Transcript of
Astec Industries, Inc.
Second Quarter 2021 Earnings Call
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Participants

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Barry Ruffalo - President and Chief Executive Officer
Becky Weyenberg - Chief Financial Officer

Analysts

Mircea Dobre - Robert W. Baird & Co, Inc.
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Lawrence De Maria - William Blair & Company

Presentation

Operator
Hello and welcome to the Astec Industries, Inc. Second Quarter 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. Mr. Anderson, you may begin.

Steve Anderson - Senior Vice President, Administration and Investor Relations
Thank you and welcome to the Astec second quarter 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 highlights, and then, Becky will summarize our financial results. Before we begin, I'll remind you that our discussions this morning may contain forward-looking statements that relate to the future performance of the company. 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 filings with the SEC. As usual, we ask that you familiarize yourself with those factors.

In an effort to provide investors with additional information regarding the company's results, the company refers to various GAAP, which are United States Generally Accepted Accounting Principles and non-GAAP financial measures, which management believes provide useful information to investors.

These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP. And therefore, are unlikely to be comparable to the calculation of similar measures for other companies. Management of the company does not intend these items to be considered in isolation or as a substitute for the related GAAP measures. Management of the company uses both GAAP and non-GAAP financial measures to establish internal budgets and targets, and to evaluate the company's financial performance against such budgets and targets.

You should also note, 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. All related earnings materials are posted on our website at www.astecindustries.com, including our presentation, which is under the Investor Relations, in Presentation tabs.

And now, I'll turn the call over to Barry.

Barry Ruffalo - President and 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 earnings results. I'll begin by acknowledging our team for another quarter of strong execution against the backdrop of evolving market dynamics, including increasing customer demand, inflationary pressures, and a disruptive supply chain, and a tight labor market.

I continue to be impressed by their ability and dedication as we provide our customers with superior service and innovative industry-leading technology solutions.

Today, I will start by discussing key highlights and drivers of our performance and then provide an update on our operations and supply chain. I will also discuss what we're seeing in terms of demand and current market dynamics before turning the call over to Becky for details on our financial results. Then we will highlight progress made on our strategic transformation and open the call for Q&A.

Turning to Slide 4, we had solid second quarter performance and sales up nearly 5% and adjusted gross profit up approximately 9% compared to the second quarter of 2020. The second quarter also marked another period of record backlog which is up 140% year-over-year. We were able to achieve these results while addressing many headwinds.

We remain focused on mitigating these headwinds to through the pricing and talent initiatives we have in place. Second, we continue to provide our customers with industry-leading technology solutions that deliver value through our OneASTEC approach from Rock to Road. We are focused on delivering differentiated solutions to meet strong and increasing customer demand and sentiment remains positive through 2021 and into 2022.

Third, we are positioned for future growth with our streamlined organization structure and strong balance sheet. Our ability to execute through a variety of economic situations is a testament to the foundation we have built and our focus on driving operational and commercial excellence across the organization.

Fourth, our strategic journey to Simplify, Focus and Grow continues with our transformation program, which now also include digitizing the company. The primary goals of this program are to reduce complexity, improve productivity, and embed continuous improvement and processes across Astec.

Looking forward, we will leverage the strong foundation we have built under our Simplify and Focus pillars to further grow our business. A number of organic growth initiatives are underway and I will share more details about these later in the call.

Lastly, we remain focused on executing our strategy of driving a culture of operational excellence and sustainable profitable growth. This in turn will create long-term stakeholder value. We are still in the early innings of this transformational journey and have many opportunities ahead of us.

Moving on to Slide 5. As many of you know, during the quarter we launched a rebranding initiative to unify our organization and make it easier for customers and dealers to do business with Astec. Our rebrand is more than just a look. It enables us to build strength together under one common name and purpose of being "BUILT TO CONNECT." Our rebrand initiative is in line with our strategy to Simplify, Focus and Grow Astec, as we service our customers more effectively and provide them with value in a more sustainable way.

Our Astec rebrand initiative coincides with our OneASTEC business model, which we show on Slide 6. Our business model's competitive advantage enabling us to provide a strong value proposition serving our customers from Rock to Road. We're optimizing revenues within our footprint, leveraging global capacity to reduce lead-times and maintain flexible operations to adapt to changes in demand.

We actively manage our supply chain for constraints and volatility, and have ongoing conversations with our suppliers to manage long-term risks. Despite these efforts, we are not immune to disruptions caused by the recent surge in global demand. And we continue to identify multiple supply sources in the anticipation of further tightness going forward.

Moving on to Slide 7, I will discuss some of the key industry dynamics we're seeing impacting our business and what we're hearing from our customers.

As a strengthening economy indicates, we continue to be in an upcycle in North America. Strong residential real estate demand is often followed by gains in non-residential construction, which creates the opportunity for our customers to build more roads, bridges and parking areas. We continue to see strong demand for our products, driven by favorable industry dynamics including pent-up demand from the pandemic. Customer sentiment remains positive through the remainder of 2021 and into 2022.

We see growing optimism for increased U.S. infrastructure spending given the recent bipartisan support for a multiyear infrastructure bill. While an infrastructure bill will provide a tailwind to our business, as I've mentioned before, we're not a company that's waiting around for a bill to be passed. We see significant near-term demand for our products, and we have initiatives in place to drive organic and inorganic growth.

As expected, labor shortages and inflationary pressures persisted during the second quarter. Though challenging, we have made progress in our labor front, and have enacted numerous initiatives to retain and attract employees. Our team is core to who we are, here at Astec. And we know the investments we make in our people will pay dividends to organization and our stakeholders.

Regarding inflation, we continue to see higher commodity costs particularly in steel and logistics. To mitigate the impact of steel inflation, we continue to drive our operational excellence programs, strategically pass on price increases when necessary.

Turning to Slide 8. Here we highlight some of our key environmental, social and governance initiatives. ESG continues to have prominence across the Astec. Beginning at the top, we have continued support from our Board of Directors. But we are still in the early days of our journey, I'm excited and proud of the progress we've made today.

In summary, during the second quarter, we continue to see strong customer demand along with the headwinds of inflation and tight labor markets. We have taken actions to mitigate the headwinds which we expect to persist through 2021. I'm encouraged by the positive sentiment of our customers and the resilient demand for our products as showcased by our record backlog.

We continue to adapt to the changing market situations remain positioned to serve our customers with OneASTEC. While in the early stages of our transformation, I am proud of our team's accomplishments, and look forward to the future of Astec, as we continue to provide profitable growth and long-term stakeholder value.

With that, I will now turn the call over to Becky to discuss our 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 10, second quarter revenues increased 4.8% to $278 million compared to the prior year quarter. Equipment sales increased 3.6%, while part sales increased 18.9% compared to the prior year period. The sales increase was primarily in the Materials Solutions segment driven by higher parts and international equipment sales with increased activity in Europe, Canada, Mexico and Australia.

Our backlog increased an impressive 140% to over $436 million at quarter end, driven by higher Materials and Infrastructure Solutions orders, which were up 200% and 99%, respectively. Higher orders were driven by strong demand both domestically and internationally.

Adjusted EBITDA decreased 14.2% to $21.7 million compared to $25.3 million in the prior year period, and adjusted EBITDA margin declined 170 basis points to 7.8% compared to the prior year period. The margin decline was primarily driven by increases in personnel costs, travel, commissions and transformation initiatives, which were partially offset by manufacturing efficiencies.

As noted in our news release this morning, beginning with the second quarter of 2021, we will exclude certain costs associated with a Simplify, Focus and Grow initiative from the presentation of adjusted net income attributable to controlling interest, adjusted earnings per share and adjusted EBITDA. We've adopted this change to remove costs that are not representative of our ongoing operations. Adjusted SG&A expenses increased 23.1% on a dollar basis, primarily due to an increase in personnel, travel, commissions and transformation initiatives.

Adjusted earnings per share decreased 26.9% in the quarter to $0.49 compared to $0.67 in the second quarter of 2020. Net of tax, second quarter adjusted earnings per share included $2.2 million, or $0.10 of transformation, restructuring and other costs, including $2.1 million of costs associated with our ongoing transformation program.

Our adjusted net effective tax rate for the quarter was 21.1% driven by the timing of tax credits, which resulted in a $0.03 negative impact to our earnings per share. Our expectations for the full year tax rate in 2021 are in the 19% to 20% range.

On Slide 11, we detailed the key drivers of our year-over-year adjusted EBITDA margin contraction of 170 basis points. As mentioned previously, adjusted EBITDA margin contraction was primarily driven by inflation, centralization and transformation efforts. As Barry mentioned earlier, we have implemented price increases to help offset the impact of inflation. We anticipate further price increases through 2021 to continue to offset rising costs.

Moving on to Slide 12, our Infrastructure Solutions business revenue decreased slightly to $180.2 million in the quarter, mainly due to manufacturing challenges. This was mostly offset by a 97% increase in international sales and the added benefit from last year's acquisitions. Gross profit decreased 1.5% to $39.6 million in gross margin decreased 10 basis points to 22%, primarily driven by product mix and commodity inflation. Backlog at the end of the quarter increased 99.4% to $108.5 million, as we continue to see strong demand for highway and road building construction products.

Turning to Slide 13, our Materials Solutions business revenues increased 17.3% to $97.8 million compared to the same period a year ago, driven by increased demand across product lines and regions, with international sales up 51% and domestic sales up 6% versus the second quarter of 2020. We were very pleased with the performance of the group this quarter as they build momentum operating as OneASTEC.

Gross profit increased 29.2% to $27.4 million in gross margin increased by 260 basis points to 28% driven by improved volumes and factory absorption. Backlog at the end of the quarter increased 200% to $145.7 million driven by strong market activity. And on Slide 14, I won't go over the details, but we highlight the year-to-date results and provide some color for your reference.

Moving on to Slide 15. We have a strong balance sheet with minimal debt. We continue to generate positive cash flow from operations and have a net cash position of over $174 million. Overall, we have available liquidity of $325 million, with only $1.6 million in total debt as of June 30, 2021.

As a reminder, while we are not leverage today, we will strive to operate in the range of 1.5 to 2.5 times debt-to-EBITDA on a long-term basis. And there could be times when we will be leveraged over or below this range. 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.

Slide 16 is a reminder on our capital deployment framework. 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. Importantly, we remain committed to funding the dividend.

On Slide 17, an overview of our strategic and disciplined approach to M&A as provided. We remain focused on acquisitions that align with our strategic filters and financial criteria to support our growth pillar.

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

Barry Ruffalo - President and Chief Executive Officer

Thanks, Becky. On Slide 18, we highlight the 3 pillars of our strategy for profitable growth, Simplify, Focus and Grow. Over the past 2 years, we have made significant progress to simplify our business and focus on value creation. These actions have enabled us to unify organization make it easier for our customers to do business with us, leverage our global footprint and flex operations as needed to help meet increasing demand.

Second, the actions we have taken to focus the business have enabled us to strengthen our customer-centric approach, drive commercial excellence, streamline processes, and instill like performance-based culture.

We are leveraging the strong foundation we have built under the Simplify and Focus pillars to grow the business. We are positioned to capitalize on global growth opportunities as we continue to reinvigorate innovation and leverage technology to unlock internal synergies and enhance the customer experience.

Continuing with our Grow pillar on Slide 19, we highlight some key organic growth opportunities we see across our business. We expect our initiatives for these opportunities will drive approximately 5% year-over-year organic growth over the long-term. We see organic growth opportunities in our International business and continue to gain traction as evidenced by International sales up 76% year-over-year.

Secondly, we see opportunities to drive growth in our parts and services business. Our second quarter results demonstrate our progress with parts sales up 19% year-over-year. We are focused on new product development to drive organic growth. We have a streamlined effective process to bring products to the market that add value for our customers.

Recent product launches such as the Shuttle Buggy 3000 have shown great success, and I'm confident in our team's clear vision around new product development. Other examples of organic growth opportunities include expanding our dealer distribution, cross-selling our products that enhance our relationships with strategic accounts. We will expand these relationships with our OneASTEC Rock to Road value proposition.

Slide 20 highlights some of our major milestones we're executing against in our transformational journey and the progress we have made to date. As I mentioned previously, we made progress on our Simplify pillar during the second quarter, as we launch the rebrand of organization. This will make doing business with Astec easier for dealers and customers.

Under focus, our operational excellence initiatives grow results and help mitigate headwinds presented by inflation in a challenging labor market and position us for growth moving forward. As I mentioned previously, we continue to have a number of organic opportunities to grow our business. We're driving innovation and technology to provide our customers with industry-leading technology solutions that provide value.

Significant progress has been made on our transformation strategy. However, we are still in early stages of our journey. I look forward to updating you as we move forward.

I'll conclude on Slide 21 with our key investment highlights. Our solid second quarter results are a testament to the dedication and adaptability of our entire Astec team. I am proud of our team's accomplishments during the quarter and in the midst of evolving market dynamics. We continue to execute our strategy.

As we transform and position our business for growth. We remain focused on providing our customers industry-leading solutions to deliver unparalleled value. Further, our superior customer service, leadership positions with an attractive niche market and a culture of continuous improvement position us well to capture future growth opportunities.

Lastly, we remain committed to our 2023 targets of 10% to 12% EBITDA margin, and greater than 14% return on invested capital as highlighted in December 2020 Investor Day. I'm excited for the future of Astec, as we continue to focus on driving profitable growth and long-term stakeholder value.

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

<u>Operator</u>
Thank you. The floor is now open for questions. At this time, we'll take our first question from Mig Dobre with Baird. Please go ahead.

Q: Thank you for taking the question. Good morning, everyone.

Barry Ruffalo - President and Chief Executive Officer
Good morning, Mig.

Steve Anderson - Senior Vice President, Administration and Investor Relations
Good morning.

Becky Weyenberg - Chief Financial Officer
Good morning.

Q: You spend quite a bit of time talking about the inflationary environment and, obviously, those various challenges in the supply chain. I guess, I'm looking for maybe some context in terms of how you see things developing going forward, the back-half of the year. And in 2022, are things getting more challenging? Or worse? Are they getting better? And as it pertains to Slide 11, the adjusted EBITDA margin bridge, you call out nearly 700 basis points of inflation. Obviously, that's quite a bit. I'm curious as to how you think this progresses in the back half of the year.

Barry Ruffalo - President and Chief Executive Officer
Mig, good morning again. This is Barry. Thanks for the question. I would say looking forward, Q2 for us, from a kind of a supply-chain perspective, was certainly rougher than Q1. I think that what it looks moving into Q3 and Q4, and into 2022, is really yet to be determined. What I will tell you is, because we put in the procurement group, starting in 2019, and strengthened that professional level, that's helped us quite a bit as we've entered in these times.

So, I really applaud the team and the procurement group and the operations folks in allowing us to get the results that we have. I mean, in some cases, it's a day-to-day fight for them. But I think the good news is we're looking forward. We're staying engaged with our procurement partners, suppliers and making sure that we're getting as much of a view on a long-term basis. And obviously, adding in redundant type supply chain partners, where necessary in critical components.

So, I don't have a real good crystal ball to be able to explain what's going to happen moving forward. But I am convinced, and I'm confident that our team has a good level of visibility, and we're managing through it to the best of our ability.

Hopefully, as the world opens up, I think there's going to be more demand for components as well, but I think we're in the right spot, we're dealing with it. We're not immune to big disruptions like everybody else. But I am proud of the team and the effort they're putting into it.

When I think about the inflation piece, Mig, the majority of that is really steel related, steel related and then transportation and logistics, and then other components. And so, I don't see that necessarily changing anytime soon. Obviously, you can read other reports like we do, Mig, and you can see that there is some sentiment that maybe the steel drops off in 2022. But, that's quite a ways away today, and obviously, with potential infrastructure bill, what does that do for demand, and then what happens with steel then.

I think, ultimately, we need to continue to drive our operational excellence programs. We need to continue to drive through that to become more efficient in our facilities and manage our cost structure. And we have a lot of projects, already underway, and for over the last year and a half, they will do that, and then obviously, continue to manage our pricing. And I think if we continue to do that, as witnessed really within the Materials Solutions group this last quarter, we can find ways to stay profitable at the right levels.

And so, that's what our team is focused on. And, we're keeping the right level of visibility and have good action plans in place to mitigate and offset.

Q: But do you have, because I mean on Slide 12 you call out manufacturing challenges impacting infrastructure sales. So I'm trying to understand if there are things like component shortages and the like that are actually impacting your ability to convert your backlog into revenue and deliver right?

Is this dynamic, based on what you hear from your supply chain people, is this dynamic getting worse into Q3 or not?

Barry Ruffalo - President and Chief Executive Officer
I would say the biggest constraint on us converting backlog right now is labor. And, we've had improvement from Q1 into Q2. But it still continues to be our biggest constraint. Yes, we are talking more about supply-chain type items. It's more of a topic in our conversations in our different meetings we're having, Mig. but it's not necessarily something that's constrained our ability to produce and convert backlog to revenue at this point in time.

Q: Okay.

Barry Ruffalo - President and Chief Executive Officer
It probably has the bigger impact, Mig, on the margin profile than it does on our revenue. Our revenue is really constrained by our ability to get product through the facilities due to labor.

Q: I see. So it's labor availability, and then obviously, the raw material inflation, which you kind of call out that said, that you're sort of having to deal with. On the pricing side, maybe you can provide a little bit of commentary as to what you've done thus far this year. I'm curious if there are differences between the 2 segments and kind of how you're thinking about pricing going forward, because, again, looking at this adjusted EBITDA margin bridge, you have 500 basis points from volume pricing and mix.

I mean, it's not just price that's in there, and at this point it is still kind of lagging inflation. So how are you thinking about this going forward? And at what point in time do you think you're going to be caught up with inflation?

Barry Ruffalo - President and Chief Executive Officer
Good question. Thanks, Mig. When I look at that column with volume and pricing, I would say it's pretty equally split between volume and pricing. I've said this before, when we see steel, for an example, go up in our cost structure, we're not worried about that, if it's a gradual increase.

But as you know, it's been fight. And, it's hard for anybody. And certainly, I'll speak to us to get ahead of that, when it spikes so fast. Obviously, with the backlog that we have. And so we're catching up. I feel pretty good about where we're at. We talk about steel on a regular basis. We're trying to be smart about how we actually buy steel, to try and protect our material margins, and to make sure we have built into our pricing and through our quoting processes.

And so. I feel like we're in a pretty good place right now, Mig, in regards to that. And, of course, as I said earlier, we are driving a lot of operational excellence, continuous improvement to try and help offset the gap that we have from the pricing and cost perspective.

Q: So, sorry to press you on this. But when do you expect to be caught up? Is this a 2022 dynamic? And it happens sooner than that? I'm just not clear as to how flexible your pricing is through the year. I mean, do you just have one price increase at the beginning of the year? Or are you more dynamic than that?

Barry Ruffalo - President and Chief Executive Officer
No, we're a lot more dynamic than that, Mig. We've done 5 price increases year to date. And, I think when you look at the pricing presets, and how we manage pricing from Infrastructure Solutions to Materials Solutions, there is a little bit of a different twist there in regards to the Materials Solutions is all through a dealer.

In a dealer situation, obviously, they're looking at filling out their fleets and their inventories on their yards and also having a retail So, anything that doesn't have a customer name on it, we've been pretty adamant that we've taken prices up on those types of orders, even some that did have customers' names we've done as well. So I think we're pretty dynamic, Mig, in regards to what we're able to pass through.

And on the Infrastructure Solutions side, a big component of that would be more of our direct sales. And, we've been pretty successful there as well, passing through pricing, and also managing our discount structures at the same time. But I will say that we are dynamic, we're going to continue to be dynamic. And everything we've done is really price list changes, no surcharges, if that helps with color as well.

Q: No, it does. Okay, I'll get back in the queue. Thank you.

Barry Ruffalo - President and Chief Executive Officer
Thanks, Mig.

Operator
Our next question comes from Steve Ferazani with Sidoti. Please go ahead.

Q: Good morning, Barry, and good morning, Becky.

Barry Ruffalo - President and Chief Executive Officer
Hi, Steve.

Q: I want to follow-up a little bit on some of your comments with previous questions specific to labor. And I know this is going to be a hard one to answer. But can you quantify at all, how much revenue you didn't generate in the quarter simply, because you didn't have the labor to fulfill orders? Because what I'm trying to think through is once you do catch up on that front, what simply that can do to generate higher quarterly revenue in the future?

Barry Ruffalo - President and Chief Executive Officer
Good morning, and thanks for the question. That is a difficult one for us to answer. I mean, it's toughened, because if we were able to put whole shifts on, for example, Steve, at a time. That would be one answer. If we're able to incrementally go up by 5, 10 heads, within a department, that's different. So, it's a difficult one, I can tell you that, obviously, we're driving. On one hand, we'd love to have the backlog. But the other hand, I'd rather have that backlog converted into our customers' hands. And so, we're striving to try and make that happen, as efficiently and as effectively as we can buy.

I think, one thing that's helped us, Steve, quite honestly, is now that we've gone to the OneASTEC business structures and operating model. We share capacities and resources much more effectively today than we have and not only just in the United States, but globally. And I think that's helped us offset some of the long lead times. And so, I'm really proud of the teams, wasn't that long over were 16 independent companies. And the fact now that we're sharing capacities, and moving material between sites and moving people, it's helped us tremendously. And I think that will only get better as well, Steve. So, I think there's some good positives for us as we continue to kind of build out that OneASTEC operating model.

Q: That's helpful. But how are you in terms of labor recruitment and retention now versus 3 months ago, getting any easier? As you get people through the door? Are you able to keep them and train them, if you can just walk through that process a little bit, because, obviously, we're hearing this across the board?

Barry Ruffalo - President and Chief Executive Officer
So we're up about 240 people on a year-over-year basis, Q2 to Q2, Steve. So we've had some success. The turnover is higher than we'd like. It is hard to retain people, and it's also, as you know, hard to hire people. So, I think we're making progress, we're trying to stay up, or we're trying to also do it in ways that doesn't necessarily change our cost structure on labor, so most of that is through incentives and bonuses for attracting and retaining people.

So I can't give you a lot of detail on that, but I know that whether it's the way we advertise, the way we attract people through other different methods. And in the way we're using our cash that to bring him in, it's should be at this point in time anyway, more onetime expense versus something we're going to live with forever in regards to salaries and pay wages. But, that's where we're at today. As I've talked to different CEOs and different members of Congress, obviously, the idea is that when some of the – even…. I just had the conversation today with a Democratic and Republican Congressional members together. And they both agree that as some of the stimulus goes away, people will go back to work.

So, we're trying to do the best we can now and looking forward to the time, when that labor force is ready to get the work, and it is really kind of spotty, Steve. So, we've got some sites that are able to hire more than others, but every one of our sites have a significant backlog today. So, we have to keep pushing to all of our sites to try and continue to get as many people as we can, train as many people as we can. We're going into high schools, under regulated programs in order to try and find folks that want to start working and start to build a career at Astec, as they come out of high school. So we're doing everything locally that we can in order to attract and retain and train people as part of our workforce.

Q: Great. Thanks, Barry. I appreciate the time.

Barry Ruffalo - President and Chief Executive Officer
Thanks, Steve.

Operator
Our next question comes from Larry De Maria with William Blair. Please go ahead.

Q: Thanks. Good morning. I wanted to check in ERP costs, I think it's up to $5.3 million for the year, I think it's a little higher than expected. So can you just give us an idea of what to expect for this year, and it really frankly for 2022, because I think this is a multiyear journey. And then related to that is $55 million, the new SG&A run rate into the back half or should revert back to the lower that $53 million to $54 million, I think, you were originally expecting?

Becky Weyenberg - Chief Financial Officer
Hi, Larry, this is Becky, I'll tackle that one. $5.3 million year-to-date is very much in line with our expectations, and we actually should see that grow. We're putting our arms around the totality of the overall program over the multiple years that this will be rolled out. This will be rolled out in waves. So, we don't have that number for you today, but it's more than just the ERP, there's multiple enhancements that are in that program.

And so, we should expect that the run rate will continue to remain at the current range, as we continue our centralization infrastructure efforts, which will create efficiencies that are able to create scale with each of the sites coming online. As I said, this loss has happened in waves, and we're being very thoughtful as we bring in each site. And so, we're making sure we have the right manpower infrastructure in place to make it excellent as possible.

Q: Okay, thank you. And then 2 other ones here. The Mequon facility is that I didn't hear you mentioned that. But I know that obviously the labor issues which you talked about broadly, is Mequon sorted out? Or is that still an overhang? And then to the original question about pricing backlog, you went through some color? But can you give us a handle on how exposed we are pricing the backlog? Is it you feel good about half 3 quarters of it, and we're exposed on a quarter to fluctuating prices? Or are we mostly locked in, we just want to understand the risk of the backlog which has obviously grown significantly?

<u>Barry Ruffalo - President and Chief Executive Officer</u>
Larry, good morning. This is Barry. On the Mequon restructuring, yes, we've been out of that site, we've actually sold the site. We've moved the production to 2 or 3 different locations. As we mentioned to your reference, Larry, in Q1 that was a little bit of a drag on us as we move material and such and demand and not having the labor. So, I feel that obviously shows up in our Materials Solutions business. And so, we feel good about our performance, Q2 Materials Solutions. And so I think the team has done a phenomenal job, certainly from Q1 into Q2 to really leverage that as best as possible. So, I'd say that we're in much better shape now relative to that facility transition than we were in Q1, which was great.

On the pricing and backlog. Our backlog is pretty long. In some cases, we're out a year. And so we're not fully covered. But we're using every mechanism we can to try and make sure that we're buying steel at the right price, and then using our price initiatives to go out and cover as much of that material increase as possible. So, there is some exposure there to be very transparent with you. But quite honestly just been some exposure through the first half of the year as well. And I think we've done a good job of managing that.

Q: Thanks, Barry. If I just follow-up on that then, if we get infrastructure bill, and we get a revamping of the highway bill, presumably, and strong market for your stuff going forward, this backlog that goes into next year? Will you revisit surcharging and pricing if the demand is that strong at some point, obviously, Astec shouldn't have to eat it all, right?

<u>Barry Ruffalo - President and Chief Executive Officer</u>
I think, we're really sensitive, obviously, we're aiming our customers, I mean, long-term customers, we've got a great history and a lot of respect with them both directions, and they're very wise. So, I think that, we've been successful so far, I would expect that that would continue. And certainly, in the environment you just explained, obviously, they're doing well, too. But, we want them to continue to be profitable and make money and they want us to be the same. So, I think, we've been able to work through those tough conversations pretty effectively. And, as I mentioned, Larry, that's what we're going to continue to do moving forward.

Q: Okay. Thank you, all

<u>Barry Ruffalo - President and Chief Executive Officer</u>
Thanks, Larry.

<u>Operator</u>
We will turn to Mig Dobre with Baird. Please go ahead.

Q: I just couldn't get enough, guys. So, I figured I'd come back from…

Barry Ruffalo - President and Chief Executive Officer
No. We look forward to your questions, Mig. Go ahead.

Q: Can you talk a little bit about demand? I mean, I'm looking at your infrastructure orders, and, yes, your backlog is up year-over-year, that's true. If I'm looking at implied orders, though, down sequentially quite a bit, and really only up about 8% relative to the second quarter of 2020. So give us a sense for how you sense demand evolving here. Why we're sort of seeing this sequential volatility or sequential decline really relative to the prior quarter? Is this lumpiness? Is there something else, or going back to that question on infrastructure? Is there enough uncertainty surrounding this bill and surrounding the FAST Act, that you're simply seeing some hesitation in terms of where your customers that might be at this point?

Barry Ruffalo - President and Chief Executive Officer
Mig, thanks for the question. So, I would say customer sentiment is very positive, our dealer sentiment is very positive. And some of what we saw in the quarter that implied order line was really around some seasonality sequentially. Typically, you'll see a little bit of softness in Q2, which historically, Mig, equates typically into Q3 being a little bit lower on a revenue basis for us as well. And so, there's a little bit of that going on, I mean, customers are busy, not only that, but as I talked to them, in my visits to customers, I was with many customers over the last couple of weeks, and they're all talking about rain. And, what rain does is, it starts to put pressure on them that they're trying to get everything done that they can when it's not raining.

So there's a heightened level of activity in the market right now in regards to getting projects completed in a process. So I'm not worried about lower implied order rates in Q2, the sentiment is very strong, and I expected to be healthy for a period of time. I think, when it comes to the infrastructure bill, Mig, these customers, I mean, they're generational businesses. And so they've been around long enough to know been part of going back and forth an infrastructure bills.

And, I think, as we've said, a couple of times now, Mig. Our customers had a record 2019, and with a pandemic, they had a record 2020, on top of 2019, and they're doing well in 2021. So, they're well positioned to continue to spend that capital. And with our Rock to Road value chain that we get to participate in all aspects of it from the crushing, screening and the plants and all the accessory equipment, and then obviously, with the road construction equipment as well. So, we're well positioned.

Q: Okay. So, it's more of a timing issue, I mean, I'm implied to me from your comments is that you expect orders here to get better at a point in time, before year end?

Barry Ruffalo - President and Chief Executive Officer
I think that the order flow, I mean, take out to Q2 blip in the infrastructure, I think, they will continue to be in good shape. I'm not worried about a decline in orders at this point in time.

Q: Okay. You mentioned that revenue in infrastructure would be perhaps a bit down sequentially in Q3. So, I'm sort of curious as to how you're thinking, maybe provide a little more perspective there, Q3 and Q4 revenue, because you do have a good amount of backlog. So presumably, it's just about kind of conversion here. And some of the labor issues you talked about earlier? Can you help us out with how do you think about revenue?

Barry Ruffalo - President and Chief Executive Officer
I would look at it this way, Mig. When it comes to, there's a couple of different ways to look at this depending on which product line in which parts of the business, when it comes to the Materials Solutions side and our dealer network that's really about throughput and just getting product through our facilities and to our customers and dealer's hands. And when it comes to the road construction equipment, of course, that's very much the same. It's really around throughput, when it comes to the plants, Mig, that becomes a little bit different story, because that's just not us putting the product through our facilities, but it's also has to do with our customers readiness, whether that's through the permitting or resource capability or availability on the sites.

And so we're a little bit handcuffed with our customers, if they're not ready to receive a plant, or they're not ready to do a drum replacement, then we just can't ship to them. And so that's a little bit of what happened in Q2 along with the throughput issues that we talked about. But when you look forward to Q3 and Q4, Q3 from a plant perspective, is typically a softer revenue quarter for us, because of what I just said, they're not interested in doing installations of plant equipment in Q3 that would start to pick up again in Q4, and certainly into Q1.

So, I think, we'll still see a little bit of that seasonality, Mig, especially on the plant side. But it may not be as much as we would in a legacy type year, because we do have that backlog. And some of that will shift then we'll be able to produce more of that than we maybe would in previous years, if that makes sense.

Q: No. I think it does. I appreciate the color there. My final question is on Materials Solutions gross margin in the quarter, 28% quite good and really good contribution margin on that revenue growth. Is there anything that we need to be aware of in terms of onetime items that might have helped this quarter mix anything that needs to be called out, because the follow-up here is, if there's not anything, that's one time in nature, then with this level of gross margin be sustainable in the back half of the year? And that's it for me. Thank you.

Barry Ruffalo - President and Chief Executive Officer
Thanks, Mig. I'll start and then, Becky, if there is anything to add, you can jump in. First, I want to take this time to really applaud our team, because up until a year-and-a-half ago, this was a very decentralized part of our business. And, we've had to make some tough decisions within that part of our organization, and so I really applaud the teams in regards to their effort to continue to really drive the OneASTEC operating model. I mean, this is the part of our business has probably had to do that more than others and for different reasons.

And so, they've done a great job of sharing backlog, sharing demand, sharing resources. And I think all of that starts to roll up on top of the pricing actions and operational excellence programs we have in place, to really start to show a little bit of what that capability and what the value is of that.

So that's been an adjustment for our organization, but I'm proud of the fact that they've adopted it, and are starting to see some of the rewards from the hard work and buy in. Are we going to run 28% margins for the rest of the year? I'm not going to commit to that, because there are too many unknowns relative to, back to the supply chain, and labor turnover, and those types of things.

But I think it starts to show you that the efforts and the transformation that we're going through as a company, can really get some legs when it comes together. So I'm not ready to commit to that on a short-term basis, but I'm excited about what that opportunity really represents on a long-term basis, and really helps us get towards that 10% to 12% EBITDA margin goal that we've put in 2023.

Becky Weyenberg - Chief Financial Officer
And, Mig, I want to add a piece of color there. They plan for fluctuations quarter to quarter based on volume. So, what really gave them a record gross profit for the month was the extra volume. And some of that was a lag from the first quarter. So when you look at Q1 and Q2 together, they're right in line with our expectations. And we expect that, obviously, we could see some noise, Q3, Q4, quarter to quarter, but on a full year basis they're very much going to be in line with our expectations.

Q: Then to clarify, there is nothing unusual in this 28% margin. If volume is, call it, close to $100 million in revenue you should be able to generate these sorts of gross margins, all else equal.

Becky Weyenberg - Chief Financial Officer
All else being equal, yes.

Q: Okay, that's it for me. Thank you.

Barry Ruffalo - President and Chief Executive Officer
Thanks, Mig.

Operator
For our next question, we'll return to Steve Ferazani with Sidoti. Please go ahead.

Q: Thanks for taking a couple more questions. I wanted to ask about the international front. Last quarter, you had highlighted the negative impact some of those orders had on margin, because it was sort of those lower margin projects as you try to enter a new market or expand in the new market.

We saw international sales and backlog up this quarter. Did you see that sort of stabilize in terms of margin how you're thinking about those international orders moving forward?

Barry Ruffalo - President and Chief Executive Officer
Yes, Steve, that's a great question. And, yes, so I mean as I talked about the impact on Q1, we really saw that as a onetime event. And so, we are happy that in Q2, as we grow our international

business, as you can see in our backlog and in our revenues, I mean, that is a very attractive part of the business for us. And, we're going to continue to drive growth there. Both in the product specification side of it, but also making sure we have the right supply chain, and really happy with the team's performance there to take care of international customers, and see some good value creation from that part of our business.

Q: Great. And just to get one last one in, in terms of how you think about prioritizing backlog, is it purely a matter of where the order is at the plant, where they have time, where you have components? Or is there any sort of prioritization based on the importance of a customer? Or the margins you can get out of shortened orders?

<u>Barry Ruffalo - President and Chief Executive Officer</u>
That's a good question. I would say, our first and foremost is when we sign an agreement and a purchase order with a customer, there's typically an expected delivery date. And that's what drives our priority. And we typically don't really sway from that. I think obviously our customers know that our capacity at this point in time is limited. And, yes, we do hold some slots for things that come up to make sure we can take care of urgent type needs.

But generally, our customers recognize now that if they're interested in replacing equipment or plants that they have to get the orders in, in order to get that slot. And so, we don't do a lot of moving around based on prioritization. Obviously, there are always things that our plant guys will do to try and optimize what they see as far as parts availability and those types of things.

But there, we need to make sure that we're doing a good job of communicating with our customers that that may move them in or out. But generally, that's about as far as we go in regards to any kind of prioritization.

Q: Fantastic. Thanks, Barry, I appreciate it.

<u>Barry Ruffalo - President and Chief Executive Officer</u>
I think one other comment, I mean, just to kind of give you some more perspective. With the inflation that we've seen on steel, typically, when you're quoting a project or a plant or a piece of equipment, you've made some assumptions of what that steel cost, material cost is going to be. So certainly, it behooves us to actually get that unit shipped with the steel price we use. And so, we don't want to get out of line in regards to pricing and material pricing, which should get us upside down pretty quickly. If we were moving stuff around to great extents.

Q: Makes sense.

<u>Operator</u>
There are no further questions in the queue. I'd like to hand the call back to Steve Anderson for closing remarks.

Steve Anderson - Senior Vice President, Administration and Investor Relations
Thank you, Taren. We appreciate your participation on this conference call. And thank you for your 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 August 18, 2021. And an archived webcast will be available for 90 days. The transcript will be available under the Investor Relations section to the Astec Industries' website within the next 7 days.

All of that information is contained in the news release distributed earlier this morning. This concludes our call, but I'm happy to connect with you if you have additional questions going forward. Thank you, all. Have a good day.

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