, today's conference call has been recorded. The replay of the conference call will be available through May 12, 2016 and an archive webcast will be available for 90 days. The transcript will be available under the Investor Relations section on 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.

As Melissa said, this concludes our call, so thank you all have a good week.

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