# *Transcript of*
# *Astec Industries, Inc.*
## Second Quarter 2018 Earnings Call
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## Participants
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Benjamin Brock - President and Chief Executive Officer
David Silvious - Chief Financial Officer
Rick Dorris - Executive Vice President and Chief Operating Officer

## Analysts
Stanley Elliott - Stifel, Nicolaus & Co., Inc.
Mircea Dobre - Robert W. Baird & Co.
Michael Shlisky - Seaport Global Securities, LLC
Larry De Maria - William Blair & Company

## Presentation

**Operator**
Greetings, and welcome to the Astec Industries' Second Quarter 2018 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 is now my pleasure to introduce your host, Steve Anderson, Vice President and Director of Investor Relations. Please go ahead, Steve.

**Stephen Anderson - Vice President and Director of Investor Relations**
Thank you, Kevin. Good morning and welcome to the Astec Industries' conference call for the second quarter that ended June 30, 2018. As Kevin said, my name is Steve Anderson. 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'll turn the call over to David to summarize our financial results and then to Ben to review our business activity during the second quarter.

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 that 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 are contained in our Annual Report and our filings with the SEC. As usual, we ask that you familiarize yourself with those factors.

At this point, I'll turn the call over to David to summarize our financial results for the second quarter.

**David Silvious - Chief Financial Officer**

Thanks, Steve. And thanks to each of you for being with us this morning. During the quarter, we did record a charge to exit our obligation under the contract with Highland Pellets in Arkansas, which really obscured an otherwise historically strong performance by our core businesses. Excluding pellets, this would have been our third best reported quarterly EPS on record. Our core business is strong. We have initiatives underway to make it even better.

So let's talk about the financial details. Net sales for the quarter were $272.5 million, compared to $301.9 million in Q2 of 2017, a decrease of 9.7%, $29.4 million decrease. International sales were $69.1 million in Q2 2018, compared to $65 million in Q2 2017, an increase of 6.3% or $4.1 million increase. The increase in international sales for the quarter compared to last year occurred mainly in South America, Canada, Mexico, the Middle East, and Australasia. These increases were offset by decreases in Russia, Asia, and the West Indies.

For the quarter, international sales decreased in the Infrastructure Group, an increase in the Energy Group and the Aggregate and Mining Group. International sales were 25.4% of Q2 2018 net sales, compared to 21.5% of Q2 2017 net sales. Domestic sales were $203.4 million in Q2 of 2018, compared to $236.9 million in the same quarter last year, a decrease of 14.1% or $33.5 million.

Domestic sales were 74.6% of Q2 2018 sales, compared to 78.5% for Q2 of 2017 net sales. For the quarter, domestic sales increased in the Aggregate and Mining Group and the Energy Group and decreased in the Infrastructure Group. Part sales were $78.7 million in Q2 of 2018, compared to $68.8 million in Q2 of 2017, an increase of $9.9 million or 14.4% increase. Part sales were 28.9% of quarterly sales in Q2 of 2018, compared to 22.8% in Q2 of 2017, and for the quarter, part sales increased in all of our groups.

Foreign exchange translation had a positive impact on sales for the quarter of $1.1 million. That is if rates this year were equal to rates last year, sales would have been $1.1 million lower. We provided the table in the financial statements attached to the press release, and, so, you can follow along there with these numbers that we call out that are excluding the impact of all pellet plant activity during the second quarters and year-to-date periods in 2018 and 2017, including the charge that I just mentioned.

So excluding those pellet plant impacts during the second quarters, revenues were $347.1 million in Q2 of 2018, compared to $297.8 million in Q2 of 2017, an increase of $49.2 million or 16.5% increase.

Note that the full impact of pellet plants on sales occurred in the Infrastructure Group and in domestic sales. And so, ex those pellet impacts, domestic sales increased 19.4% to $277.9 million for the second quarter of 2018, compared to $232.8 million for the second quarter of 2017. This would also make infrastructure sales for the quarter $157.7 million, compared to $139 million for the second quarter of 2017, an increase of $18.7 million or 13.5%.

On a year-to-date basis, sales were $598 million, compared to $620.3 million for the first half of 2017, a decrease of 3.6% or $22.3 million decrease. International sales for the first half were $124.5 million, compared to $129.9 million in the first half of 2017, 4.2% or $5.4 million decrease. The decrease in dollars in half versus half in international sales occurred mainly in Russia, Asia, Australasia, and the West Indies; these decreases were offset by increases in South America, the Middle East, and Africa.

International sales represented 20.8% of net sales for the first half of 2018, compared to 20.9% of sales for the first half of 2017. For the year-to-date period, international sales increased in the Aggregate and Mining Group, the Energy Group, and decreased in the Infrastructure Group.

Domestic sales for the first half were $473.5 million, compared to $490.4 million in the first half of 2017, a $16.9 million or 3.4% decrease. Year-to-date, domestic sales represented 79.2% of 2018's first half sales compared to 79.1% of the first half of 2017. Part sales for the first half were $166.8 million, compared to the first half 2017 part sales of $149.8 million, an increase of 11.3% or $17 million increase in part sales. Part sales then represented 27.9% of total sales in the first half in 2018, compared to 24.1% of total first half sales in 2017.

Foreign exchange translation had a positive impact on 2018 sales of $3.3 million. Again, excluding the impact of all pellet plant activity during the first halves of 2018 and 2017, revenues were $672.8 million in the first half of 2018, compared to $604.5 million in the first half of 2017, an increase of $68.2 million or 11.3%.

And without pellets domestic sales increased 15.5% to $548.2 million in the first half of 2018 compared to $474.6 million in the first half of 2017. This would also make infrastructure sales for the first half in $305.1 million, compared to $292.5 million for the first half of 2017, a $12.6 million or 4.3% increase.

Gross profit for the quarter was $1.1 million, compared to $65.5 million in Q2 of 2017. That's a decrease of 98.3% or $64.4 million decrease, and that made the gross profit percentage 0.4% for the second quarter of 2018, compared to 21.7% for Q2 2017.

The absorption variance for Q2 of 2018 was $835,000 over absorbed, compared to an over absorption in Q2 2017 of $2.1 million. And excluding all wood pellet activity in the consolidated gross margin for the second quarter of 2018 and the second quarter of 2017 were each at 23.6%. This made the gross margin for the Infrastructure Group, excluding pellets, 21% for Q2 of 2018, compared to 22.8% for Q2 of 2017.

For the first half, gross profit was $79.1 million, compared to $141.3 million in the first half of 2017, a decrease of $62.2 million or 44%. That made the gross profit percentage 13.2% for the first half of 2018, compared to 22.8% for the first half of 2017. And for the first half of 2018, the absorption variance was $3.6 million under absorbed, compared to $2.8 million over absorbed in the first half of 2017.

Again, excluding all wood pellet activity for the year-to-date period, the consolidated gross margin for the first half of 2018 is 24.3%, compared to 24.1% for the first half of 2017. That would make the gross margin for the Infrastructure Group, excluding pellets, 22.9% in the first half of 2018, compared to 23.6% in the first half of 2017.

SGA&E for the quarter was $51.3 million or 18.8% of sales, compared to the second quarter of 2017 SGA&E of $44.2 million or 14.6% of sales, a $7.1 million increase in dollar terms and 420 basis points as a percentage of sales. The drivers in the quarter-over-quarter on SGA&E were payroll and employee benefit-related expenses. Our professional fee and RexCon added $1 million. Remember that they were acquired in the third quarter of 2017.

Excluding wood pellets, SGA&E is 14.8% of net sales for the second quarter of 2018 and 14.9% of sales in the second quarter of 2017. For the first half, SGA&E was $103.3 million or 17.3% of sales, compared to the first half of 2017 SGA&E of $97.3 million or 15.7% of sales, an increase of $6 million or 160 basis points as a percent of sales. Recall that we had CONEXPO in the first quarter of 2017. And that was offset by increases in payroll and employee-related expenses. RexCon, again, added $2 million for the first half. Professional fees and travel expenses were increases in the year-to-date periods.

SGA&E is 15.4% of net sales, excluding the wood pellet plant impact for the first half of 2018, and 16.1% of the first half of 2017 net sales, ex-pellets. Operating loss for the period was $50.2 million in Q2, compared to operating income of $21.3 million in Q2 of 2017, a decrease of $71.5 million. And our operating loss on a year-to-date basis was $24.2 million, compared to $44 million of operating income in the first half of 2017, a decrease of $68.2 million.

Again, excluding the wood pellet impacts, operating income was $30.8 million for Q2 of 2018, compared to $26.2 million for Q2 of 2017, an increase of $4.6 million or 17.6%. And for the first half, without pellets, operating income was $60.1 million, compared to $48.3 million in the first half of 2017, an increase of $11.8 million or 24.4% increase.

Other income and interest income is primarily driven by license fee income and investment income at our captive insurance company and was $1.1 million in the second quarter this year, compared to $320,000 last year and $1.7 million for the first half compared, to $900,000 for the first half of 2017.

The effective tax rate for the quarter was 17.3%, compared to 32.8% for the second quarter of 2017, and for the first half was 10.8%, compared to 33.5% for the first half of 2017. The decrease in the tax rate, when you compare the quarter-over-quarter and the half-versus-half, was a mixture of the reduction in the corporate federal income tax rate that was included in the Tax Cuts and Jobs Act of 2017, along with the impact of the wood pellet plant expenses, the charge recorded in the quarter. We do expect the consolidated tax rate for the full-year of 2018 to be in the low-teens, possibly 11% to 13%, in that range.

Net income attributable to controlling interest, so we had a net loss of $40.7 million in the second quarter of 2018, compared to net income of $14.4 million in the second quarter of 2017; that's a decrease of $55.1 million. That made the loss per basic share for the second quarter $1.76 versus earnings per diluted share of $0.62 in the second quarter of 2017, a decrease of $2.38 in EPS.

For the first half, our net loss was $20.4 million, compared to $29.5 million of net income in the first half of 2017, a decrease of $49.9 million, and that made the loss per share $0.89 in the first half of 2018, compared to $1.27 of earnings in the first half of 2017, a $2.16 decrease.

Again, excluding wood pellets, net income was $23.9 million in the second quarter of 2018 versus $17.7 million in the second quarter of 2017, an increase of $6.3 million or 35.7% increase. And that would make earnings, without wood pellets per share, diluted for the second quarter of 2018, $1.3 compared to earnings per share, per diluted share of $0.76 in Q2 of 2017, an increase of $0.27 or 35.5% increase per share.

Again, ex-pellets, first half net income was $46.9 million, compared to first half 2017 income of $32.4 million, an increase of $14.5 million or 44.6%. That would make ex-pellet earnings per share $2.02 for the first half of 2018, compared to $1.40 for the first half of 2017, a $0.62 increase or 44.3% increase.

EBITDA for the quarter was a negative $42.4 million, compared to EBITDA of $27.8 million or 9.2% of sales decrease in the second quarter of 2017, a decrease of $70.2 million. In year-to-date, for the first half of 2018, EBITDA was negative $9.2 million, compared to positive EBITDA $57.3 million in the first half of 2017, which represented 9.2% of sales, a decrease of $66.5 million.

Without pellets, Q2 2018 EBITDA was $38.5 million or 11.1% of sales, compared to the second quarter 2017 EBITDA of $32.7 million or 11% of sales in the second quarter of 2017, a $5.8 million or 17.7% increase. And then, for a year-to-date basis, ex-pellets, EBITDA was $75.1 million or 11.2% of sales, compared to $61.6 million or 10.2% of sales in the first half of 2017, a $13.5 million or 21.9% increase.

Total backlog at June 30, 2018 was $302.9 million, compared to $360.5 million at June 30 of 2017, prior year would cause adjusted for RexCon, which is acquired in Q3 of last year. So decrease of 16% or $57.7 million.

International backlog at June 30 of 2018 was $85 million, compared to $76.4 million, at the same point last year, an $8.6 million or 11.3% increase. Domestic backlog at June 30 this year was $217.9 million, compared to $284.1 at June of 2017, a decrease of $66.2 million or 23.3%.

Excluding pellet plant backlogs, the June 30, 2017 backlog was $295.4 million, making the June 2018 backlog an increase of $7.5 million or 2.5% increase, ex-pellets, in both periods.

Onto the balance sheet highlights, our receivables are at $144.2 million, compared to $149.3 last year of this time, a decrease of $5.1 million. Our days outstanding are 47.6 at June 30 this year, compared to 43.7, the same period last year. And our inventory is at $394.8 million this year, compared to $381.3 million at June 30 of last year, a $13.5 million increase. RexCon was $9.6 million of that increase at June 30.

Our turns enter 2.4 this year and last year at this time. We owe nothing on our $100 million domestic credit facility. And we have, at June 30 of 2018, $62.9 million in cash and cash equivalents on the balance sheet.

Our letters of credit outstanding are $9.9 million, making our borrowing availability $90.1 million, and we have $2.4 million in debt, currently, in Brazil. Capital expenditures for the quarter of $4.7 million and, for the first half of 2018, are $9.1 million for 2018 full-year, we're forecasting still around $35 million in total CapEx.

Depreciation for the second quarter is $5.5 million and for the first half of 2018 is $11.1 million and, for the full-year of 2018, we’re forecasting around $23 million of depreciation.

That concludes my prepared remarks on the financial details. I'll turn it back over to Steve Anderson.

**Stephen Anderson - Vice President and Director of Investor Relations**
Thank you, David. At this time, Ben will provide some comments regarding the second quarter's operations and some commentary surrounding our expectations for the third quarter. Ben?

**Benjamin Brock - President and Chief Executive Officer**
Thank you, Steve, and thank you to everyone for joining us on our call today. As we commented in the release this morning, we were pleased to report our core business continues to perform well overall. I'll provide some commentary on the wood pellet business in a few minutes. But first, I want to discuss the Company's overall results.

As David noted, ex-pellets, our EPS was $1.03 per share versus $0.76 per share last year. This exceeded our expectations and represents one of our top three EPS levels ever as a Company. Our EBITDA, ex-pellets, was improved to 11% versus 10.2% in the first quarter this year, which remains improved versus our EBITDA of 6.98% for the whole of 2017.

Gross margin for the quarter was 23.6%, which was impacted mainly by product mix. We are still focused on delivering 25% gross margin in the fourth quarter this year, and we believe we will be able to achieve this target. We remain focused on increasing our turns from 2.42 turns to 4 plus turns by 2020.

Our backlog at June 30, 2018 was $302.9 million, which is up 3% and remains, historically, very good. Our Infrastructure Group backlog was down 51.2%. After consultation with our external auditor, we remove the Georgia wood pellet plant from our backlog for clarity.

The Group maintains strong quoting activity, the lower order intake, as our customers are experiencing high work levels and focusing on that work. Our Aggregate and Mining Group backlog was up 38.9%, as the Group experienced strong order intake, mainly due to good economic activity in the United States.

Our Energy Group backlog was up 33.6%, as the Group experienced very good order intake for products serving customers in the industries of construction, industrial, oil, and gas. Our domestic backlog was down, and our international backlog was up year-over-year.

The main reason for the decrease in domestic backlog was in our Infrastructure Group, as explained earlier. Our domestic quote activity remains very good, primarily due to the current long-term highway bill in place, steady state and local government, infrastructure spending, and good private sector work levels for the majority of our infrastructure customers.

Our international backlog increase was mainly due to increased activity in Latin America. Our Astec do Brasil subsidiary continues to experience increased quoting activity. Changing subjects to the Energy Group, we experienced good sales activity during the second quarter for products targeted at the infrastructure, oil, chemical, and food industries, which contributed to increased backlog in the group.

Sales of wood chippers and grinders also remained consistent during the quarter. Our concrete plants are built in the Energy Group, and quoting activity is good for these plants. We are optimistic on our outlook in the Energy Group.

As a reminder, our new product development continues in all Groups, however, at a more typical rate versus the high rates of R&D in 2016 and 2017. From our last earnings release to now, orders have been down in the Infrastructure Group, as our customers focus on construction projects, improving in Aggregate/Mining Group and improving in the Energy Group.

Due to quote levels in the Infrastructure Group, we remain optimistic on infrastructure. Bright spots for activity are hot mix asphalt equipment quote activity; concrete plant sales; industrial heating system sales for oil, gas, and chemical industries; wood chippers and grinders; aggregate crushing and screening equipment quoting activity; and international quote activity. Year-to-date, parts sales were up versus last year. Parts sales do remain a key part of our business, and we are focused on continuing to improve parts sales.

Turning to our decision to exit the Arkansas wood pellet plant agreements and define our wood pellet strategy. As we mentioned in our last earnings call, we were on track, but tight, with regards to running the test required to fulfill our obligations to our customer. In mid-June, we ran into new technical issues that would not allow us to meet our obligations with regards to the timing of the reliability test for our customer.

Given our original agreements with the customer and our position with regards to the reliability test, we worked in great partnership with our customer to come to an agreement that satisfies all of our obligations, with regards to all agreements with the customer. While the charge to finalize our obligations on this project is significant, we believe it is in the best interest of the Company and our shareholders.

Today's announced charge will help us focus in a better way in our core business while we continue to offer aftermarket and onsite service and parts for wood pellet plants, as well as continue to offer proven wood pellet plant equipment for sale as equipment suppliers only. We remain confident in the wood pellet industry’s potential over the long-term.

Referencing our first pellet plant delivered to our customer in Georgia, the plant is running in our agreements and $60 million loan remain in place. As a reminder, the loan is due in December. We are working collaboratively with the customer in Georgia, as a potential sale of this plant is being contemplated. NDAs are in place with multiple prospects for this plant, and we believe the plant could be sold, at least, by December, if not before.

Moving to other strategic updates we announced today, we have engaged Maine Pointe, a globally recognized consulting firm to undertake a strategic sourcing review along with our team to evaluate opportunities for gains in our procurement operations. Maine Pointe has particular expertise in industrial equipment supplier industry, and they will work closely with our team, including our Director of Procurement and VP of Operational Excellence, to conduct the review.

This review started July 9th, and we look forward to providing an update on our progress on this initiative on our third quarter earnings call. Changing subjects to our capital allocation strategy. As we are working to optimize our cost structure, we're also working with our board in evaluating the Company's capital allocation strategy to ensure capital is directed to the areas that will drive the greatest value for shareholders.

Looking ahead to the third quarter of 2018, we believe our third quarter revenue will be slightly higher than our second quarter 2018 revenue, as reported. With regards to earnings in the third quarter of 2018, we expect earnings per share to be much improved from our $0.44 per share, ex-pellets, earnings in the third quarter of 2017.

For the whole of 2018, we remain optimistic on our core business outlook. Our current outlook for the full-year of 2018 is core revenues up 7% to 12% versus last year, with an improved, ex-pellets, net income for the year versus 2017. Ex-pellets, in our core business, we are showing gains this year but we still have opportunities to be an even better company for our customers.

Our focus is producing even higher quality products than we already do for our customers while focusing on Operational Excellence. That ends my comments on the quarter and what's in front of us. 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.

**Stephen Anderson - Vice President and Director of Investor Relations**
Thank you, Ben. At this point, we'll be glad to entertain questions. In an effort to get to everyone, we would ask that you limit yourselves to two to three questions, and then feel free to jump back into the queue if you have any afterwards in the call. I'll turn it over to Kevin, our Operator to initiate the queue.

**Operator**
Thank you. Our first question today is coming from Stanley Elliott from Stifel. Your line is now live.

**Q:** Hello. Good morning, and thank you for taking my question. Quick question on one of the institutional ownership filings, did see, historically, what has been an activist group take a bigger role in the quarter. Can you talk about have you had discussions with them? Have they had any impact or conversations and what you're trying to do with some of the sourcing and the capital allocation piece?

**Benjamin Brock - President and Chief Executive Officer**
Hi, Stanley. This is Ben. We have a lot of shareholders. We talk to a lot of shareholders, and we listen to a lot of shareholders. And when we have communications, they're requested to discuss. With the Board, we do that as well. With regards to the strategic sourcing initiative, late last year, we thought about working on that. Early this year, we actually met with consultants. We then hired our new VP of Operational Excellence, so we waited on moving forward on the strategic sourcing while we got him going. Then we brought it back. We interviewed three different consultants.

In the process, we talked about—with people about whom they've used. Maine Pointe came up as a reference to us, and they became the consultant of choice to help us with the project. A lot of companies in our space have done that, so we're excited to see what that can do for our company. We have kind of alluded to that for a little bit at the Stifel Conference, actually, in our presentation, so we're excited to announce it and excited to report back on where we are in our third quarter call.

**Q:** Perfect. And then the core business sounds like it's tracking right, kind of, in expectations. Can you talk a little bit about the pricing environment that you're seeing? And my guess is that seasonally, typically, we'll see the backlogs built from here. Is there any reason to think why that wouldn't happen going forward?

**Benjamin Brock - President and Chief Executive Officer**
The pricing environment for right now is still competitive. Obviously, I mean, we have shrewd buyers as contractors, customers. However, with the steel price increase, we did, as we mentioned in prior calls, increased prices during the first quarter in most of our places. And by and large, it seems like those have been able to hold. Our customers do buy steel, as we've mentioned before, and they understand that cost. The other things that we purchased that contain steel is many of those vendors are working to push through price increases.

I think we've been doing a nice job of offsetting that, but it's still a very real thing, inflation and things we buy. But I think the strategic sourcing effort will help us in a big way as we move into the latter part of this year and into next year, with regards to some of those things. Part of our inventory increase is in raw. We did buy ahead on some steel, taking advantage of some opportunities. So that is a part of the reason for our inventory increase.

**Q:** Perfect. Thanks very much, and best of luck.

**Benjamin Brock - President and Chief Executive Officer**
Thank you.

**Operator**
Thank you. Our next question is coming from Mig Dobre from Robert W. Baird. Your line is now live.

**Q:** Good morning, everyone. I actually have a bunch of questions. So, I hope you'll humor me here. I want to start, maybe, with the Infrastructure Group. A lot of moving parts here, but as I understand it, if we want kind of an apples-to-apples, we add back the revenue charge that you have taken. You also said that you've taken out of backlog Hazlehurst. So, if we end up, maybe, adjusting for that, too, it looks to me like, on an apples-to-apples basis, your orders were down, maybe, something to the tune of 30% year-over-year in the quarter.

That being the—first and foremost, I hope my math is correct. If that's the case, can you maybe give us some comfort surrounding what's going on here in terms of how the market is progressing? And why we're seeing this volatility, if you would, in orders in place?

**Benjamin Brock - President and Chief Executive Officer**
Sure. Hi, Mig. This is Ben. It feels a little bit like a traditional summer on the infrastructure side. Our customers are busy. They have a lot of work, the ones that I've talked to talk about how big their backlog is. They're feeling really good. They're feeling good about next year. The quote levels are very good.

I've talked with one of the sales managers of one of our Infrastructure Group companies yesterday, feeling very good, good quote levels. Multiple customers were even this week on plants. So I think that's what we're experiencing, and the optimism is very good with our customers. So, we feel optimistic about the Infrastructure Group.

**Q:** Okay, so you're not sensing that there are any sort of market share shifts? Obviously, we know you have a competitor in the U.S. that, arguably speaking, has gotten even stronger over the past year or so. That's—I'm reading too much into that in thinking that there might be something going on, on the competitive front?

**Benjamin Brock - President and Chief Executive Officer**
No. The market is bigger. Our market share is held, and we're very comfortable with our market share. We compare what we see versus their numbers, obviously, when they present them, and we're very comfortable with our market share.

**Q:** I see. Then there is a modeling aspect of this, too, because if I'm looking at your backlog, $106 million, and I look at revenues, say for instance, year-to-date, again, adjusted for the charge, on average, your revenues here has been running about $150 million per quarter in the front half? How do we think about the back half of the year because, obviously, orders are lump year, the backlog now is only $100 million. Can you help us understand infrastructure revenue progression back half versus what you had in the front half of 2018?

**Benjamin Brock - President and Chief Executive Officer**
Mig, I think the third quarter for infrastructure could be off a little bit. We feel comfortable and feel very good about the fourth quarter. So, I think, overall, it will still be better than last year's.

**Q:** So you're saying you're going to be up year-over-year? Is it in the third and the fourth quarter?

**Benjamin Brock - President and Chief Executive Officer**
Combined two quarters will be up for the year.

**Q:** Does that include revenue recognition from Hazlehurst or not?

**Benjamin Brock - President and Chief Executive Officer**
That will be ex-pellets.

**Q:** That would be ex-pellets?

**Benjamin Brock - President and Chief Executive Officer**
Yes.

**Q:** Related to Hazlehurst, if you have taken the charge for Highland, if you have taken Hazlehurst part of the backlog, why not take a charge for Hazlehurst as well?

**Benjamin Brock - President and Chief Executive Officer**
We have agreements in place on Hazlehurst, and so we really—we don't need to do that.

**Q:** But why does your auditor feel like you need to take it from the backlog, if you don't need to do that?

**Benjamin Brock - President and Chief Executive Officer**
It adds clarity to the backlog for all of us.

**Q:** Okay, so you can—with a reasonable degree of confidence, still state that you expect to recognize revenue in the fourth quarter of 2018 from Hazlehurst?

**Benjamin Brock - President and Chief Executive Officer**

At this time, yes, we do. If it sells before then, I mean, who knows if it does or not? We do have multiple prospects looking at the plant. It could pull forward—as we've said before, it is breakeven.

**Q:** Understood. Two more questions, then I'm done. One, I want to ask a little bit about the way you're thinking about the cost structure in general, and I understand that you're bringing in this consulting group to look at sourcing. Just my own benchmarking, when I'm looking at the Company, what stands out to me is that SG&A is perhaps higher as a percentage of sales than peers.

Are they going to have a role in addressing that, as well, or is it just pure sort of manufacturing cost? And how do you think about evolving your operating model maybe away from this decentralized structure that we've seen in the past towards something that's a little more cost efficient?

**Benjamin Brock - President and Chief Executive Officer**
Mig, we did a look back in the past five years against all of our TSR peers, and our SG&A is in line. We do have an Operational Excellence VP that potentially could help us with some of that. At the current time, the Maine Pointe group is focused solely on strategic sourcing.

**Q:** I see. Last question on capital deployment. I understand that the board is reviewing this. But, frankly, I'm not entirely sure as to what that means down the line. Is it that you are reevaluating your M&A strategy? Is it that you're starting to consider share buyback or dividends in some sort that we haven't seen in the past? What are the options that are being on the table right now?

**Benjamin Brock - President and Chief Executive Officer**
Mig, this is Ben. There's really four main options that things you mentioned: stock buybacks, dividends, M&A, and also investments back in the business where we have opportunities for gains at companies. Those are all the things that the board will be considering.

**Q:** All right. Thank you for taking my questions.

**Benjamin Brock - President and Chief Executive Officer**
Thank you.

**Operator**
Our next question is coming from Mike Shlisky from Seaport Global Securities. Your line is now live.

**Q:** Hello, good morning.

**Benjamin Brock - President and Chief Executive Officer**
Good morning.

**Q:** So, I wanted to start off with a question on the settlement that you're engaging with. Is there a cost you can outline to us and maybe some kind of goal as to what you think you can actually get in return for that cost in that time frame? If it's really just the upfront cost is fine for now.

**Benjamin Brock - President and Chief Executive Officer**
Hi, Mike. This is Ben. The upfront cost is actually very small, and it anticipates a second phase. That would be the price here of the two phases. However, they typically have a return against fees of 6:1 or better. They have examples of double-digits to one, and they guarantee that against their fee, if you move against or move on with Phase 2. Lots of people and a lot of divisions in the first phase right now, they are doing a deep dive on that

because they do guarantee what they do. So, more color on that really in the third quarter call, but we're excited about the opportunity to help our bottom line with the effort.

**Q:** So then, by the third quarter, you'll have a good sense of the plan? Did anyone tell you how long these plans generally take to be implemented or see the success?

**Benjamin Brock - President and Chief Executive Officer**
Typical implementation phase, 10-month range. And, of course, you don't get all the savings in day 1, but you certainly get a good number, a good percentage of them. So, we'll have more clarity on that for the third quarter.

**Q:** Okay. Then, I also want to ask about just sort of the environment for shipping and obtaining components during the quarter. It's been said that there's been some very tight shipping fleets out there, hard-to-find truck capacity. Has Astec had that issue either incoming deliveries or outgoing? And secondly, are there any components of your products that are in short supply right now

**Benjamin Brock - President and Chief Executive Officer**
On the shipping side, we've—in the last few weeks had core reviews with all of our divisions, and we really have not had any issues. We outsource our shipping of the equipment, and where we've had issues is where we try to get everything out at the end of the quarter. But even then, we were okay on what we've been using.

**Q:** Okay. As far as the supply chain, is that pretty intact right now, or are you finding it hard to find certain components?

**Benjamin Brock - President and Chief Executive Officer**
So far, so good on that for us. We do have a Corporate Director of Procurement, works with our purchasing teams. They talk a lot, so when we do run into issues, and when we do, we've been pretty fortunate on that.

**Q:** Okay. And just finally for me, on the pellet plant that may or may not be sold. I'm not sure how this is supposed to work. If the plant is sold, is there any risk to Astec, if the price is not that great, or is it just the general idea this will be a profitable sale for the seller?

**Benjamin Brock - President and Chief Executive Officer**
The idea is, that it would not hurt us. So the goal is to come out okay on it.

**Q:** But if it is that great of a price, is there any exposure with Astec, or are you kind of guaranteed?

**Benjamin Brock - President and Chief Executive Officer**
We don't have any firm offers on the plant, so I'd be speculating to answer that question. I really would be. And the value is there for our potential buyers. So, you never say never, but I really think that the opportunity to sell the plant where we we're okay is there for sure.

**Q:** Got it. Perfect. Thanks, Ben.

**Benjamin Brock - President and Chief Executive Officer**
Thank you.

**Operator**
Our next question today is coming from Larry De Maria from William Blair. Your line is now live.

**Q:** Hi, thanks. Good morning. With regards to the Hazlehurst plant and other liabilities in pellet plants. Just to look into this, are there any other liabilities potentially besides Hazlehurst, and what gives you the confidence that the operation and performance of that plant are strong enough to warrant, obviously, a good outcome for you guys, considering the obvious issues in Georgia?

**Benjamin Brock - President and Chief Executive Officer**
Right, this is Ben. The plant in Georgia is running. It's running for an order in Europe. We're able to show it in a running condition, producing very high-quality pellets. We're told that the end users of the pellets find them to be in some of the highest quality pellets that they've received. So our confidence is in—it's running in its performance today.

**Q:** And then, Ben, I just don't understand why this wouldn't be running so well and the other one we're having major issues with?

**Benjamin Brock - President and Chief Executive Officer**
Well, as you recall, they're different plants, Plant 1 to Plant 2 is an evolution, larger plant at Hazlehurst, different heater designs, different feed designs. So they're close but not exact. So, and then, the bigger thing at Highland, was the timing of the liability test versus the agreements and what we face there.

**Q:** Okay, and you said that you're going to stay in the business of proven technology and be an equipment supplier? What exactly does that mean? You're going to supply other people, who want to do take on the EPC, your technology and equipment, or are you just going to be a component supplier? What exactly does this mean, going forward?

**Benjamin Brock - President and Chief Executive Officer**
What you say there, Larry, is we will only supply proven equipment and component. So, if someone wanted a full plant, and they were accepting our terms and conditions that are normal for us as an equipment supplier, along the lines of what we do at asphalt plants, then we would supply a full plant.

If once you have a proven system, we're not actively out quoting a full plant because, even though at Highland, it will run and it is running. It's not like it's catastrophic and the plant didn't run. And we really ran into timing versus reliability.

To third-party reports for the customer, really complementary of the plant, well-built, it's going to get there. We just had a timing issue. But we would sell components as an equipment supplier. We would sell plant as an equipment supplier, but we are not going to be a financier of pellet plants and we are not going to be in EPC, Engineer Procure Construct Contractor. If the industry is ready for an equipment supplier, we are the best option in the industry for wood pellet plant equipment.

**Q:** And, therefore, we shouldn't have anything other than Hazlehurst in the model?

**Benjamin Brock - President and Chief Executive Officer**
That is correct.

**Q:** Okay. And then, I guess, on the infrastructure side, orders were actually surprisingly weak. I know you said that customers have business, but when do you think we get this inflection to ramp up in orders? Do we have to wait until next year? And did that imply that there is excess capacity in the industry? The fact that they don't have to go out and buy stuff now? I was just trying to understand why the orders were really so weak. If it wasn't share changes and when we might get an inflection, positively.

**Benjamin Brock - President and Chief Executive Officer**
Fourth, first, and second quarter is when that will happen, and all I can tell you is what I've said, it really is active on the quote side, and I'm talking to customers personally, and I know they're working, and I know that's where their focus is, and I'm comfortable saying that it's feels like a traditional summer in some ways, although, we're busier with the work that we already had. So I think you'll start seeing that again fourth, first, and second quarter, moving ahead.

**Q:** Is that for orders or that's for sales?

**Benjamin Brock - President and Chief Executive Officer**
Orders and sales.

**Q:** Okay. Okay, thank you.

**Benjamin Brock - President and Chief Executive Officer**
Thank you.

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

**Stephen Anderson - Vice President and Director of Investor Relations**
Thank you, Kevin. We appreciate your participation in our second quarter conference call, and thank you for your interest in Astec. As our news release indicates, today's conference call has being recorded. A replay of the conference call will be available through August 07, 2018. And an archived webcast will be available for 90 days.

A transcript will be available under the Investor Relations section for 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 concludes our call. Thank you all, and have a good week.