Transcript of
Astec Industries
First Quarter 2019 Earnings Call
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Participants
Steve Anderson - VP, Director of IR
David Silvious - CFO

Analysts
Mig Dobre - Robert W. Baird
Stanley Elliott - Stifel
Larry De Maria - William Blair
Brian Sponheimer - Gabelli & Company

Presentation

Operator
Greetings. Welcome to Astec Industries First Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. Please note that this conference is being recorded.

I'll now turn the conference over to your host Steve Anderson, Vice President and Director of Investor Relations. Mr. Anderson, you may begin.

Steve Anderson - VP, Director of IR
Thank you, Rob. Good morning, and welcome to the Astec Industries conference call for the first quarter that ended March 31, 2019. As Rob said, I am Steve Anderson. Also on today’s call is David Silvious our Chief Financial Officer. Unfortunately, Rick Dorris, our Interim CEO is unable to be on the call today as he is attending his father's funeral, so our thoughts and prayers are with Rick and the Dorris family in their time of loss.

I am going to step in to provide the high level overview of results this quarter and David will discuss the financial results in more detail afterwards, but before I do that, 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 factors that can influence our results are highlighted in today’s financial news release and others are contained in our annual report and our filings with the Securities and Exchange Commission.

Although we have a unique set of circumstances for this call, I would like to give you a broad overview of some of the drivers that shaped our financial results. Our performance for the quarter did not meet our expectations; however, we have continued to take steps to support our long term goals of increasing operational efficiency, reducing cost and improving profitability. As you’ve seen, our sales were flat year-over-year and March is typically a strong month, but that was not the case this year. Unusually harsh weather has been a factor in the United States, and a lot of equipment that we manufacture is used in the field and can’t operate in excessively muddy conditions.
As an example, the North Carolina Department of Transportation has given contractors time extensions beyond the contemplated standard specifications. In a January 2019 memorandum they provided for a 180-day extension to the overall contract time and applied to many highway related projects.

Rental fleet utilizations in the market were low as well. Some estimates indicate utilization rates to be as low as 56%. Even though we do not rent directly, many of the dealers we sell to do rent. Their rentals often turn into sales and sales into restocking orders. Additionally, 2018 was a strong year, which provided tough comps.

Many dealers have larger inventories than in the past years, and with interest rates climbing their desire or ability to increase capital expenditures can be impacted. In our gross margin, under-absorption was a factor. A number of the factories we have, lost days of production due to severe weather. At Kolberg-Pioneer in South Dakota, we had four days of excused absences due to flooding around the manufacturing facility, which limited production to 30% to 40% on those days. At Johnson Crushers in Eugene, Oregon, we had a weather related power outage for two days, and at both Telsmith in Mequon, Wisconsin and Carlson Paving in Tacoma, Washington, we lost four days due to snow.

Unrelated to weather and as previously noted, we built quite a bit of inventory in our mobile asphalt paving equipment division and we are still digesting some of that. For the most part, our input costs have stabilized. Coil prices have actually come down some, while plate has stabilized at elevated levels. We use about 25% coil and 75% plate, so net cost are down just very slightly. As noted in prior calls, we initiated price increases throughout last year to keep up with inflation.

In the selling, general and administrative expense category, our investment in our strategic purchasing initiative continued. As we have shared before, this is an investment and we'll begin to see the benefits in the latter part of this year, into 2020 and beyond. We are pleased as this initiative continues to meet our expectations.

The Bauma Trade Show, which is held every three years in Munich, Germany took place in March and that typically equates to a spend for us of between $2 million and $2.5 million though this is spread over a couple of quarters. I can tell you the show was well attended this year. We had good traffic in the booth and on display we had our new batch plant design for the international markets and a paver manufactured by Carlson Paving. All in all, our team felt this was a very good show.

The investment in our international sales network added approximately $500,000 of expense in the quarter and contributed to the year-over-year variance. For backlog and orders, the drop in these categories was fairly sudden in March across the board and concentrated in North America.

This is highly unusual given the number of products we offer in the industries we serve. The big question is whether this is a lull or a dip, and that is to be determined. Our customers are still confident and have work, quoting activity is active despite orders being slow to materialize, and although we never take this lightly, we are adjusting man hours at some of our companies and looking at headcount as well. We are reacting to the near-term conditions while maintaining flexibility for the long term.

So in summary, despite the negatives, we continue to have a number of positives. We're focused on our core product lines versus the ancillary product that was a distraction over the last couple of years. Our strategic purchasing initiative is continuing to progress nicely and is in line with our expectations. The expansion of our international sales network is moving forward and will be a benefit in the future and oil prices seem to have stabilized in the $60 a barrel range and that helps our prospects for equipment sold into the energy related products.
So I think it would be helpful at this time for David to provide some detail on these topics and share some financial information for the quarter. David?

David Silvious - CFO
Thank you, Steve and thank each of you for joining us this morning. I'll now walk through the financial results for the quarter. Net sales of $325.8 million in this quarter were essentially flat with Q1 of 2018. Our sales for the quarter were approximately $10 million to $15 million short of our guidance of 3% to 6% growth over the first quarter of 2018. As Steve mentioned, weather-related issues primarily in March, we believe, impacted our revenues and our order intake and that, in turn, impacted our gross margins and our earnings per share as we will discuss.

Driving some of those sales in the first quarter, international sales were up and the increase in international sales Q1 2019 versus Q1 2018 occurred primarily in Canada, Australia, Japan and Asia. Those increases were offset by decreases in Russia, Africa and Brazil, and for the quarter, international sales increased in the infrastructure group and the energy group and decreased in the Ag and Mining group.

Domestic sales for the quarter increased in the energy group and decreased in the infrastructure group and the Ag and Mining group. Parts sales were $92.6 million in the quarter compared to $88.1 million in Q1 of 2018. That's an increase of 5.1% or $4.5 million, and for the quarter, part sales increased in each of the groups. Forex had a negative impact of $3.4 million on sales quarter-over-quarter.

Moving to gross profit, our gross profit percentage was 23.5% this quarter compared to 24% for the first quarter of 2018 and the absorption variance, as Steve mentioned, in Q1 of 2019 was $7.3 million underabsorbed compared to Q1 of 2018 underabsorbed variance of $4.5 million. That's a negative change in the absorption variance of $2.8 million.

As adjusted for prior year, pellet related expenses, the consolidated gross margin for Q1 of 2019 again was 23.5% compared to 24.8% as adjusted in Q1 of 2018. That may be as adjusted gross margin for the infrastructure group 24.4% for Q1 of 2018.

For the quarter, SGA&E was up as Steve mentioned at 17.9% of sales compared to 16% of sales in the first quarter of 2018. That's an increase of $6.2 million. The main drivers of that were consulting fees of about $2.6 million; R&D was another $600,000; again the Bauma exhibit that Steve mentioned, about a $1 million of that hit in this quarter; and we had legal, professional and accounting fees were up across those categories by a $1 million compared to the prior year.

We expect the run rate on SGA&E to remain elevated in Q2, but to decrease to a more normalized level in the second half of the year for each of those two quarters in the second half. The effective tax rate for the quarter was 21% compared to 23% for the same quarter last year and we expect the full year rate this year to be in the 22% to 23% range. Our earnings for the year were $14.3 million compared to $20.3 million for the same period last year, a decrease of $6 million.

Income per diluted share then was $0.63 compared to $0.87 last year. As adjusted, the prior year's earnings per share was $0.96 per share compared to the $0.63 in Q1 of 2019. The EBITDA for the first quarter of 2019 was $24.9 million or 7.7% of sales compared to EBITDA of $33.2 million in Q1 of 2018 or 10.2% of sales. As adjusted the prior year EBITDA was $35.9 million or 11% of sales in Q1 of 2018.

The backlog, international backlog at March 31 of 2019 was $74.7 million compared to $103.8 million at March 31 of 2018. Domestic backlog was $161.8 million at March 31 of 2019 compared to $341.1 million at March 31 of 2018, but as adjusted, recall that that $341.1 million of backlog in the prior year had pellet plants in it, so as
adjusted, the total backlog at March 31, 2018 was $308.3 million and that resulted in a decrease of 37.8% in the March 31, 2019 backlog. Recall that all that backlog difference is all domestic and it's all in the infrastructure group. Forex had a negative $4.9 million impact on backlogs year over year.

Moving to the balance sheet, the days outstanding were 37.1 at the end of March this year compared to 41.7 at the end of March in 2018, and we saw 2.6 inventory turns through March of this year compared to 2.4 turns through March of 2018. In March 31 of this year, we owed $55.8 million on our $150 million domestic credit facility and we had $28.6 million in cash and cash equivalents as of March 31, 2019, primarily overseas or supporting our captive insurance company.

Letters of credit we're at $9.5 million giving us a borrowing availability of $84.7 million at March 31 of this year. CapEx for the first quarter was $5.8 million and for the full year of 2019, before casting, around $25 million. Depreciation for the first quarter of 2019 was $5.4 million and for 2019 we're forecasting $23.5 million of depreciation.

While we are more cautious in our outlook for the second quarter and the remainder of the year due to the unexpected change in our backlog in late Q1 of this year, our customers continue to be optimistic about their businesses. We're encouraged that they have good backlogs and are busy. Further we have seen some positive developments in orders after quarter end.

Our sales and operations planning programs are having an impact on our demand scheduling, which should help us optimize our inventory levels and release cash tied up in inventory over time. We also anticipate our strategic purchasing initiatives to begin to positively impact our gross margins in the second half of 2019 and we expect to see our SG&A expenses decrease in the second half of 2019.

For the second quarter, we're projecting our top line revenues to be down approximately 5% to 15% from the second quarter 2018 adjusted revenues of $347 million. We expect gross margins in the second quarter in the 22% to 23% range, yielding operating margins of 3.5% to 5.5% and earnings per share in the $0.40 to $0.50 per share range for the second quarter. For the full year, we believe revenues will be flat to up 3% compared to the 2018 adjusted revenues of $1.246 billion with gross margins in the 23% to 24% range and operating margins in the 5% to 7% range, and earnings per share for the full year of 2019 of $2.25 to $2.55.

I'll now turn the call back over to Rob and we'll be glad to take your questions.

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

Q: Thank you. Good morning, everyone and my condolences to Rick and his family. There's quite a bit to get through here and I might jump back in the queue and come back as I certainly don't want to take up all the time upfront, but I sort of want to start with a big picture question.

I understand the weather disruptions and you're not the only company to have experienced them. What is not so clear to me is, you know, reported your quarter, your fourth quarter on March 1st. You had pretty good perspective I think on January and February, and obviously the adjustment that we're seeing to guidance here is very much material. The orders themselves and backlog are, I would call them unusually weak.

What I'm not clear on is at what point in time did you start to get better visibility in terms of where demand was because, again you know, on March 1st you provided your initial guidance, right. So, I'm presuming that it was at
a point in time in March that things started changing. It seems to me like given the magnitude as to what's happening here, we're talking about more than just the weather.

So if we could maybe try to separate the weather issues versus some of the other things that might be impacting the business, I think that would be really helpful because we're trying to understand if there are share shifts here and you have a share loss issue, if there's something else going on cyclically with the market. It's hard for I think anybody to sort of believe that what we're talking about here is just weather-driven volatility, so I'd love to get your thoughts on that.

David Silvious - CFO
Sure. Good morning, Mig. This is David. On the revenue side, obviously the shortfall, as we've called out, some weather and again, Steve mentioned that is this a low is that a dip, that's yet to be determined, so cyclicality, it's hard to address. We are hearing from the market from our customers that they have backlogs of work and that they're busy and they expect a decent 2019 in their own businesses.

The weather impacts some of our customers because they have rental fleets and again rental underutilization would cause them to be sitting on large inventories of rental equipment and not converting that real equipment to revenues for them and in turn placing orders with us, so we see some of that also going on in the business.

And you know we think it's a light year with the weather that customers are just now getting around to, especially on the east side of the country, getting around to being able to really get out in the field and do a lot of work. It's been sudden and to just address the timing of it, we had a forecast and that's what we went to the market with and we were confident in that forecast based on—and we build that from the ground up based on every subsidiary we have people in touch with the market and with the customers and frankly it just slowed down suddenly and decisively in March.

At the end of February, it's a challenge because anywhere from 60% to 80% of our earnings could come in the last month of any quarter and 60% to 70% of the revenues. So it's a little bit of a challenge forecasting that and knowing at the end of the second quarter where we're going to be, but that being said, it was a slowdown in March and obviously you see the impact of that.

Q: Do you do you get a sense from your sales people the folks on the front lines as to what might be the culprit here other than the weather though? And I ask because the way I think about the business, for instance, correct me if I'm wrong, but I think of, say, the material guys the likes of a Vulcan as being the OpEx portion of highway construction. You are the CapEx portion of it and we've gone through some good years after getting the highway bill in 2015. I mean 2016 was good, 2017 was good, 2018 was pretty decent.

I'm wondering if what we're talking about here is the realization on the part of your customers that whatever equipment needed to be replaced has been replaced, there has been investment and now we're just kind of dealing with a normal cyclical-type downturn. I mean, you've been doing this a while so you've seen this before. I'm just wondering if this is what's happening here or if there's another nuance that I might be missing.

Steve Anderson - VP, Director of IR
Mig, this is Steve. For the drop to have occurred so suddenly, we don't think it's anything more of a macro nature. The domestic markets are strong and, again, our customers are busy and you don't always want to hang your hat on weather related, but it has caused a delay and pushed the season back some.

So we're not seeing anything macro, or hearing it from our sales personnel that would indicate that there's apprehension in the markets. We've been to the Bauma Trade Show and had a good show there, different organizations that we participate in, events are well attended, tends to be some optimism. The past few years,
contractors have had the ability to perform well and clean up the balance sheets and have some room on their lines and things like that. They've been profitable.

So if it had begun over a multi-month period where there was some downturn, it would lend more credence to apprehension of what's to come, but again, to David's point, it was fairly quick.

**Q:** Okay, then my last question before I go in the queue. You talked a little bit about, in the press release, you hinted at potentially some recovery in orders. Is that what you're seeing? I understand Bauma obviously helps as a trade show, but excluding Bauma are you seeing better trends now that weather gets a little bit better into Q2? And I ask because I do want to talk about guidance in my follow ups, but obviously the guidance the way it's structured, it assumes a pretty decent back half of this year, so something has to get better. Thanks.

**David Silvious - CFO**

Mig this is David. Yes, we see the incoming intel from the field, from our sales folks and our folks that are in touch with customers that they're definitely contemplating orders. There are a lot of folks that are in need of equipment that have expressed that to us. It's just they're not pulling the trigger for one reason or the other and so what we can see is the weather side. But as you said, is there something more secular in the market a little more, a little larger and we just don't see that. That's not the evidence that we're seeing. That's not to say that it's not something like that, but that's not the evidence that we're seeing.

We are hearing discussion from our group presidents and the presidents of our subsidiaries that it is a later season and so you know the back half of the year we expect to make up some of that ground, obviously from the guidance, but in Q2 with the backlog where it is, the customers may not have some apprehension, but certainly we would have some apprehension in putting anything too heavy out there. It's just, we're feeling our way through this and we expect and see a lot of order activity but we think that those will convert to orders at some point. We're just not sure of timing, but they're quoting activity.

**Q:** All right. Well like I said, I'll come back in a follow up to talk about guidance and some other things. So, thank you.

**David Silvious - CFO**

Thanks Mig.

**Operator**

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

**Q:** Hi, guys. Good morning. Thank you for taking the call and so sorry to hear about Rick's dad. When we talk about the business, was it noticeably weaker on the asphalt side versus the concrete side or it could sound like the energy business was hanging in there pretty well, just trying to kind of parse out—typically I think of asphalt being kind of earlier to come to the market and concrete being a little bit later, but just trying to get a little more color there if we could please.

**David Silvious - CFO**

This is David. I can say that it was more on the road building side that that was where some of the weakness was along with some of the aggregates. So I think those, and typically some of it was concentrated where our customers are dealers and have rental fleets, and so that's where some of that intel is coming from. But yes, it was more on the asphalt side rather than the concrete side. The concrete side hung in there pretty well.

**Q:** Have you changed anything at the dealership level in terms of bringing in new dealers or anything like that that you could kind of share with us?
Steve Anderson - VP, Director of IR
This is Steve, Stanley. No, we had dealer distribution through our aggregate & mining companies for several years, that's very well established. We've been putting on dealers in the mobile asphalt paving area and been getting good dealerships there to go through and then certain products in our energy group were sold through dealers as well and those are established also, so there are no major changes in the way that we're going through the dealer distribution network.

Q: Okay. And then you mentioned pricing pressure. I mean is there anything you could help us with in terms of product categories or anything on the regional side that might kind of give us a little more color there.

Steve Anderson - VP, Director of IR
I just think what we're seeing is just a lot of companies are hungry for growth and every deal is competitive, so it will continue to be that way. It's been that way in the past but we have certain competitors that seem more focused on market share right now versus price on any specific deal, but it's just competitors are out there trying to fill their shops up as well.

Q: And do you get a sense that this is really more of a delay in orders or did customers decide to kind of, I don't know, change allegiance is not the right word, but you do you feel like you're losing out on more deals now or do you think that the whole market just seems kind of punk right now.

Steve Anderson - VP, Director of IR
We feel like we're holding our own. If there was no quoting activity or the contractors weren't saying they were busy, it would be an even greater concern, but with the fact that they are busy and interested in new quotes, we certainly anticipate this being a lull versus a dip, but as we've said, we are adjusting hours and prepared to adjust otherwise if it becomes extended.

Q: All right guys. I'll hop back in queue. Thank you very much.

Operator
Next question is from the line of Larry De Maria with William Blair. Please proceed with your question.

Q: Thanks. Good morning. I guess you guys talked about no apprehension in the market, but also as was just brought up, mentioned in all segments experienced some pricing pressure and then obviously March fell off, so it seems to be some bigger issues out there. Can we discuss maybe even further into pricing who is being more competitive and how competitive it really is and how pervasive across the portfolio, and then maybe what was net pricing in the quarter and how do we think about net pricing for the year? I assume that was changed.

Steve Anderson - VP, Director of IR
Yes, I think again, Larry, we're seeing pricing—we have competitors across the board. The barrier to entry into these type of businesses is fairly high, so you have established competitors out there. I can't name one specifically that's out there being overly aggressive. I mean they are all long term players, but steel has pulled back on coil just a little bit. That may provide a little bit of room, but plate prices have stabilized at a relatively high level.

If oil prices were to move from $60 a barrel to $70, then there could be some further inflation in steel prices as that's typically a driver. So again, feel like the quotes that we're putting out there that our batting average is holding and it's just on every deal you have to sharpen your pencil on.
Q: So obviously everybody's been concerned about what does that ultimately toward the industry and the competitive nature for a company like you guys. Would that be one area of concern that's playing out?

Steve Anderson - VP, Director of IR
Wirtgen has been an aggressive competitor for years and that's still the case. So that's present in the market, but it's not different from what we've experienced in the past.

Q: Okay. Thank you. And then you guys mentioned consulting fees, I think $2.8 million. That seems high. Is that out of the ordinary or what is that specifically related to?

David Silvious - CFO
Yes, that's definitely out of the ordinary. That relates primarily to our strategic sourcing initiative and our sales and operations planning initiatives that are going on. You may recall we had an outside consultant helping us build those initiatives out and we expect those projects to be complete sometime in the middle of summer, end of June, end of July more than likely, so that's why we expect SG&A to drop for the latter half of the year.

Q: Okay, so remind us the level of the drop in SG&A and maybe the annualized run rate.

David Silvious - CFO
So the annualized run rate should be probably in the $54 million per quarter. We're running $58 million right now. Obviously that would mean that it would be significantly lower in the latter half of the year. We expect, but we expect it to be more in line with our traditional, say, 16% to 17% of revenues, which it is not right now. It's higher than that, so we expect it to drop substantially there in the latter half of the year.

Q: Okay. Thank you.

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

Q: Just kind of a bigger picture question as relates to ordering activity, how much if anything that you hear from your customers is related to FAST Act that hasn't been effectively turned out for another five years yet? How much do you guys need in other infrastructure build?

Steve Anderson - VP, Director of IR
Brian thanks for your question. This is Steve. We don't hear of the order intake being affected by the FAST Act right now. You're right in that it is a factor. It typically surfaces close to a year before the expiration. So we're not quite there yet. There has been a lot of talk in Washington about bipartisan support for an infrastructure bill. I know Speaker of the House Pelosi was in an article earlier this month saying we're ready to talk infrastructure with President Trump and mentioned in that article that about 75% of the conversation she's had with the President included infrastructure policy.

I don't know if it'll stay on target but they expect to at least have some discussions heading into May, which is positive at this point in the year this far out. As we get closer to the date, the tenure of the bill is important and having at least a four, five, six year bill, gives our customers visibility where they're comfortable in spending money on larger ticket items that are a 20-year asset that has a cost of $4 million, $5 million, $6 million. So we're not hearing FAST Act being an issue right now but we're certainly tracking it.

Q: All right. Thank you very much. That's it for me for now.
Operator
The next question is a follow up from the line of Mig Dobre with Robert W. Baird. Please proceed with your question.

Q: All right. Thank you for taking my follow-ups here. So if I may, I think I'm going to try to go by segment here with my questions. I'll start with infrastructure. Just high level sort of thinking here, your backlog is about $81 million. How do you think about the amount of dollars that you need in the backlog relative to next quarter or next six months' worth of potential sales? In theory you would need a fair amount in backlog given how you're doing production planning. What's the normal percentage?

Steve Anderson - VP, Director of IR
Mig, this is Steve, and David can jump in as well, but the backlog velocity through the shop depends on what's in front of it. You know if there's not much in front of it, you can get a plant out in about three weeks, so it's hard to put an exact number on it plus is it a full plant or what have you. Dave do you have a number a bit more specific than that?

David Silvious - CFO
That's a difficult group to forecast that sort of number in because Roadtec right now has an unusual circumstance of having probably more inventory than they would normally have. As Steve mentioned, we had built some and still working through that, and so the backlog could be fulfilled very quickly out of Roadtec and of course they're a high volume shop.

And as we go through our S&OP program, our backlog should naturally drop over time relative to history because of better planning, more streamlined and lean manufacturing through the shop, so it's difficult to say. As we've said in the past, our backlog is generally turned in a quarter to quarter-and-a-half, and our expectation historically would be a quarter's worth of sales or so in a backlog for any of our groups, but that's not necessarily the trend going forward.

Q: Okay. That's helpful. But then looking at it this way, in 2Q 2018 you did $158 million worth of revenue. You've done $155 million in Q1. Your backlog is at $81 million. Should we be thinking here then 2Q revenue, 2Q 2019 revenue and infrastructure something around $80 million to $90 million? Is that how you're thinking about it with maybe some recovery as the year progresses?

David Silvious - CFO
Yes, we don't give the guidance down to that level at the group level. Certainly we're sharing the consolidated with you, and for the year we've disclosed that we're looking to be flat to up 3%, but we just haven't talked about it in that detail.

Q: Okay. Well I mean this seems to be, at least to me in my model when I'm looking at it, this is one of the big pain points. Your backlog in infrastructure is really the lowest now that it's been since 2009, so that has some immediate repercussions, which I guess, they're reflected into your guidance.

But it seems it seems that 2Q infrastructure revenues will be down pretty materially. My question is, if that's the case, how do we need to think about this segment's gross margin because gross margin hung in here pretty well? You were up 30 basis points year over year in Q1, but with the volume pressure that you're going to get in Q2, I'm presuming we have a different story. Can you hold gross margin flat year-over-year on this kind of volume decline? I mean I guess I suspect the answer is no, but I'm wondering how you'd advise us to think about it.
David Silvious - CFO
I think it'd be a challenge to hold it flat unless the moves that we're making right now to better utilize those facilities and then add a couple of those facilities to get more volume through the shop to reduce the manufacturing costs that are incurred as we produce, and if we sell, get the backlog built back up and turn it over especially at a place like Roadtec where we could sell a significant amount of equipment right out of inventory, of course that would, in turn, limit the hours through the shop and you might have some absorption issues that would impact the margin, but we would we would be selling out of inventory, which would give you a little higher volume on the top line.

That’s the challenge is to balance that out and, as we've said, we're making moves right now and are watching that very closely. We meet weekly and discuss our forecast and our volumes and our costs and we are mindful of how long it takes for changes to have an impact on the financials. I think, to your point, we're making those changes as we go along and we expect the margin is going to have pressure on it.

Q: Well again, when I'm plugging in your guidance, I'm struggling, frankly, to get to your EPS guidance for the second quarter without making some pretty generous assumptions about what gross margins and infrastructure are going to be in this really weak Q2 from a volume standpoint. That's why I'm wondering if there is something that you're aware of specifically in terms of cost actions or whatnot that might be benefiting the margin here? I don't know if you can provide additional clarity but I’m having a hard time with my model, essentially.

Steve Anderson - VP, Director of IR
Yes. So some of the quoting activity we are seeing is in that area, so that that could be a factor as well.

Q: Okay. Let me move to aggregate and mining. Is there a way to maybe separate what's happening with the mining portion of your business versus aggregate? I think I heard you say that it was aggregates that saw more pressure rather than mining. I don't know if there is a difference that you can call out between the two, more than what you already said.

Steve Anderson - VP, Director of IR
Mig, this is Steve. In our aggregate & mining group the vast majority of that is aggregates and the majority is domestic aggregate, so our true mining exposure is the single digit. If you look at it from a company-wide standpoint, we have had some increases in mining from low levels, but Australia, South Africa, I've seen some benefits there but it doesn't move the overall needle that much, so most of what we're referring to is domestic aggregates.

Q: Has this been impacted by the weather as well or was the weather primarily an asphalt comment?

Steve Anderson - VP, Director of IR
Well the aggregate mining has been impacted. Again, we go through dealer distribution for those products. We have a lot of track mounted units and they're out in the field and out in the mud and the dirt and the pit, so we have gotten feedback that that's been an issue.

Q: And where are you seeing demand trending from this Q1? Are things improving sequentially? Bauma too, I mean, I think of Bauma primarily as a show benefiting infrastructure, but maybe I'm wrong, maybe that benefits your aggregate business too.

Steve Anderson - VP, Director of IR
There's some tie between the two groups. Obviously a lot of aggregate is going into infrastructure projects, but we've had some strong years in the aggregate and mining group for the past couple of years so they have some good comps. But again, when the rental markets are slow, that flows through.
Q: When you think about your full year growth guidance, the 0% to 3% and you think about aggregate and mining versus infrastructure compared to that guidance, how would you sort of rank the two?

Steve Anderson - VP, Director of IR
I don't know that we've given anything with detail between the two, but we would expect both to contribute.

Q: Okay. From a margin standpoint here, margin was a little weaker than what we were anticipating, but again the volumes were looking a little different as well. So as you look at this gross margin of 24% in Q1, directionally, how should we be thinking about margin into the maybe weaker Q2 and then the rest of the year? Any help there?

David Silvious - CFO
Overall we've said that 22% to 23% gross margin in the second quarter is where we think we're going to wind up, but then higher than that for the full year, 23% to 24%. We think that as we make adjustments, if we have to make more adjustments relative to volume, and those take effect that absorption will get better. And as our strategic sourcing has its impacts in the second half of the year as we're buying materials, we will be able to recognize the savings on our sourcing and we also believe that in our S&OP, we're going to be more efficient through the shops.

We're not going to be building stuff that we don't need. We're not going to be buying stuff that we don't need. We'll have a very strong demand forecast, strong demand, but a strong forecast that will tell us what our demand is to drive these shops and that's going to make us more efficient, we're going to plan better and carry costs into future quarters that we need and not guessing at that based on a guess at a demand schedule. So I think all of those things are going to start to take root in the second half and help us drive that margin back up to the 23% to 24% gross margin range for the full year.

Q: Okay. Moving on to energy, maybe this is perhaps a good time for you to remind us what your true energy exposure is in this segment because obviously there's a bunch of other stuff here like the chippers and concrete and so on. I guess my question is how much of what we've seen in Q1 order weakness is related maybe to the dip in oil prices as oil is recovering? Can this segment do much better going forward order wise? How do you think about it?

Steve Anderson - VP, Director of IR
Mig, this is Steve. In the Energy group, you're right. It's a very diversified group. Peterson Pacific with the wood chippers is in there. The most direct oil and gas exposure that we have would be with our line of GEFCO products, the double pumpers that are used to clean out existing wells for improved flow. Their heritage product is a water well drilling equipment and that's been doing well. This group overall has been at lower levels, so it has some room to improve at greater percentages, but the true oil and gas exposure that we have would be in the low single digit range.

Q: So oil price is not much of a factor but maybe some of the other stuff is impacted by weather and some of the things that we already talked about, right?

Steve Anderson - VP, Director of IR
Correct, yes the drill rigs going out in the field to drill, I mean that's definitely an impact there, and then the pumpers and the wood shippers especially are out in those kind of conditions.
Q: Okay. And then I'm almost done, I promise. Looking again at your second quarter guidance, beating a dead horse here, but you have a pretty wide range in terms of your expected revenue decline, and again, we're only talking about a few weeks until you close the quarter. Can you sort of help us understand what would get you from one end to the other of that range, like what needs to happen in one case versus the other maybe the best case scenario where you only down 5%? What needs to happen in order for you to only be down 5%?

**Steve Anderson - VP, Director of IR**
I think the quoting activity that we're seeing materializing into orders is the big answer there and then the season for the work that needs to be done actually beginning to flow. So again, we had a later season by several weeks here due to the weather and we would need for things to kick back up. If you look overall and with customers being busy, parts sales are up which shows you that material is going through the product, our parts sales for the quarter were $92 million in the quarter this year versus $88 million, so we had a little over 5% increase there. And when equipment's being used there, they're running through the parts, so that's encouraging as well.

Q: Okay. And then lastly, do you think, final question, do you think that if you're coming in at down 15% for Q2, do you think that the 0%, so the low end of your full year growth guidance, do you think that's feasible. That's achievable based on what you know of the end markets right now?

**Steve Anderson - VP, Director of IR**
It's possible, but product mix obviously has a lot to do with it, and there are just a number of factors there. We know the range is a little bit wider than we would normally put out there, but we've seen through the first quarter that's just some unique circumstances.

Q: All right. Thank you for taking all my questions. I appreciate it and good luck.

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

**Steve Anderson - VP, Director of IR**
Thank you, Rob. We appreciate your participation on the conference call for the first quarter. Thank you for your interest in Astec. As our news release indicates, today's call has been recorded. A replay of the conference call will be available through May 7, 2019 and an archived webcast will be available for 90 days. The transcript will be available under the Investor Relations section of the Astec Industries website within the next seven days. All of that information is contained in the news release that was sent out earlier today. This will conclude our call. Thank you all. Have a good week.