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Transcript of Astec Industries, Inc.
Second Quarter 2020 Earnings Call
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Participants

Stephen Anderson - SVP of Administration and Investor Relations
Barry Ruffalo - Chief Executive Officer
Becky Weyenberg - Chief Financial Officer

Analysts

Mig Dobre – Robert W. Baird
Stanley Elliott – Stifel
Joe Mondillo – Sidoti & Company
Brian Sponheimer - Gabelli Funds

Presentation

Operator
Hello, and welcome to the Astec Industries, Inc. Second Quarter 2020 Earnings Call. As a reminder this conference call is being recorded. It is my pleasure to introduce your host, Steve Anderson, Senior Vice President of Administration and Investor Relations. Thank you. Mr. Anderson you may begin.

Steve Anderson - SVP of Administration and Investor Relations
Thank you, and welcome to the Astec Industries second quarter 2020 earnings conference call. My name is Steve Anderson and joining me on today's call are Barry Ruffalo, our Chief Executive Officer; and Becky Weyenberg, our Chief Financial Officer. In just a moment, I'll turn the call over to Barry to provide 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 comments made during today's call will refer to the non-GAAP results and a reconciliation of GAAP to non-GAAP results are included in our news release and Appendix of our slide deck.

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

Barry Ruffalo - Chief Executive Officer
Thank you, Steve. Good morning everyone and thank you for joining us on the call this morning to discuss our second quarter 2020 results.

I am very pleased with how our team members have embraced and adapted to the COVID-19 situation as an organization and how we have safely and productively managed through this challenging environment. The health and safety of our employees, suppliers and customers continue to be our top priority as we navigate through this and work to control the things within our control with a focus on driving long-term profitable growth.

I'll start off today's call by highlighting key messages from the quarter and then provide an update on the COVID-19 response followed by an update on Astec's operations. I will also discuss what we're seeing in terms of demand in our supply chain, before turning the call over to Becky for details on our financial results. We'll also highlight progress made on our strategic transformation plan and then open the call for Q&A.

Beginning on slide 4, here are the key messages that we would like to share from the quarter. As a result of the actions that we took in 2019 to transform our company and our continued focus on driving operational excellence, we were able to drive solid performance in the second quarter with a 47% increase in adjusted EBITDA and 350 basis points increase in adjusted EBITDA margin compared to the prior year, despite the challenging macro environment and a reduction in revenue.

In the quarter, we continued to see resilient demand from our customers as our products are essential for building infrastructure and are used to facilitate the transportation needs of our communities. While our customers face near-term uncertainties, they are continuing to demand Astec's solutions and we will continue to support them and remain vigilant as we navigate through the ongoing pandemic. Our backlog at the end of July is up slightly led by demand for plant related products.

We remain well-positioned to execute in all market conditions with a strong balance sheet and liquidity, including importantly a net cash position. We also saw success in the quarter in improving our working capital turns and expect to make further improvement in the coming quarters.

During the second quarter, we continued to make significant progress on our strategic transformation under our Simplify, Focus and Grow pillars. With the closure of our Mequon, Wisconsin facility during the quarter, we were able to leverage our global footprint more efficiently as our Telsmith products are transferred to other Astec facilities. Earlier this week, further supporting our transformation plan, specifically our Grow strategic pillar, we announced two acquisitions, acquiring two premier full-line concrete batch plant manufacturers, Con-e-Co and BMH, both of which will strengthen our Infrastructure Solutions group and provide our customers with access to the most robust line of concrete products in the infrastructure industry. We will continue to look for ways to grow in attractive markets that build upon our strong foundational product lines.

Overall, we're focused on remaining agile and flexible to execute against any economic scenario. The good news is that with our transformation strategy we also had a very advantageous head start to cost savings initiatives, which helped to drive margin improvement in the second quarter.

Turning to slide 5, as a reminder, as part of our continued transformation, beginning this year we went from three to two segments. Under the two segment structure our operations and organization is better aligned with the end markets we serve and our customer base. Positively, this is already leading to more efficient and effective sales. Our revenue mix during the quarter was 69% Infrastructure Solutions and 31% Materials Solutions. The key here is that we refer to our business as being able to serve a Rock to Road value chain which includes our two recent acquisitions. That value chain includes everything from crushing and screening in quarries to asphalt and concrete plants to our best in class road construction products.

Now turning to slide 6, we provide an update on our COVID-19 response. At the end of February, we put in place an executive council to ensure we connect on a daily basis, communicate effectively, and put the right policies in place. We continually monitor information from our sites, government agencies and other sources. Again, I've been very pleased in regard to how we've managed through the pandemic and all our organizations as part of Astec did a phenomenal job resulting in no significant disruptions thus far.

Turning to slide 7, as a result of the transformation progress we made prior to the COVID-19 pandemic, we were able to react more quickly and efficiently than would have been possible under our prior organizational structure.

Through the crisis, we have been in constant communication with our customers and even in the current environment, most of our customers are still extremely busy with a backlog through 2020 and into 2021. However, as expected, COVID-19 related uncertainties resulted in some delayed orders and capex postponements. As a result, in the second quarter, we saw order reduction across both of our reporting segments. That being said, the situation remains fluid for the remainder of 2020 as we continue to see bipartisan support for US infrastructure construction and are prepared to support our customers as they continue to work and require critical Astec Solutions.

Regarding our operations, all of our Astec facilities around the globe are now operating, with the ability to flex operations as needed. During the quarter, we temporarily closed two Astec sites due to preemptive government mandates in South Africa and Northern Ireland. The South Africa site reopened on May 4th and the Northern Ireland facility reopened on May 11.

On the demand front, we continue to see near-term uncertainty from our customers as the pandemic persists; however, many of our customers remain cautiously optimistic for a rebound once the pandemic is contained.

With respect to our supply chain, to date we have not experienced any significant disruptions though 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 support our risk mitigation efforts.

Before turning the call over to Becky, I would like to make a few comments on the importance of diversity and inclusion here at Astec. I recently communicated to all of our team members on this topic and how it aligns with our company's core values of respect and integrity. We will continue to focus on creating a diverse and inclusive culture as we grow our organization and understand that it's not only the right thing to do but also critical to our continued success and growth.

I'll turn the call over to Becky to discuss our detailed financial results.

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

Starting on slide 9, second quarter adjusted revenue decreased 6.8% to $265.3 million compared to the prior year quarter. Excluding the impact of foreign currency, adjusted revenue decreased 5.4%. Equipment sales decreased 6.5%, while parts sales fell 10.4% compared to the prior year period.

Our backlog decreased 26% to $182 million at quarter end, driven by both Materials and Infrastructure Solutions orders, which were down 17% and 31%, respectively. Lower orders were driven by customer capital constraints resulting from COVID-19 uncertainties.

Second quarter adjusted EBITDA increased 47% to $25.3 million compared to $17.2 million in the prior year period and adjusted EBITDA margin improved 350 basis points to 9.5% 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 SGA&E expenses declined 19% on a dollar basis driven by reductions in consulting fees, travel and employee related expenses.

In relation to the company's efforts to simplify the organization, during the second quarter we incurred $7.9 million of pre-tax restructuring and unusual costs. These items were excluded from adjusted earnings per share and the restructuring charges are related to asset impairment, inventory write-down, reduction in labor force and the closing of our Mequon, Wisconsin facility. Of note, we've reduced our headcount nearly 16% year-over-year.

Adjusted earnings per share rose 81% in the quarter to $0.67 compared to $0.36 in the second quarter of 2019. Overall, we reported strong second quarter results with limited COVID-19 disruptions despite the challenging macro environment.

On slide 10 we highlight the key drivers of our year-over-year adjusted EBITDA margin expansion. Adjusted EBITDA margin expansion of 350 basis points was primarily driven by a reduction in headcount and related savings in addition to savings from supply chain management and other transformation savings. This was partially offset by volume and mix and an increase in corporate and other expenses as we are investing in IT and ramping up back office support.

Moving on to slide 11, our Infrastructure Solutions business revenue increased by 2.2% to $182 million in the quarter driven primarily by asphalt plant sales and COVID-19 related customer delays shifting orders from Q1 to Q2.

Adjusted gross profit increased 6.3% to $40.2 million and adjusted gross margin expanded 90 basis points to 22.1%, as a direct result of our restructuring actions, pricing initiatives, plant efficiencies and controlled spending.

We continued to execute on cost savings initiatives and further rightsized our business during the quarter with a large focus on reducing and controlling SG&A. We remain focused on operational excellence to drive efficiencies as well as limiting discretionary spending. Adjusted EBITDA increased 81% to $22.6 million primarily due to cost saving actions. Adjusted EBITDA margin increased 540 basis points to 12.4%.

On slide 12, our Materials Solutions business revenues decreased 21.9% to $83.4 million compared to the same period a year ago driven primarily by COVID-19. Adjusted gross profit declined 16.9% to $21.2 million, while adjusted gross margin expanded by 150 basis points to 25.4% as parts sales remained relatively stable in the quarter with positive margin contribution.

Adjusted EBITDA increased 7.1% to $12.1 million primarily due to favorable mix and gross margin improvements from 2019 initiatives to rightsize operations to current market demand. Adjusted EBITDA margin increased 390 basis points to 14.5%.

We continued to make progress on our Materials Solutions 2020 transformation plan in the quarter with the closure of our Mequon, Wisconsin location, which is where we build our Telsmith products. As Barry noted, this closure will enable us to leverage our global footprint more efficiently as these products are transferred to different plants. The shift in production location is also in line with the strategy that we highlighted last quarter of moving key products to our South African, Brazil and Northern Ireland plants in order to lower our cost basis, decrease our overall manufacturing footprint and manufacture closer to our global customers.

Overall, improved earnings performance in the second quarter demonstrates the traction of our initiatives to right-size operations to market demand. We remain flexible and committed to simplifying and focusing the business to continue to drive improved profitability.

Now turning to slide 14, we continue to maintain a strong balance sheet with minimal debt and a net cash position of just over $119 million. Given the current environment, we remain focused on strong liquidity and cash preservation to withstand sustained periods of market uncertainty. Of note, accounts receivable was down 15%

year-over-year due to decreased sales and a more focused effort on collections. Overall, we have available liquidity of $271 million, including nearly $120 million of cash on hand, with only $1.4 million in total debt as of June 30, 2020.

We continue to make progress on our inventory reduction efforts as inventory decreased nearly $98 million in the quarter and we saw improvement in inventory turns. As Barry noted, we remain focused on maintaining a strong and flexible balance sheet with ample liquidity and believe that this will enable us to withstand a variety of economic situations.

On slide 15, I will provide details on our capital deployment framework, which is consistent with what we have previously shared. We continue to have a disciplined approach to deploying our capital. When we consider the various avenues of capital deployment we do so in the context of our long-term strategic objectives and related revenue, earnings and cash flows in order to maximize shareholder value.

Our capital allocation priorities remain unchanged in the current environment. On internal investments in property, plant and equipment, we will continue to target great than 14% return on invested capital for new investments. Regarding acquisitions, we are only considering strategic acquisitions that align with our growth strategy and meet our internal financial criteria. Our strategy for M&A is to fill gaps that we see within our customer supply chain as we look to grow regionally in attractive markets. We seek to maintain the number one or two position within our Rock to Road value chain. We also believe that M&A is a mechanism that will potentially allow us to accelerate our investment in technology and innovation.

Importantly, we remain committed to funding the dividend and 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 preserve our financial flexibility.

With that, I will now turn it back over to Barry

Barry Ruffalo - Chief Executive Officer
As a reminder on slide 16, we summarize our strategic and disciplined approach to M&A, which helps to support our Grow pillar. A recent example of our execution of this growth strategy is highlighted here on slide 17. Our recent acquisitions will strengthen our Infrastructure Solutions group and provide our customers with access to the most robust line of concrete products. Overall, these acquisitions provide us with significant opportunities to support our profitable growth strategy over the long-term.

We are excited to welcome the BMH and Con-e-Co teams to the Astec family and look forward to working with them to drive value by leveraging each team’s innovative approach to serving our shared customer. The combination of these three strong brands will present many value creating opportunities.

Now turning to slide 18, our downturn playbook remains the same. This summarizes actions that we have already taken and additional levers that we can pull if necessary. Since the onset of the pandemic, we have implemented several cost reduction initiatives across the business, including reprioritization of investments and a reduction of headcount and discretionary expenses.

Now moving on to slide 19, I’ll provide a quick overview of the three pillars of our Strategy for Profitable Growth—Simplify, Focus and Grow. First, Simplify, the second quarter marked another period of successful execution on our strategy to leverage our scale, reduce organizational complexity and consolidate/rationalize our footprint and product portfolio. I am proud of the progress our team has made to simplify our business and drive efficiencies across the portfolio.

Second, Focus, we continue to strengthen our consumer centric approach, driving commercial excellence, and streamlining processes and instilling a performance-based culture.

Finally, Grow, we are reinvigorating innovation, leveraging technology to unlock internal synergies, while also enhancing the customer experience, exploring global growth opportunities and carefully allocating capital to maximize shareholder value.

We have made great progress so far this year within these three pillars, especially given the current environment. I am confident that our team will be able to execute on our strategy regardless of the economic environment.

Slide 20 outlines some of the major milestones we are executing against on our transformational journey and the progress we have made to date. Under Simplify, where the majority of the work has been done this far, we were able to further consolidate our footprint and product lines with the closure of the Mequon, Wisconsin, plant in the second quarter.

Under Focus, as we highlighted last quarter, we aligned our management incentive programs and hired a senior vice president of operational excellence to instill operational excellence across the organization, and a chief information officer who will oversee implementing an enterprise data analytic platform to further develop data connectivity across our businesses and streamline financial reporting.

Under Grow, we recently completed the acquisition of Con-e-Co and BMH, which will significantly strengthen our Infrastructure Solutions business.

With the expected cost savings from the actions we have taken, we plan to re-invest in our business to drive profitable growth and maximize shareholder value. We remain focused on improving our working capital turns, and as Becky mentioned, we made further progress in accomplishing this goal.

I'll conclude on slide 21, with our key investment highlights, which have not changed. I am very pleased with the progress that our team has made in the quarter on our transformation journey and actions that we have taken in order to Simplify, Focus and Grow the business. Our team continues to show great passion and adaptability as we support our customers through this uncertain environment, while also executing on our strategy. We also have a great group of leaders who are consistently focused on operational excellence and sharing best practices across the organization.

While uncertainty remains relative to the impact of COVID-19, general sentiment continues to be optimistic for a rebound once the economy opens back up. And while we remain cautious given the global pandemic, we are well-positioned to navigate the economic challenges ahead of us with a more efficient and streamlined organizational structure, a strong balance sheet and ample liquidity.

I am excited about the future for Astec as we continue to execute against our strategy to Simplify, Focus and Grow the business. We continue to evaluate the COVID-19 situation and are proactively preparing for changes in the market and demand conditions, including maintaining the flexibility to ramp up for future increased demand when the pandemic subsides.

I am confident that we will come out of this as a stronger and more resilient organization and I 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

Thank you very much, sir. Ladies and gentlemen, at this time, we will now be conducting a question-and-answer session. Our first question is from Mig Dobre of Baird. Please go ahead.

Q: Thank you. Good morning, Barry and Becky. I'll start by saying this, I don't say it very often, but great quarter, guys. Your performance versus our estimates, the numbers were just quite remarkable. Maybe the place to start, Barry, is with a little more color on where you see demand from a near-term perspective. As I understood it from your prepared remarks, there were some orders that were disrupted by the pandemic and were maybe shifted into subsequent quarters. Can you maybe quantify that or give us a sense for how demand is trending in 3Q?

Related to this, the way I'm thinking about it, if I'm looking at your orders in Q2, roughly, call it, $202 million, is that a fair number to think about in terms of potential realized revenue into Q3 or are there other dynamics that we need to be aware of here? So, let's maybe start there. Thank you.

Barry Ruffalo – Chief Executive Officer
Good morning, Mig, and thank you for your comments. Relative to the demand, as I report in the prepared comments, our backlog at the end of July is up about 5% from where we actually finished in June. We're not giving a lot of color around what we expect for the rest of the year. I think there's enough uncertainty that we would be careful to do so. But, as you probably know, the third quarter is typically one of our weakest quarters as well, so I think we're going to be careful to give too much projection there other than just the backlog that we realized at the end of the month.

With all that being said, we feel like as a company, we continue to take the right actions around our transformation to try and right-size our business and take out the costs, both on the COGS and SG&A lines. We believe we're prepared for the turbulence that we're actually going to potentially experience either up or down as we go through the rest of the year and as we make it into 2021. Again, after another quarter, as I talk to our customers, they have a backlog generally that goes into 2021 and so I think that's positive.

I think maybe some more color I would put around it, Mig, is that when you think about some of our products, and namely our asphalt plants, those are significant capital purchases by our customers that typically are well planned out. They have visibility to what their capital expenditure plan is, we have a good enough relationship with our customers that we know what that is. It's really just more about them getting comfortable that they have enough confidence that that's going to be money well spent. And so we stay very closely engaged with them all the time and especially now to make sure we understand what that potential might be. So, we stay very close to our customers to make sure we're ready to support them in that cycle.

Q: Understood. Barry, that backlog figure being up 5%, is that because of a pickup in orders, like the conversion of these maybe pushed our quarters? Or, is it because you're normalizing frankly your recognized revenue versus the order intake level that we see in Q2?

Barry Ruffalo – Chief Executive Officer
Yes, I would say it's more of the later, Mig. It's not a push out of orders. We did have a push out of orders from Q1 into Q2, but we haven't seen that as much from Q2 to Q3.

Q: Okay. Understood. Then, I guess my next question is on the cost side and I appreciate the bridge that you provided, Becky, on slide 10. Maybe what I'm looking for is a little more context or color as to how we should be thinking about these cost items, these cost-out items going forward. By my math, right-sizing is call it $6 million benefit. The other bucket is closer to $9 million. As you're thinking about the second half of the year, do you have similar savings plans? Are there some variances again that we need to factor into our estimates?

Becky Weyenberg – Chief Financial Officer

Yes, Mig, thank you. Going forward, we think that there's probably we'll call it 150 basis points on SGA&E that will continue to give us some benefit but that will stick. That's not COVID-related. Really, it's tied to people, some consulting activities, and then just some changes in the way we want to go shows and exhibits, go-to-market and some space there in the marketing front. So, we think that those are step-change moves within our transformation efforts that will stick. We'll see that continue throughout the remaining quarters.

Barry Ruffalo – Chief Executive Officer
Maybe I'll also add, Becky, on the right-sizing piece, Mig, we look at it and say from an absorption perspective, we had a $6 million year-over-year improvement from the COGS side of it as well.

Becky Weyenberg – Chief Financial Officer
Correct.

Q: Right. And I guess I'm wondering because you gave us a headcount number being down 16% year-over-year. I'm presuming that that's part of this right-sizing organization and transformation rather than the second bucket, the cost-savings initiatives. Is that correct?

Barry Ruffalo – Chief Executive Officer
Correct.

Becky Weyenberg – Chief Financial Officer
That's correct.

Q: Understood. And then last question from me, on the inventory front, very good progress there. I guess I'm wondering how much more do you expect to take out of that working capital item. And from a production standpoint, given that your inventories have come down quite a bit, I'm wondering how you're thinking about just your own production on a year-over-year basis in the back half of the year.

Becky Weyenberg – Chief Financial Officer
Yes, I think I can take an attempt at that. We're pretty pleased with our inventory on finished goods and used equipment overall, but where we see opportunity for the future quarters is the raw materials. So, when COVID hit, we had approximately $190 million in inventory and we couldn't shut off the pipeline fast enough. So, we do have some surplus in that space that'll get burned through with the next quarter's production, so I think we'll see some more inventory reductions in the back half of the year as we are looking at working capital across the organization as we try to get our turns up at an acceptable level. We're not quite there yet but we're certainly seeing many of our sites be right in line with our expectations for them going forward.

Q: But what you're saying is that on a finished good side, you're in pretty good shape. That's what I'm understanding here.

Becky Weyenberg – Chief Financial Officer
That's correct.

Q: I ask the question because the margin performance there then looks frankly that much more different. You haven't had as much cost absorption as maybe some of your peers have that have had very different inventory progression that you've had. That was the point I was trying to make. So, thank you for the clarification. Appreciate it.

Barry Ruffalo – Chief Executive Officer

Yes, Mig, just as a follow-up to your statement and to Becky's answers, we at the end of 2019 made a big push on inventories, both at our sites as finished goods, and also at our dealers. And so we believe we're very, very close to the market right now relative to finished goods and we're very pleased with the team's efforts to get us to that point. And so, I think that we have more work to do, as Becky alluded to, but we made a lot of great progress so far and that's really a credit to all the teams of Astec to make sure that this is a focus to drive working capital turns and free cash flow efficiently and effectively.

Q: Great. Thank you, guys.

Barry Ruffalo – Chief Executive Officer
Thanks, Mig.

Operator
Thank you very much. Your next question today is from Stanley Elliott of Stifel. Please go ahead.

Q: Good morning, everybody. Congratulations and thank you guys for taking the question. Can we go back on that SG&A cost savings just to make sure that I heard that correctly? So, out of that $10 million, 310 basis points, the idea is that about 150 basis points or let's just say half of that is more permanent and that the other half will end up creeping back as incentive comp comes back and things like that?

Barry Ruffalo – Chief Executive Officer
Yes. I'll take a shot at that one, Stanley, and I'll let Becky jump in afterwards, that's correct. We believe, we're obviously taking actions across the board in SG&A to keep as much of that 310 as we can, but we suspect that as markets continue to open up and our sales people continue to start to travel, maybe more so than they have in the past, certainly more than they have in the last probably five or six months, that we should expect that some of that will come back and certainly commissions as a part of it as well. We want to pay commissions, meaning we've actually done well from the sales side. Yes, I think your assessment is pretty correct.

Is that fair, Becky?

Becky Weyenberg – Chief Financial Officer
That's fair.

Q: The acquisition is interesting and congratulations for moving on to the Grow phase. Would you describe, are these more regional players? Is there anything you can tell us maybe from a revenue or profit standpoint? And ultimately where you see how you all fit within the batch plant market, I guess, in the US would be helpful.

Barry Ruffalo – Chief Executive Officer
Yes. Let me first say, we're really excited about bringing on the BMH and Con-e-Co teams to the Astec family. As I've gotten to know them through the process, great group of people, obviously renowned product lines within the concrete plant space and other types of accessory products that they produce. We're really excited about it and we believe that from an engineering and just from an innovative and entrepreneurial perspective, they're really going to add a lot to our concrete and plant product line infrastructure group, and Astec in general.

So, we're really excited about bringing this on, and we also like the fact that when you look at the slide that shows the three brands together, I think that really portrays what we're getting from this. You can see here that from a dry batch plant perspective that's not an area that we as RexCon have really participated in very much in the past and Con-e-Co brings a great position within the market that gives us a better, broader portfolio of products and solutions.

BMH obviously also then has products that we pick up that adds to the portfolio. But, in addition what we get from the BMH folks is actually a stronger footprint on that product line in Canada. And, not only with concrete plants but then as you might know, most of our customers today, they may have grown up being asphalt plant operators or owners, but today because they've diversified their businesses well, they're also in the concrete space. And so, as we started talking to some of the customers of these brands and users for both Con-e-Co and BMH, we find that they're excited about Astec now being part of that brand as well because they recognize from their Astec asphalt plant or other products that we have a great reputation, we have the best-in-class service and so we look at the cross-selling opportunities in regards to how do we leverage that presence in Canada for the BMH perspective in order to have a better presence with asphalt plants there and other products as well.

In addition, some of the products that they actually have in market today will help us in the international markets and so it gives us a product portfolio that lets us expand more effectively into other regions of the world as well.

Q: Perfect. I agree with you on the cross-selling opportunities with the customers. I can't remember off the top of my head, do these get sold to the same distribution, same sales network, the asphalt as well as the concrete plants?

Barry Ruffalo – Chief Executive Officer
Yes, that's a great question. And so today everything that we've historically done with both asphalt plants and RexCon have been through a direct selling model. What Con-e-Co brings to us is some very strong dealer networks as well. And so, we've met with the dealers of Con-e-Co. We believe that there's some great value that they bring to the markets and so we look forward to working with them as well to leverage their relationships and their presence within those markets and pick the best of both worlds as we move forward to leverage what we do best direct and leverage what they do best through direct and come up with something that makes even more sense for our customers.

Q: Perfect. And then lastly for me, thanks for the historical information, just housekeeping is the gross profit that you're referencing there, was that GAAP or was that the adjusted gross profit that we're talking about on a go-forward basis?

Barry Ruffalo – Chief Executive Officer
Adjusted.

Q: Perfect. Thanks very much. Appreciate the time. Best of luck.

Barry Ruffalo – Chief Executive Officer
Thank you.

Operator
Thank you. Our next question is from Joe Mondillo of Sidoti & Company. Please go ahead.

Q: Hi, good morning. I hope you're doing well. As far as the backlog, how much of that backlog is expected to be delivered in say the third quarter, the second half of the year? And, as far as your comments that you made on July orders, was that the first month that you've seen a sequential improvement since the April shutdown?

Barry Ruffalo – Chief Executive Officer
Yes, so as we look forward, we've done a lot of work over the last many months to clean up the backlog. So, the backlog that we report today and the improvement that we see in July, we very much expect that the majority of that will actually be delivered within 2020. We are, on some of the larger capital equipment purchases, namely asphalt plants, already engaged with customers to start locking up commitments in the beginning of 2021. As you

know probably, Joe, many of these types of products require permitting and some level of engineering so it takes a little bit longer to get that through the process. But, generally we like the backlog. We think it's very clean; we expect to deliver most of it in 2020.

Relative to, from a sequential improvement perspective, our backlog has moved around a little bit here and there obviously as you can expect with some of the market conditions. But, we feel good that it's gone up and as I reported earlier with Mig's question, this is a quarter that's typically relatively soft for us and so any improvement we see on a month-over-month basis, we feel pretty good about.

Q: Okay. Regarding the cost, the strategy and the restructuring and everything that you've been doing, you made these two acquisitions, and you've done a lot structurally, in fact more than I even anticipated this quickly since your arrival. Where are we with the structural changes at the company? I just frame that given the fact that you are starting to make acquisitions. Are we done with the structural changes or are there still more to be had? I'm just wondering where we are with that.

Barry Ruffalo – Chief Executive Officer
Yes, I would say from a baseball terminology perspective, we're probably in the third inning. I think that we made a lot of changes and I'll give credit to the organization. As we talked about many probably quarters ago, one of the first things I did as coming on in the job, I traveled around and met with all the leaders and the decentralization that we had historically and the opportunity to group ourselves and structure ourselves really with two reporting segments, I think that was really driven by the organization. So, I'm really pleased with the pace that the company and the teams within Astec have taken to drive this transformation.

To support that, our customers have been very pleased with it as well. I mean they understand it. They see benefit from their perspective and so we're excited about that.

We, within the organization, we're always looking at driving improvement and making ourselves better and I think that's part of our new culture. We believe we're able to now focus on, from our product line, Rock to Road, so things that don't fit within that value chain, don't fit the strategy moving forward and so therefore allows us to make decisions about GEFCO and to make decisions about adding Con-e-Co and BMH because that fits. The GEFCO piece, unfortunately, doesn't fit our strategy and the Rock to Road strategy and the Con-e-Co and BMH clearly do. So, we feel good about the way we're structured as a company, both internally with the two reporting segments. We feel good that we have a good strategy in regards to what we're going to be as we go through time in regards to Rock to Road, and so that allows us to make decisions allocating capital pretty effectively.

Q: Okay. And then just lastly, just with the highway construction bill expiring in September, I believe it is, I'm not sure if that was pushed forward yet or not. I don't think it was. What are your thoughts on that? Is that just push it down the road to next year and maybe it'll get resolved so it's not a negative, not a positive? Just what are your overall thoughts with what's going on there?

Barry Ruffalo – Chief Executive Officer
Great question, Joe. You're right. The FAST Act actually ends in September and certainly a reauthorization of the FAST Act would be a nice shot in the arm to our customers and us as an organization to have confidence that there's going to be some spending as we move past that point in time. I think the great news is, as you probably know and others, Joe, there's a lot of dialog recently around infrastructure builds, both from the House and the Senate and Democrats and Republicans. The House Democrats identified and are talking about a $1.5 trillion infrastructure proposal. So, there's a lot of conversations, a lot of dialog around what that looks like past the FAST Act and the good news is that it looks like it has support from both sides, which I think ultimately is good for us.

And to me, with all that being said, we all know from just driving down the road ourselves, there's a lot of spending just in the US that needs to happen in order to get us to the right level of infrastructure health. Obviously, there's a lot of investments around the world that we're able to take advantage of as we continue to build out and support our international footprint.

And so, to me, it's not a matter of really if, it's more a matter of when. Whether that happens before the election or after, I think that right now we believe it's certainly a strong short-, medium- and long-term driver for us and we expect something to happen probably soon. I'm not going to put a timeline on it because I don't know. I'm not in those conversations but as I said, it's not necessarily a matter of if, it's probably a matter of when.

Q: Okay. And just to follow on to that, if the spending I guess gets pushed out to next year and deal with it after the election, is there a risk in say the six- to nine-month timeframe, especially particularly given budget constraints with state and local—at the state and local level that spending may slow a bit for a time period or maybe it slows in other parts of the budget and not so much in construction? What do you think of that?

Barry Ruffalo – Chief Executive Officer
No, I think it's a good question. I wish I knew a right answer to it. I think it is the point from our perspective is that we're prepared for anything and I think that we talked about the transformation efforts that we started in 2019 really give us that agility to be able to respond either way. And obviously revenue with states has declined but that isn't necessarily tied directly to transportation spending. So, I think it's a little bit of to be determined, Joe, but I think I feel really good that we're prepared for whether that swings back up or stays where it's at today. So, I don't have a great answer for you. I apologize but I do feel good about where we're positioned.

Q: I understand and appreciate the color regardless. So thanks a lot. Thanks for taking my questions and have a good day.

Barry Ruffalo – Chief Executive Officer
Yes, I think just to add one more piece to that. When you look at our performance in Q2 with the drop in revenue that we reported and improvement on the bottom line, I think it just shows that we're making good strides in our transformation, the teams are working hard, they're working at the right pace and I'm very pleased with the effort they're putting in to deliver the results that we did.

Operator
Thank you very much. Our next question is from Brian Sponheimer of Gabelli Funds. Please go ahead.

Q: When you mentioned being strong from a product standpoint either nationally or regionally, and you look at your portfolio, where are there opportunities to really grow and if you're thinking about what your size looks like when you get to one or two in the product categories that you want to be, what does that look like?

Barry Ruffalo – Chief Executive Officer
Yes, I think it's a good question, Brian. We obviously are one or two in many of the product lines we have today. There are certain product lines where we are not. As we move through the rest of this year, we're doing a lot of strategic planning around where those gaps are and I'm not probably going to speak specifically to where those gaps are because obviously those are things that we need to strategize and then decide whether we want to attack them through developing products on our own or through acquisition and I wouldn't want to give you too much information or give the market too much information on that at this point in time anyway.

So, there are areas where we have room for improvements. We're going to address those as move through the rest of this year and in 2021, and the team is excited about it and put a lot of hard work in there right now to help put the analysis together to determine from a value chain perspective if they're going to be accretive to our business. Certainly, any time we look at those types of gap-filling opportunities through acquisition we always want to put them through our strategic filters, which we've now identified. We want to make sure we understand where we're at from a leverage point relative to EBITDA and debt. We still have the long-term financial metrics that we're aspiring to achieve, and so all those things will force us to have a very disciplined approach to determining whether we should or shouldn't enter into gap-filling opportunities.

Q: Yes. So, if you're thinking about that and obviously with the balance sheet in great shape, would an acquisition as chunky as $50 to $100 million outflow be first of all something that you'd be interested in and would that fit within where you want to keep the balance sheet?

Barry Ruffalo – Chief Executive Officer
I think that there are going to be opportunities. They're going to be larger, and to your point, chunkier than what we just actually did a transaction on, and we're definitely looking at all different sizes of deals. So, I wouldn't count anything out but we certainly want to be disciplined, as I talked about with the filters and if we do a larger deal, obviously we want to be very comfortable that we see forward to make sure that we have good cash generation, we grow the bottom line more than we grow the top line. We're not going to do deals just to grow sales. We want to make sure that the deal actually has value that we can actually then deliver to our shareholders.

And so we know that the range we've established, 1.5 to 2.5 times EBITDA to debt that's a range. There's going to be times when we're going to like now be much below that, or there's going to be times where we're going to be above that, but that's the range that we expect to operate in regardless of the size of the deals on a regular basis.

Q: Understood. Best of luck for the balance of the year.

Barry Ruffalo – Chief Executive Officer
Thanks, Brian. We appreciate your support.

Operator
Thank you. There are no further questions in the queue. I'd like to hand the call back to Stephen Anderson for some closing remarks.

Steve Anderson – SVP of Administration and Investor Relations
Alright. Thank you, Chris. We appreciate your participation on this conference call and thank you for your interest in Astec. As today's news release indicates, today's call has been recorded. A replay of this conference call will be available through August 19, 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 7 days. All of that information is contained in the news release that we sent out this morning.

This concludes our call, so thank you all and look forward to connecting with some of you with follow-up questions later. Have a good week.

Operator
Ladies and gentlemen that does conclude today's teleconference. Thank you for your participation. You may disconnect your lines and have a wonderful day.