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Transcript of
Astec Industries
First Quarter 2020 Earnings Call
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Participants

Barry Ruffalo – Chief Executive Officer
Becky Weyenberg – Chief Financial Officer
Stephen Anderson – Senior VP of Administration, IR, and Corporate Secretary

Analysts

Mig Dobre – Robert W. Baird
Stan Elliott – Stifel
Joe Mondillo – Sidoti & Company

Presentation

Operator
Greetings, and welcome to the Astec Industries First Quarter 2020 Financial Results 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.

It's now my pleasure to turn the call over to Steve Anderson. Please go ahead, sir.

Stephen Anderson – Senior VP of Administration, IR, and Corporate Secretary
Thank you, Kevin, and welcome to the Astec Industries First Quarter 2020 Earnings Call. As Kevin mentioned, my name is Steve Anderson and also joining me on today's call are Barry Ruffalo, our Chief Executive Officer; and Becky Weyenberg, our Chief Financial Officer. In just a moment, I'll turn the call over to Barry to provide some comments and then Becky will summarize our financial results.

Before we begin, I'll remind you that our discussion this morning may contain forward-looking statements that relate to the future performance of the company, and these statements are intended to qualify for the safe harbor liability established by the Private Securities Litigation Reform Act. Any such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions. Factors that could influence our results are highlighted in today's financial news release and others that are contained in our filings with the SEC. As usual, we ask that you familiarize yourself with those factors.

You should also note that comments made during today's call will refer to non-GAAP results and a reconciliation of GAAP to non-GAAP results are included in our news release and in an appendix to our slide deck.

So at this point, I'll turn the call over to Barry.

Barry Ruffalo – Chief Executive Officer
Thanks, Steve. Good morning, everyone, and thank you for joining us on today's call to discuss our 2020 first quarter results.

I'd like to start by saying that our thoughts go out to those most affected by COVID-19, especially the medical professionals in the frontlines of this pandemic. As we navigate through these unprecedented times, the health and safety of our employees, suppliers and customers remain our top priority. I'm very proud of the efforts that the Astec team has taken to work safely and productively through these unprecedented times.

I'll start off today's call by highlighting key messages from the quarter and then discuss our new organizational structure, which I'm very excited to share with you as it is based on our Simplify, Focus and Grow pillars. I will then provide an update on actions we are taking in response to COVID-19 and the impact that it has on Astec's operations. This will include an update on what we are seeing in terms of demand and our supply chain. I will then turn the call over to Becky for details on our financial results. When she's done, I'll close our prepared remarks with an update on our strategic transformation progress, and then open the call for Q&A.

Beginning on slide 4, here are the key messages that we would like to share for the quarter. As a result of the actions that we took in 2019 and in Q1 of 2020, driving operational excellence and other best practices across the company, we were able to realize solid performance in the first quarter and improve margins, despite the more challenging macro environment late in the quarter as the COVID-19 pandemic escalated.

We also successfully simplified our organization from three to two operating segments: Infrastructure Solutions and Material Solutions. I will speak to this again in the next slide.

With a strong balance sheet and liquidity with a net cash position, Astec remains well-positioned to execute in all market conditions. As you already know, our products remain essential for building infrastructure used to move goods to market and facilitate the transportation needs of communities.

Importantly, we are prudently preparing for all scenarios due to the COVID-19 pandemic and we want to ensure you that we are proactively prepared for changes in market and demand conditions. This includes maintaining the ability to ramp up for increased demand once COVID-19 is no longer a factor.

With our Simplify, Focus and Grow strategic pillars, we have had a critical head start on cost savings initiatives. As we navigate the current environment, we will continue to take proactive and necessary actions to maximize the value delivered to our customers and shareholders. As mentioned earlier, I am very proud of the Astec team for their adaptability and resiliency through the ongoing crisis.

Now let's turn to slide 5 where you will see an overview of our business segments. For those who are new to our story, as part of our continued transformation, we have reduced the organization into two operating segments from three previously. This two-segment structure has simplified our operations and organizational structure to better align with the end markets that we serve. Early feedback from our customers and employees have been extremely positive. As you can see, our current revenue mix based on last year was 65% Infrastructure Solutions and 35% Material Solutions.

Now turning to slide 6, we have taken many proactive actions in response to the COVID-19 pandemic. Beginning in early March, we formed a COVID-19 task force, which continually monitors information from our sites, government agencies and other sources. Through the ongoing crisis, we have continued to manufacture, sell and service our products with increased precautions at our facilities, including enhanced deep cleaning; social distancing; frequent hand washing; and temperature checking for onsite essential employees and visitors. Most of our office employees in our manufacturing facilities as well as our corporate headquarters are also working remotely where possible.

Turning to slide 7, I would like to touch on some Business Dynamics and Observations. Under our new more simplified and more focused two-segment organizational structure, we have been able to respond to the COVID-

19 pandemic more quickly and efficiently than would have been possible under the prior structure. Through the ongoing crisis, we have been in constant discussions with our customers. Although some of our customers have discussed postponing capex decisions and delaying shipments to future quarters, the majority are continuing to work and require critical Astec solutions.

The majority of Astec's factories around the globe are currently operating, with the ability to flex operations as needed. We have had two closures of Material Solutions sites due to preemptive government mandates in Northern Ireland and South Africa. The South Africa site just reopened on May 4th while the North Ireland facility is expected to reopen in middle of May.

In the first quarter, we saw limited impact from COVID-19. However, we do expect to see some order reductions through the remainder of 2020 due to customers delaying receipt of orders and potential capex postponement.

With that said, many of our customers were set for 2020 to be as strong as or stronger than 2019, with many having a backlog of work that will take them through the end of this year. The uncertainty of what follows, the speed of the market recovery and the potential of a federally funded infrastructure bill, are all things that they will use as the basis for the timing of their buying decisions. As you know, the situation remains fluid for the remainder of 2020, but fundamental market drivers are just as strong as they've ever been.

With respect to our supply chain, to date we have not experienced any significant disruptions. However, we are constantly maintaining ongoing discussions with our suppliers to identify and mitigate risks. We have also expanded the depth of our supply chain to further our efforts.

Before turning the call over to Becky, I would like to try to comment on our transformation plans. During the quarter, we made significant progress against our initiatives to simplify, focus, and grow the organization. The first quarter financial results also demonstrated traction on our strategic transformation, with a 60 basis point expansion in adjusted EBITDA margin despite the decrease in sales. This was the direct result of the initiatives taken in 2019 and Q1 of 2020.

While we remain cautious given the global pandemic, we are well-positioned to navigate the economic challenges ahead of us with a more efficient organizational structure, a strong balance sheet and ample liquidity. As I've said in the past, we will continue to strive to be a good company in tough markets and a great company in good markets. I'm convinced we will come out of these unprecedented times stronger than when we entered them.

Now I'll turn the call over to Becky for her discussion on detailed financials.

Becky Weyenberg – Chief Financial Officer
Thank you, Barry, and good morning, everyone. I'm pleased to join you on today's call.

Starting on slide 9, first quarter revenue decreased 11.3% to $289 million against a challenging comp. Excluding the impact of foreign currency, revenue decreased 10.5% compared to the prior year. Equipment sales decreased 18% in the quarter, while parts sales fell 4%. And, $8.8 million of revenue was delayed due to COVID-19 delivery restrictions, and we expect to fully realize this revenue in the second quarter.

Our backlog increased nearly 4% to $245 million at quarter end. The backlog increase was driven by Infrastructure Solutions orders, which were up 19% compared to the same period a year ago, partially offset by a 16% decline in Material Solutions backlog due to a concerted effort to work with our dealer partners to more effectively manage their inventories while only building units that had firm orders. Relative to implied orders, both segments saw growth upwards of 24% versus Q1 2019. Despite the growth in Q1 orders, and not surprisingly, we began to see order intake slow down in the month of April.

First quarter adjusted EBITDA decreased 4.7% to $24.3 million compared to $25.5 million in the prior year period, and adjusted EBITDA margin improved 60 basis points to 8.4% compared to the prior year period. As Barry noted, the margin improvement was driven by actions associated with our ongoing transformation and additional COVID-19 cost actions. Adjusted SG&A expenses declined nearly 4% on a dollar basis, driven by reductions in consulting fees, travel and employee expenses. These actions more than offset the incremental spend for ConExpo of $4 million.

In relation to the company's efforts to simplify the organization, during Q1, we incurred a $1.1 million pretax restructuring charge and a pretax goodwill impairment charge of $1.6 million, for a total of $2.7 million or $0.09 per share. These items were excluded from adjusted earnings per share and the restructuring charges are related to the closing of our Albuquerque facility, employee severance payments and other costs, while the goodwill impairment charge was related to our Infrastructure Solutions group.

We also benefited from a $9.5 million tax reduction or $0.42 per share benefit to earnings per share, which was due to the enactment of the CARES Act and allowed us to immediately utilize an existing tax asset. Excluding the benefits, our effective tax rate would have been 28%. Including the tax benefit, adjusted earnings per share rose 53.8% in the quarter to $1 compared to $0.65 in the prior period. Overall, we reported solid first quarter results.

Moving on to slide 10, our Infrastructure Solutions business saw revenue decrease 7.6% to just under $203 million in the quarter, driven primarily by a delay in customer shipments. Gross profit increased 3.1% to $52.9 million, driven by improvement in both plant equipment and parts margins.

We continued to execute on cost savings initiatives and further right-sized our businesses during the quarter. We'll continue to focus on operational excellence to further gain efficiencies as well as continued focus on reducing SG&A as we reduce our reliance on external service providers and leverage resources across the organization per our transformation plan.

Adjusted EBITDA increased 5.1% to $24.9 million, primarily due to cost saving actions. Adjusted EBITDA margin increased 150 basis points to 12.3%.

On slide 11, our Material Solutions business revenues decreased 19.1% to $86.2 million compared to the same period a year ago. I'd like to take a moment to help with your understanding of the comp 2019. In Q1 2019, revenue benefited from a strong order writing period in the fall of 2018, along with the shipment of two large projects. The 2019 fall order writing program was soft due to right-sizing of dealer inventories and slow rental to retail conversions.

Subsequently, we saw orders pick up through the first quarter of 2020, which aligns with the implied order growth rate. While gross profit declined 17.6% to $21 million in the quarter, we did see modest margin improvement and significant improvement versus Q4 of 2019.

Adjusted EBITDA decreased 25% to $8.4 million, primarily due to the decline in volume. Adjusted EBITDA margin decreased 80 basis points to 9.7%. Overall, initiatives taken in 2019 to right-size operations to current market demand are paying off with improved performance versus the prior cost structure.

Now turning to slide 12, we continued to maintain a strong balance sheet with minimal debt and a net cash position of just under $43 million. Given the current environment, we remain focused on strong liquidity and cash preservation to withstand sustained periods of market uncertainty. We have available liquidity of $186 million, including nearly $44 million of cash on hand, with only $1 million in total debt as of March 31, 2020.

I also want to highlight that our net inventory decreased nearly $72 million in the quarter versus prior year. We also expect to receive $26 million from a tax refund related to the CARES Act, and we are deferring the payment of the employer's portion of the social security taxes, providing an additional $5 million to $8 million of cash in 2020 also related to the CARES Act.

Moving on to our capital deployment framework on slide 13, we will continue to have a disciplined approach to deploying our capital. When we consider the various avenues of capital deployment, we do so in the context of our long-term strategic objectives and related revenue, earnings and cash flows in order to maximize shareholder value. Our capital allocation priorities remain consistent in the current environment. Reinvestments in the business, we will continue to target greater than 14% return on invested capital.

Lastly, we have not repurchased any shares since 2018 and do not expect to do so in the near term out of an abundance of caution to reserve our financial flexibility.

Turning to slide 14 of the earnings presentation, I want to provide some insight in terms of actions we have already taken and additional levers we can pull as necessary as part of our downturn playbook. In light of the COVID-19 situation, we have already implemented several cost reduction initiatives across the business. These actions include, but are not limited to, reduction of discretionary expenses, reprioritization of investments and reduction of headcount. In addition to actions already taken, we provide some examples here of additional cost levers that we can pull as needed.

Next on slide 15, I would like to provide an update on our material weakness remediation plan. As a reminder, we identified certain material weaknesses in our internal controls and have already implemented measures to remediate the control deficiencies. We have continued to add measures to this plan accordingly.

Under this plan, we have hired a new executive leadership team, invested in additional finance and IT resources, engaged with the Big Four accounting firm to assist in remediation efforts and risk assessment, and we have developed comprehensive monitoring and accountability standards for all sites. We anticipate the one-time investment of approximately $2 million to improve our control environment and will reduce external audit fees in the out years. We firmly believe that these collective actions will effectively remediate the material weaknesses previously identified.

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

Barry Ruffalo – Chief Executive Officer
Thank you, Becky. Now moving on to slide 16, I'll provide a quick overview of the three pillars of our strategy for Profitable Growth: Simplify, Focus and Grow.

First, Simplify. I'm proud of the team's execution and the progress we've made in our collective efforts to appropriately leverage our scale, reduce organizational complexity, consolidate our footprint and rationalize our product portfolio. Second, Focus. We're strengthening our customer-centric approach, driving commercial excellence, streamlining processes and instilling performance-based culture. And finally, Grow. We are reinvigorating innovation initiatives, leveraging technology to unlock internal synergies, while also enhancing the customer experience. We continue to explore global growth opportunities and allocate capital to maximize shareholder value. Within these three pillars, we have made great progress in a very short time, especially given the current environment.

Turning to slide 17, slide 17 outlines some of the major milestones we are executing in on our transformational journey and the progress we have made to-date. Under simplify, the majority of work has been done thus far. As Becky just noted, we have changed the executive leadership team, flattened the reporting structure, restructured the organization from a subsidiary structure to product and functional orders, and executed our Astec strategic procurement initiatives and validated our supply chain, just to name a few.

Beginning in Q1, our new segment structure aligns more appropriately with our products in our portfolio and the end markets that we serve. We're finding great efficiencies in how we now work together as well as organic growth initiatives for more effective cross-selling across product lines.

Within the Infrastructure Solutions segment, we will soon integrate five service teams into a unified service and construction organization. By utilizing one call center for customer support, we will communicate more effectively with our end users. Our customers are asking for this, and soon we will make it happen.

We have aligned our management incentive programs and our Senior Vice President of Operational Excellence is driving lean and problem solving tools throughout the organization. These actions and the expected cost savings will set the organization up to reinvest the cash into driving profitable growth and thus maximizing shareholder value. We're currently focused on improving working capital turns, and Becky and her team are certainly ensuring we apply financial rigor in terms of our operational and financial strategic decisions.

On slide 18, I'll conclude with our key investment highlights, which have not changed. I'm very pleased with the organizational changes that we have implemented and actions taken thus far. We have a great group of leaders with very strong backgrounds and experiences. Our team is showing great passion and a sense of urgency to take action where needed and capitalize on our strengths and share best practices across both segments. While uncertainty remains relative to the impact of COVID-19, our long-term market drivers remain strong. Customer sentiment continues to be optimistic for a rebound once the economy bounces back.

With the clearly defined pillars of our strategy to Simplify, Focus, and Grow and the roadmap constructed to execute our transformation plan, I'm excited about the future of Astec. We look forward to sharing continued progress of our strategic transformation on upcoming conference calls.

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

Operator
We will now be conducting a question-and-answer session. Our first question today is coming from Mig Dobre from Baird. Your line is now live.

Q: Thank you. Good morning, everyone. I'm glad to hear you're well and I'm glad to hear you're doing well. So, I actually have quite a few questions, but I want to start maybe with a clarification because I don't think I got this straight. Becky, can you give us those backlog numbers by segment again? So I'm curious, backlog year-over-year and also order growth year-over-year, yes, because I missed that in your prepared remarks. Thank you.

Becky Weyenberg – Chief Financial Officer
Sure. The backlog increase was driven by the Infrastructure Solutions group. They were up 19% compared to the same period a year ago and they were partially offset by a 16% decline in Material Solutions group.

Q: And I'm sorry, given that we've had some moving pieces with the segments here, what does that imply for orders on an apples-to-apples basis?

Becky Weyenberg – Chief Financial Officer
That is on an apples-to-apples restated basis.

Q: Okay. Do you sort of have the map for the implied orders year-over-year?

Becky Weyenberg – Chief Financial Officer
Yes.

Q: Order intake?

Becky Weyenberg – Chief Financial Officer
Yes, we do. So relative to the implied orders, both segments saw growth upwards of 24% in Q1 versus Q1 2019, again restated for the new segments.

Q: Okay. All right. And then I guess my follow up here, Barry, maybe getting a little more color in terms of how things are trending into Q2. Obviously, we all understand that COVID has really thrown quite a curveball to everyone. But, I'm kind of listening to what some of your machinery peers have reported and others in capital goods, and essentially it seems like there's this general view that demand might take a 30+% step back on a year-over-year basis in the second quarter. Based on what you know and what you have in your backlog, how do you think about your two segments and your businesses in the near term?

Barry Ruffalo – Chief Executive Officer
Yes, I think we entered into Q2 with a pretty decent backlog, Mig. Certainly, as we commented in the script that we did see orders start to soften in April. As we've said before, we typically burn through our backlog in one to two quarters, and so therefore, we're staying very close to our customers, as I mentioned as well. Almost everyone I've talked to has a backlog that takes them through 2020 from a project basis perspective, maybe even in 2021.

But with that being said, without knowing what's behind this relative to the economy opening back up, the fuel tax revenues that typically would be realized, which isn't today because of less traffic, and with the uncertainty around the federal infrastructure bill, with the FAST Act that ends in September, I think there's probably a little bit of apprehension and uncertainty which we've seen I think in that April timeframe, and certainly, we'd expect that we see throughout the course of the year until there's a little bit more confidence in regards to what's behind the backlog.

Q: Sure. Sorry to press you on this, can you give us maybe some quantification as to what all of this means? Because you're not only talking about hesitancy on the part of customers, which is understandable, but you're also talking about some elements from your own backlog potentially getting pushed out as folks are reassessing whether or not they're able to operate and at what pace. So in April, where would you say you are from a production standpoint either sequentially or year-over-year, however you want to describe it? And how have orders trended versus, say, a year ago or your own internal forecast?

Barry Ruffalo – Chief Executive Officer
Yes. Good questions. I would tell you that relative to the backlog, I do refer to some orders being pushed out, but typically those orders that I'm referring to are really from Q1 and Q2. We haven't seen really a significant or material amount of cancellations so I think our backlog is still a pretty healthy backlog.

I'm not going to comment in regards to what I see the market doing over the rest of the year. I can hopefully give you and our shareholders confidence that we've looked at many different scenarios and have built action plans around what we would need to do in order to grasp whether it's positive or negative. And so therefore, I believe we're prepared and we should be able to stay ahead of it with proactive actions depending on how the orders start to flow for the rest of 2020. I know that's not an exact answer or maybe as much information as you wanted, but that's probably what I'm comfortable in sharing.

Q: Okay. Then I guess my last question is on slide 14 where you're talking about the downturn playbook and the levers that you have available to pull. Can you give us some sense, some quantification of what you have done thus far and tried to maybe separate the transformation that you're trying to enact on the company from the more COVID-related cost savings or actions that you have undertaken thus far? So that's part one of the question.

And then the second part is, just looking at the way the slide is assembled, and again comparing it to what I've seen from some of your peers, it really doesn't strike me as if you're at the point now where you're taking, for the lack of a better term, drastic measure on costs. We're not hearing about significant salary cuts or anything of the sort like we have from other folks. And I'm just wondering if you're essentially just in a different position than maybe some of the other folks are given where your backlog is or how you're seeing demand trending or is this just sort of a timing issue in terms of how you're planning to deploy these measures. Thank you.

Barry Ruffalo – Chief Executive Officer
Yes, some great questions. I will tell you that today most of the actions we've taken are just purely from the transformational activity that we've identified starting sometime late last year. So I think that really answers your first question.

I will tell you that—I'm sorry, could you remind me what your second question was again, Mig? Sorry.

Q: Yes. I mean the second part of my question was, look, as I look at your playbook here, all of these things are all fine and well, but when I'm comparing them with what I'm seeing elsewhere from other capital goods companies that are talking about meaningful furloughs, they're talking about meaningful cuts to salaries for a variety of personnel. We're not seeing any of this on this slide and I'm wondering if that's still to come or if you're just comfortable enough in your operations to where you don't feel like you need to enact these kinds of measures.

Barry Ruffalo – Chief Executive Officer
I think because of the transformational activity, I believe we have a really good running head start into this type of a scenario in regards to the market that we're looking at moving forward. I will tell you that we do feel good about our backlog. Maybe another difference that we might have versus our competition, as you know, Mig, 80% of our revenue roughly comes from the US market with 20% coming from outside. I believe some of our competition probably have a broader portfolio of business outside the US, which could be more significantly impacted than what we are. That could be a difference as well.

I think that we're not naive enough to think that we may not get to that level of decisions, but we're not there yet. And we believe that all of that is part of our scenario planning that we've done. We know a trigger date in which based on orders and demand we have to make those decisions, and we're prepared to if necessary, but that timing isn't right for us at this point in time.

Q: Okay, I appreciate it. I'll go back in the queue and maybe come back with some questions later in the call. Thank you.

Operator
Your next question today is coming from Stanley Elliott from Stifel. Your line is now live.

Q: Good morning, everybody. It's nice to hear your voices. Thank you for taking the call. A quick question. You mentioned some positive responses from the customers in terms of the new structure. Could you elaborate a little bit more about that? I'm assuming it's ease of doing business but would love to kind of get your thoughts on those comments please.

Barry Ruffalo – Chief Executive Officer
Yes. No, I think you hit the key one there. I think it does make it easier to do business. In the past, we may have had a representative from Astec representing different products or brands travelling to the same customers and theoretically you may have had three different visits in one day from Astec employees, which doesn't necessarily give us or them a real simple picture of who we are and how to do business with us.

Today, we're working on actions, some of those already in place, to make that easier to where they're visited by one person that represents more products and brands. So, that's a piece of it.

I think just the complexity. As I mentioned on our first call since I traveled around the world and visited with customers and employees, complexity and not being able to understand who our company was, was something that I picked up as a real primary element of feedback. And so now I think that the picture we're painting and how we're communicating and how we're doing business with customers, and in some cases, we're in very early stages of that. So we believe that as we move through time and continue to drive more leverage across the organizations and the resources and the knowledge and experience, we'll continue to be better.

But so far, it's been positive. And I think from an employee perspective, I think that being part of a bigger organization rather than a subsidiary company offers them a lot more in regards to professional development, better communication, a closer touch point to the corporate staff and so we can get visibility to talent, we can manage talent more effectively. And so I think some of those changes have been positive for our employee base as well.

Q: Perfect. And then a comment on markets being slow to convert rentals to retail sales, we've heard that from some others, is it really just the uncertainty out there that's going to be kind of the trigger to get that part of the market back?

And then I guess the other part with the two new segments, do we think of the Material Solutions more as kind of what we would think capex driven from some of the larger aggregate companies, some of the mining companies, and that the infrastructure business might actually have a little bit more resiliency from a project standpoint? Just trying to get any sort of high level there as well.

Barry Ruffalo – Chief Executive Officer
I think the comments around the rental to retail is primarily around what we experienced in the winter 2019. And through that timeframe what I'm really pleased with is the organization's ability to work with our dealer distribution partners to really right-size their inventory. And so I think that the little bit of a pickup in orders that we're commenting on in Q1 of 2020 is really a result of right-sizing the inventory both what we have and what they have. And so I think with that being said, we're able to react more quickly and more efficiently to changes in the market demand, which I think will serve us very well now and as we move forward to 2020 and beyond.

As far as the Infrastructure side, certainly when we think about the Infrastructure side of our business, which as an example would include an asphalt plant which could be a multi-million dollar capital investment, that's an area I think I'd point out. Certainly, on the Material Solutions side of the business, we do a lot of product sales that are probably the lower value, but to be frank, we do a lot of projects within the Material Solutions side where we could do a $50 million plant or a system for a customer as well.

They're both large capex type expenditures. Just how they get there with maybe one plant versus a whole system of components are two different ways that the customers will look at it.

Q: Perfect. And then lastly can you talk about how raw materials are tracking for you all, kind of what sort of tailwinds you saw in the quarter and maybe your outlook for the rest of the year?

Barry Ruffalo – Chief Executive Officer
Yes, I would say that part of our 200 basis point improvement in gross margin is really being driven from our Astec strategic procurement initiative, which is our ability to take our purchasing power and leveraging it across the whole company versus site by site or subsidiary by subsidiary companies as we have in the past. So that's, I think, generally helping us with the improvement in gross margin.

Steel is the big part of what we do and certainly over the last six months we've seen some pretty healthy drops there, roughly plate maybe 15%, coil maybe 20%. And that's a position where we stay very focused. I think in the last several months, we've done a great job of keeping our organization really very focused on steel to make sure we understand what's going on, where the stock price is, how do we manage to do that effectively to ensure that we protect the Material margins adequately.

Q: Perfect. And if I could sneak one more in, expectations for price cost, with the uncertainty in the marketplace, what sort of pressure is that putting in on the ability to price and do we think that the price cost will be positive for the year?

Barry Ruffalo – Chief Executive Officer
Yes, I would tell you that first and foremost we see ourselves as being the price leader in every market that we're in today. Relative to pricing discipline that we've seen to-date, I think just referring maybe to Q1 of 2020, generally it's been pretty disciplined, which is good. We have seen some aggressive nature more on the road-building equipment, specifically. But generally other than that, it's been pretty disciplined.

And on the road-building side, I suspect that we probably have competition that could be sitting on inventory that maybe we've already worked our way through to disciplined and rigorous actions in 2019 and maybe they didn't. And so that could be potentially why we're seeing that. I won't speculate any further. It's just my perspective.

Q: Thank you so much for the time. Take care.

Operator
Our next question today is coming from Joe Mondillo from Sidoti & Company. Your line is now live.

Q: Hi, good morning, everyone. I just wanted to ask, Barry, first off on your comments regarding your customers and sort of the backlog that they have for '20 and '21, relative to that comment, what are your thoughts on gas tax revenue falling given the fact that no one's driving? And do you think that affects anything later in the year? I don't know if you're seeing or hearing about customers at all even though they have the projects in the backlog, maybe holding back a little bit given the strain in the cash revenue.

And related to that, how do you think that all will sort of affect customer purchases of your equipment versus your parts?

Barry Ruffalo – Chief Executive Officer
Yes, good question. So Joe, I can tell you that some of the data we see is that there is 9 states that have projects delayed or cancelled; there's 13 that have concerns over decline in revenue from those types of taxes, and one that they've really had a funding initiative proposed that they're now delayed. And so that's just a little bit of the color around what we're seeing in the different states across the US.

Our customers do have a strong backlog. I think that as you look at how even some of our publicly-traded companies finished in 2019 and then looked at their 2020, they moved from one year to the next in a very strong position. So certainly, we expect that they're in good shape. As I mentioned earlier, I think the uncertainty around what's behind that is what's really going to give them the confidence to either move forward with capex type decisions or not. We have seen the percentage of our parts revenue jump up to 30%, which is higher than what we were reporting in the past. And certainly with some of the work we're doing there on margin improvement has also been a part of the 200 basis point move on the gross margins.

Q: Great. Thanks for that. Implied orders as well, you stated that both segments saw orders in the first quarter up 20%. The comp I think was a very favorable or easy comp relative to the first quarter of 2019. Could you frame what the absolute orders were, not necessarily quantify, but just give us a sense where the orders in Q1 have trended—are in comparison to sort of the trend over the last four or five quarters given that the first quarter of last year I think was fairly an easy comp?

And then in terms of April, is there any way you can define a little more definitively what you mean by slowdown in orders? Have they gone negative? Or just give us maybe any more color on how that translated into April.

Barry Ruffalo – Chief Executive Officer
Joe, you're breaking up. So could you just repeat that last question again please?

Q: Sorry. I was just wondering if you could define any more definitively what the April orders were. You mentioned that they slowed down from the 24% growth rate in the first quarter. Does that mean it slowed down to positive single-digits or did it actually go into negative? So I'm just wondering if you could give us any more color regarding that.

Stephen Anderson – Senior VP of Administration, IR, and Corporate Secretary
Joe, this is Steve. Yes, looking at the trend on our implied orders, as Becky mentioned earlier, those were up about 24% in each group. From a seasonality standpoint, just the trend throughout 2019, we saw those implied orders build up some through the second quarter and fourth quarter and then back down for the first quarter, which that was a year-over-year increase. So we did see fluctuations through that, but the overall trend positive along with our seasonality.

As far as April orders, I'm not really going to quantify that other than just seeing some push-outs and delays that will be primarily I think some conservatism with the COVID environment.

Q: Okay. And then last question for me. Just given the transformation—so a couple of things. First off, there weren't any restructuring costs in the first quarter, which I was a little surprised, not only given the slowdown in the economy, but just in the fact that you guys are in the middle of this sort of transformation of the company. So I was a little surprised to see that there weren't more structural expenses related to that.

The second part I guess that I wanted to address with the SG&A, the SG&A was only down about 3% or so year-over-year despite the revenue being down 11%. I would have thought that would have, especially given transformation and structural changes. So I'm just wondering if you could update us. Was this just a quarter that after a bunch of heavy lifting in the fourth quarter there's a slight pause?

And then in addition to all that, are there any expenses coming on related to transformation? Because I know you are focusing on an ERP system and I was just wondering if there's anything, sort of a heads up that we may not see a lot of improvement because of maybe some investments in ERP. I don't know how that's sort of playing out with this economic downturn that we're dealing with.

So a lot of questions there. Sorry. If you could maybe just give us a little more color addressing all of that.

Becky Weyenberg – Chief Financial Officer
Joe. I can definitely talk to the restructuring piece. We did have $2.7 million of restructuring and impairment charges in Q1; 1.1 was restructuring, so that was people, severance, write-offs there. And then we had 1.6 tied to goodwill impairment in the quarter. We do expect to see ongoing restructuring charges in the out quarters.

In regards to SG&A and the transformation, we've got a couple of different things we're working on there. We've had a heavy reliance on external professional consulting type groups, and we've had very lean accounting, finance, IT, HR teams. And so we're actually finding some opportunities, some pretty significant ones on that space, just insourcing and hiring the right people to manage on our behalf. So, we're going to see some positive improvements there continuing.

And then also as Barry mentioned, with our selling side of the house, whether it's parts and service or equipment sales, with the two new groups that we have, they're able to leverage their resources and have better coverage. So, we also have right-sized in that space and we will continue to do so as we see how effective the teams are. So, a couple of big areas for us for opportunity.

Q: Okay. Thanks.

Operator
Thank you. Our next question today is a follow-up from Mig Dobre from Baird. Your line is now live.

Q: Thanks for taking the follow-ups. So I also have questions about SG&A and wanted to maybe ask what Joe was asking about a little bit different. If we're kind of looking at Q1, so excluding the $4 million from ConExpo, your SG&A was, call it, $52 million, $53 million. Is this sort of the right run rate to think about going forward? Or is there a good way to quantify the incremental investment that you're making beyond the $2 million, which you talked about already about control remediation issues?

Barry Ruffalo – Chief Executive Officer
Yes, Mig, you pointed out the $2 million. I don't think we quite finished, just thinking on Joe's question as well, the investment. We mentioned in the last call that we believe we've probably under invested in IT historically. So we do see more investment on a year-over-year basis of roughly $3 million on IT, not to include the ERP system.

Relative to the ERP system, we really haven't made a lot of progress probably since our last call. We're still trying to collect the right strategy and resources to work on that so some more to come. We don't really have anything like that built in to our costs that we have or that I can report on to you guys today.

Relative to how we look at SG&A, I would say that our run rate today is still high versus where we believe it needs to be. We still have our long-term goals that we reported on that we're continuing to work towards and how we actually achieve the long-term goals I think are really going to be around both the COGS efficiency play, but also in SG&A.

And so I think as we continue down this transformation path, again, I would say we've done a lot in a very short period of time, but we're still in early days. And so there is more opportunity. I'm quite pleased with the work that each of the two groups and the leadership within them are doing today in order to continue to find those things.

So some of what we're looking for, moving forward again, certainly we'll continue to keep an eye on the COVID-19, but we already have plans in place to continue with our transformation activities, to continue to try and find value that we can deliver to our shareholders. I'm not going to size that today other than the fact that those long-term goals we've established, really that we broke out I think when we were at the Baird Conference, are things that we continue to drive towards.

Q: Understood. There is just so many moving pieces here. I mean when I'm thinking about 2019, you had outside consultants that were working on sourcing and that was a big expense, and I think that's gone, if I'm not mistaken. There were some tradeshows that you had last year, too, like Bauma. This year you have ConExpo; you have investment and control remediation; you have additional IT investment. I guess I'm just wondering if we're thinking about the year holistically, is it fair to say that this SG&A line item, especially in a more challenging environment, can actually be held flat or close to flat year-over-year? I'm talking about the year as a whole, not any particular quarter.

Barry Ruffalo – Chief Executive Officer
Yes, I would tell you that you're right. I mean this is a tough one. If we were going into 2020 and having this call and not having the COVID-19 situation, I think we'd have a lot more confidence in being able to answer your question because it would fit within the strategy and the transformation plan in a cleaner way.

As we look to the rest of the year with what we know now, I would suspect that we're going to see—I mean I'd be disappointed if we didn't see dollars spent and SG&A come down as we went through the rest of the year. I think the COVID-19, probably, if anything, maybe accelerates some of our transformation activities along with things that we could probably do or will do and have the capability of doing on top of them just to make sure that we're right-sizing and being proactive in regards to responding to the market in these current conditions.

Q: Helpful color. Thank you and good luck.

Operator
Our next question is a follow-up from Joe Mondillo from Sidoti & Company. Your line is now live.

Q: Hi, everyone, just one quick follow-up question. You mentioned at least once I think in your prepared remarks, Barry, the FAST Act, federal infrastructure bill. I was just wondering if you have any other thoughts. You didn't really provide what you are thinking with that. But [audio drops].

Barry Ruffalo – Chief Executive Officer
Joe, are you there? Joe, you cut off.

Barry Ruffalo – Chief Executive Officer
Yes, I think you were asking for further color from us in regards to federal funding. Joe, as I mentioned, the FAST Act ends September 30th. I've been in touch with various organizations from D.C. and I know probably as much as you do based on what I hear, but more in depth. I certainly can tell you that there is some conversations around infrastructure stimulus packages relative to the COVID-19 situation. I certainly believe that the government's first initiative is to get the market open and if the market is not operating in a more normalized fashion, then infrastructure stimulus might not make sense.

So I think there is a little bit of wait until the markets open. So hopefully, we see something come through there. The great news is we believe that there is really some agreement between the Democrats and Republicans in regards to the need. Certainly, the market drivers continue to be strong. And so, in my mind what we do from an infrastructure bill perspective isn't a matter of if it's going to happen, it's when it's going to happen. Some of that may be through the stimulus packages and certainly some of it could be dealing with that after the election. But we certainly need that type of support from our federal government, and I expect it will come and I think most people you probably talk to will tell you the same thing.

One other comment I'll make. I spent some time in giving you some color around states that have projects delayed, cancelled, concern over decline in revenue. With that being said, there's a number of states that continue to operate and actually pushed more funding for infrastructure. So I think the point I'd like you to leave with from this conversation is that there's a lot of moving pieces, a few mixed comments around what's going on in the marketplace, some positive and some not so positive.

I think the key is that our organization is very much in tune both personally and through our organization in touch with our customers to see what's coming so we can have a better perspective of how we plan for it and then optimize our business to support it. So we're ready for anything and we continue to push ourselves and do the planning to make sure that happens successfully.

Operator
Thank you. We've reached the end of our question-and-answer session. I would like to turn the floor back over for any further or closing comments.

Stephen Anderson – Senior VP of Administration, IR, and Corporate Secretary
Thank you, Kevin. We appreciate your participation on this call and thank you for interest in Astec. As today's news release indicates, today's conference call has been recorded. A replay of the conference call will be available through May 20, 2020 and an archived webcast will be available for 90 days. The transcript will be available under the Investor Relations section of the Astec Industries' website within the next seven days. All of that information is contained in the news release that was sent out earlier this morning.

This concludes our call, so thank you all and have a good week.