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

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Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.
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Analysts

Mig Dobre - Baird
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Stanley Elliot - Stifel
Larry De Maria - William Blair

Presentation

Operator

Good day, ladies and gentlemen and welcome to the Astec Industries Third Quarter 2021 Earnings Call. At this time, all participants have been placed on a listen-only mode and the floor will be opened for questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Steve Anderson, sir, the floor is yours.

Steve Anderson - Senior Vice President, Administration and Investor Relations, Astec Industries, Inc.

Thank you and welcome to the Astec Industries third quarter earnings call. Joining me on today's call are Barry Ruffalo, Chief Executive Officer and Becky Weyenberg, 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 can 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. In an effort to provide investors with additional information regarding the company's financial results, the company refers to various U.S.

GAAP, which are 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 know comments made during today's call will refer to non-GAAP results and a reconciliation of GAAP to non-GAAP results are included in our news release and appendix of our slide deck. All related materials are posted on our website at www.astecindustries.com including our presentation which is under the Investor Relations and presentations tabs. And now I'll turn the call over to Barry.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Thank you, Steve. Good morning, everyone. And thank you for joining us on the call this morning to discuss Astec's third quarter results. During my remarks today, I will begin by discussing key highlights from the quarter and provide an update on actions we're taking to drive operational and commercial excellence. I will also share more detail on 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 continued strategic evolution and open the call for Q&A.

Turning to Slide 4, first, the adaptability and dedication of our team drove strong third quarter performance with sales up 15.4% and adjusted EBITDA up 58.5% compared to the third quarter of 2020.

I'd like to highlight the resilience of our team and their impressive ability to execute in a dynamic environment in a quarter marked by a combination of increased demand and ongoing industry wide headwinds. We also saw a fourth consecutive quarter of record backlog up 184% year-over-year, a testament to the strength of our customer relationships as we continue to provide our customers exceptional value and superior service and innovative industry leading technology solutions.

Second, we're realizing benefits from several strategic initiatives to mitigate industry headwinds, including increasing pricing to offset inflation, onboarding new talent to proactively identifying supply chain disruptions. I'll describe these initiatives in more detail later in my remarks and the results we're seeing thus far. Third, the successful execution of our strategy has positioned our business well for future growth. I am confident in our team's ability to execute in all economic scenarios as a more focused organization with a strong balance sheet and ample liquidity. This confidence is evidenced by our decision to increase our quarterly dividend.

Fourth, we're building on the three pillars of our strategic evolution in the actions we have taken to simplify and focus our business as we continue to shift our focus to grow. We have a multitude of organic growth initiatives underway, which I will provide further detail on later during our call. Lastly, we remain focused on driving commercial and operational excellence across our business as we position ourselves for future profitable growth. I'm excited for organizations future as I look at how far we have come in our strategic evolution, and a long runway ahead of us.

We have the right team in place to execute our strategy and drive long-term stakeholder value creation.

Turning to Slide 5, I'd now like to provide an update on our operations and the actions we have taken to optimize revenue, mean elevated customer demand and proactively manage supply chain issues.

We continue to drive operational excellence across the organization through our OneASTEC business model. We're maintaining flexible operations including cross site manufacturing, and manufacturing capacity sharing. We're focused on leveraging capacity and bandwidth across our footprint to deliver our customers best-in-class products and solutions across the Rock to Road value chain. And last, we remain focused on optimizing revenue within our footprint.

And I'm glad to note this is the best third quarter revenue generation in the history of our company.

Now on Slide 6, I review some of the key industry dynamics that are impacting our business and some initiatives Astec has in place to capture opportunities and address industry headwinds. We continue to see strong demand for our products across our infrastructure and Materials Solutions businesses.

Conversations with customers indicate a positive outlook through the remainder of 2021 and into 2022. Our record backlog this quarter reflects continued strong demand. We have a number of initiatives in place to enable us to meet higher demand and I will provide more detail on that shortly. Despite the latest extension of the Federal Highway Bill, customers continue to express optimism for increased U.S. infrastructure spending and view the bill as a long-term tailwind for our business.

However, as I've mentioned in previous calls, we're not a company that is waiting around for a bill to be passed. We see significant near-term demand for our products, and we have a strategy in place to drive organic and inorganic growth moving forward. You should also note that our international and part sales continue to grow as well. Our international parts teams are doing an outstanding job of driving the business and leveraging the investments that we have made in people, processes and tools, which allows them to be easy to do business with and focus on growth while delivering value to our global customers.

Labor shortages continue to persist across the industry. However, we're seeing steady improvements as a result of hiring strategies with headcount of 8.5% year-over-year. Regarding inflation, we continue to see higher commodity transportation and logistics costs. We're however seeing early signs of steel prices starting to plateau slightly decline, the situation remains fluid and we are prepared to adapt prices accordingly to any further increases in input costs.

On Slide 7, we provide more detail on our initiatives to address labor shortages. We have four key elements highlighted including targeted recruitment, engagement and retention practices, and sharing the benefits of working in Astec.

As you can see, we have a number of initiatives in place to remain an employer of choice. We continue to evaluate our programs to retain current employees and enhance our recruiting practices. 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 stakeholders in the future.

On Slide 8, we provide more detail on our historic backlog posting record backlog at the end of the third quarter. In today's environment, we expect backlog to be converted to sales in approximately two to three quarters. We're acting quickly and diligently to convert our backlog in a timely manner through cross site manufacturing, increased headcount in automated processes. Some customers have begun to schedule orders in advance of their need in order to mitigate any future supply chain disruptions. This combined with strong market demand has resulted in longer lead times. We're constantly working to optimize our operating schedules to deliver end products to our customers at the desired time.

In Slide 9, we highlight some key ESG accomplishments since our last earnings call including the announcement of our strategic partnership with CarbonCure.

CarbonCure enables concrete producers to reduce the carbon footprint of concrete and reduce other input costs. This partnership is in line with our strategy to increase environmentally friendly products and services to customers as part of our sustainability commitment. CarbonCure's technology offers a solution to embodied carbon at the early stages of concrete production where the opportunities are greatest. I'm excited to be able to offer this product to our customers and further broaden our sustainability focused solutions. While we're still in the early innings of our ESG journey, I'm excited and proud of the progress that we have made to date.

To recap the third quarter, we saw improved performance with a healthy increase in sales and adjusted EBITDA, driven by our team's successful execution of our strategy and continued strong demand for Astec products and solutions. Further during the quarter, we started to see greater benefits from initiatives we put in place to meet strong customer demand, combat inflation, supply chain tightness and labor constraints.

While we expect some of these industry headwinds may persist in 2022, I'm encouraged by the actions that our team has taken to reduce the impact of our ability to continue to execute our strategy and drive profitable growth. We remain well positioned to capitalize on the positive customer sentiment that we're seeing well into 2022 and resilient demand for our products, as we serve our customers with innovative and differentiated solutions. With that, I'll now turn the call over to Becky to discuss our detailed financial results.

Becky Weyenberg - Chief Financial Officer, Astec Industries, Inc.

Thank you, Barry and good morning, everyone.

Moving to Slide 11, third quarter sales increased 15.4% to $267 million compared to the prior-year quarter. Equipment sales increased 27.3%, while parts sales increased 6.6% compared to the prior-year period. The sales increase was driven by increased demand across product lines and regions, with domestic sales up 11.4% and on International sales up 29.6% year-over-year.

As Barry mentioned, backlog increased an impressive 184% to over $620 million at quarter-end driven by higher Materials and Infrastructure Solutions orders, which were up 300% and 129%, respectively. Higher orders were driven by continued pent-up customer demand after COVID-19 uncertainty in 2020 in addition to our strong commercial excellence initiatives, our commercial teams continue to build momentum and work with our customers to create value-added services, products and solutions.

Third quarter adjusted EBITDA increased 58.5% to $16.8 million compared to the prior-year period. Adjusted EBITDA margin grew 170 basis points to 6.3% compared to the prior-year period, driven by pricing, volume and manufacturing efficiencies, which were partially offset by inflation and centralization efforts.

Adjusted SG&A expenses increased 6.9% on a dollar basis, primarily due to the increase in personnel costs, which includes commissions and more normalized travel expenses. Adjusted earnings per share increased 163.2% in the quarter to $0.50 compared to $0.19 in the third quarter of 2020. Third quarter adjusted EPS included $2.1 million or $0.09 of transformation, restructuring and other costs, including $2.4 million of costs associated with our ongoing Simplify, Focus and Grow Transformation Program.

Our adjusted net effective tax rate for the quarter was negative 23.9% driven by the timing of tax credits, which resulted in an $0.18 positive impact to earnings per share. The tax benefit was driven by a valuation allowance release in Brazil, net R&D credits driven by increased investments in engineering and stock compensation benefits.

Our expectation for the full-year adjusted tax rate in 2021 is in the 12% to 15% range. However, the situation remains fluid.

On Slide 12, we highlight the key drivers of our year-over-year adjusted EBITDA margin expansion of 170 basis points. As I mentioned, adjusted EBITDA margin expansion was primarily driven by pricing, volume and manufacturing efficiencies, partially offset by inflation and higher SG&A.

We have implemented multiple price adjustments throughout the year to help offset the increasing impact of inflation, and we're prepared to implement further price increases as they become necessary.

Moving on to Slide 13, our Infrastructure Solutions sales increased by 16.7% to $176.3 million in the quarter primarily driven by strong international and domestic sales, which grew 45.2% and 11.6%, respectively, compared to the prior-year period.

Adjusted gross profit increased 24.7% to $39.9 million and adjusted gross margin increased 140 basis points to 22.6% driven by improved volumes, pricing and mix. Infrastructure Solutions backlog at the end of third quarter increased 129.4% to $341.4 million, as we continue to see strong and increasing demand for highway and road building construction products across the country.

Turning to Slide 14, our Material Solutions sales increased 13% to $90.7 million compared to the same period a year-ago, driven by increased demand across product lines and regions, with international sales up 16.7% and domestic sales up 11% versus the third quarter of 2020.

Segment gross profit increased 8.7% to $22.4 million and gross margin decreased by 100 basis points to 24.7% driven by inflation. Material Solutions backlog at the end of the quarter increased 300.4% to $279.1 million driven by continued dealer restocking and strong market activity.

And on Slide 15, I won't go over the details. But here we highlight the year-to-date results and provide some color for your reference.

Turning to Slide 16, we continue to maintain a strong balance sheet with minimal debt and cash position of over $164 million.

Overall, we have available liquidity of $309.3 million, including nearly $165 million of cash on hand, with only $900,000 in total debt as of September 30 2021. While our leverage today is virtually zero as a reminder, on a long-term basis, we will strive to operate between 1.5 to 2.5 times debt-to-EBITDA. However, in the future, there could be times where we will be leveraged over this range. But our goal would be to return to the 1.5 to 2.5 times range.

As Barry highlighted earlier during our call, 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 17 is a reminder on our capital deployment framework. When we consider the various avenues of capital deployment, we do so in a context of our long-term strategic objectives and related revenue, earnings and cash flows in order to maximize shareholder value.

Regarding acquisitions, the pipeline remains strong and our strategic approach remains consistent. As a reminder, we remain focused on acquisitions that align with our strategic filters and financial criteria to support our growth pillar. Importantly, we remain committed to delivering returns to shareholders, primarily through funding our dividend. Of special note beginning next quarter, our dividend will increase from $0.11 per share to $0.12 per share. This has been done to reward our shareholders and as evidence of our confidence in the OneASTEC business model. With that, I will now turn it back over to Barry for his closing comments.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Thanks, Becky. Continuing with Slide 18, we highlighted some key organic growth opportunities we see across our businesses. As a reminder, we expect to drive approximately 5% year-over-year organic growth over the long-term. First, organic growth opportunities will continue in our international business and third quarter results demonstrate the traction that we're gaining on that front with international sales up 30% year-over-year.

Secondly, opportunities to drive growth will continue in our parts and services businesses. During the third quarter, part sales grew 6% year-over-year, reflecting the momentum that we are gaining in this business. New product development continues to gain momentum. A few examples include our new SB 3000 material transfer vehicle, and highly portable Ventura Asphalt plant shown on the next slide, which I will speak to more in a moment.

We will continue to drive organic growth through new product launches and fostering a culture of innovation here at Astec to provide our customers with the best solutions in the industry to meet their needs. We also continue to pursue organic growth opportunities related to dealer expansion, cross-selling our strategic accounts.

As success continues in each of these areas, I'm confident our related strategic initiatives will drive future profitable growth across our businesses. We are reinvested in the business to drive innovation enhancements to support organic growth opportunities provides customers with industry leading technology solutions that provide value and support for Rock to Road initiatives.

We are well positioned to capitalize on global growth opportunities in 2022 as we continue to reinvigorate innovation, leverage technology to unlock internal synergies, while also enhancing the customer experience.

Slide 19 shows our Shuttle Buggy 3000, which has been reinvented based on customer input to prove safety, serviceability, usability and performance. You may recall we invented the Shuttle Buggy material transfer vehicle in 1989 and it quickly became the benchmark in the paving industry.

Our new ultra-portable Ventura Asphalt plant maximizes performance capabilities primarily for international markets. As you can see, some of the plants key features show can be transported as a single load is a continuous process that can produce 140 tons of mix per hour, and is very easy to maintain.

I'll conclude on Slide 20 with our key investment highlights. Our performance during the third quarter is reflection of the commitment and tenacity of Astec team. As we continue to work diligently and efficiently to deliver results against the backdrop of continued global headwinds. I am proud of the team's ability to execute our strategy during the quarter, and we are seeing benefits from the strategic initiatives that we have in place. We are still in early innings of our business evolution and our team remains laser focused on positioning organization for future growth. We continue to innovate and work with our customers to create value-added services, products and solutions and leverage strong and long lasting relationships.

Lastly, as a reminder, we've remain committed to our 2023 targets at 10% to 12% EBITDA margin and greater than 14% return on invested capital, as highlighted at our December 2020 Investor Day. I am optimistic for the future of Astec as we continue to execute our strategy. I am confident with the progress we have made to-date will result in a stronger and more agile organization. Our strategic initiatives and focus on commercial and operational excellence will drive continuous improvement, future profitable growth and long-term shareholder value.

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

Operator

Thank you. Ladies and gentlemen, the floor is open for questions. Our first question today is coming from Mig Dobre at Baird. Your line is live. You may begin.

Q: Thank you and good morning everyone.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Good morning, Mig.

Q: Very good order intake as you already highlighted in record backlog. I guess I'm curious, your perspective on your ability to convert this backlog to revenue. You talked about the backlog is going to be converted over the next two to three quarters. But maybe you can be a little more specific in terms of, are you able to increase production sequentially in the fourth quarter relative to the third given all the comments that you've provided on supply chain and labor challenges? And yes, maybe let's start with that.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Okay, Mig. This is Barry. Thanks for the question and participation in the call. We feel as though we've built traction throughout the course of 2021 both in our ability to hire labor to support our demand. As you may have noticed in the call, we've increased our headcount roughly just under 9%. It's not as much as we would have liked, but we feel like we have the right pieces in place to continue to build that. That will support our ability to convert backlog into orders.

We've said all along that one of our biggest constraints is really labor. And so, we feel good about that. We also see that set aside the supply chain disruptions that we're dealing with, examples of start a machine, get down the line, parts don't show up as they were promise from a supplier have to pull a machine are those types of things set that aside. We're seeing that some of the efficiencies that we're getting relative to the throughput is improved in our sites.

But obviously, a big component of that is the disruptions that we have in supply chain and having to read kind of re-plan production, so on and so forth. So, without great extent of continued supply chain or worsening supply chain situation, we feel good that, yes, we'll continue to be able to convert more of that backlog to sales as we move forward in time, certainly in Q4, and in 2022 setting aside in logistics and supply chain issues we're having.

And let me give you some color in regards to how we're doing that Mig. Yes, so one of the things that I feel really proud about is that, as we've gone to the OneASTEC business model, now we look at the capacity that we have across all of our sites. And today, we have many sites that, we're not traditionally a concrete plant manufacturing site, that are building components for concrete plants. We're now leveraging our supply chain more effectively to ensure that we can get components in to support the needs of our customers, and the time that they require it.

Now, obviously, our supply chain is dealing with some of the same issues, we are around labor. But generally, we found that that outsourcing of certain components has generally helped us get more products through the facilities. And obviously, the operational excellence initiatives we have in place are allowing us to use value stream mapping and other types of lean tools to take the inherent waste out of our build processes.

And so we've seen some throughput and capacity improvements from those types of exercises as well. And in addition to that Mig, we're also looking at how do we expand capacity through investments of brick and mortar potentially. And also we believe that with the right type of M&A strategy, we can also see capacity improvements there as well. And I feel good about our M&A funnel and know that the targets that we have in that funnel would allow us to do that.

Q: Okay. I guess my other question has to do with the strong orders that you have are great, but I'm kind of curious as to your ability to properly price these orders and properly price your backlog given the various cost drags and inflation that you're experiencing? Can you comment on that at all?

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, absolutely. Thanks for the additional question. Our customers are smart. They're dealing with the inflation elements within their own businesses. And so that along with the values that our organization has demonstrated to that customer base has allowed us to pass on price increases pretty effectively.

And the way we see that Mig is that we'll see the cost price ratio continue to improve as we go through Q4 and into 2022. But we also know that, we may not be through these woods yet. And so we continue to look at what are our costs, what are those input costs, what do we need to do from pricing. And I'm really proud of the team to have worked with customers so effectively as they have in 2021, in order to find a way to pass on as much of the price as possible.

Now, you'll see in our chart on EBITDA waterfall that, we also feel good that we have seen benefits from our operational excellence in some of our acquisitions that have helped us as a company offset any gap that we might have from a cost price perspective. But we're very active. We feel good about being able to pass it on.

Certainly, we're much more effective of passing on pricing on backlog that does not have a customer's name on it. If it does have a customer's name on it, we're much more sensitive to the commitment that we've made that a dealer potentially made. And trying to hold that price, but things that are inventory builds or backlog without customers names. We've been pretty successful of passing on pricing through that part of our backlog.

Q: Yes, I mean to this very point, I'm looking at the fact that your infrastructure orders were 300 million. And as far as my model goes, I have yet to see a quarter where order intake has been quite this strong, leaving the wood pellet plant story aside from back in a day. But anyway, my understanding is that a lot of these orders actually do have a customer name associated with it, which is why I'm sort of wondering given the strength of this order intake. Are you able to properly price these, when you think about the pace of delivery and the cost that you're going to have going forward? Sorry, to be stressing this point. I just want to make sure that we're clear on it.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

No problem. And on the infrastructure side, that's where we're going to have those orders are going to be typically, a lot of them are going to be asphalt plants related sales. And that's a situation where our customers are planning out in advance based on their own capital expense, strategies and plans.

And so in that case, we have been able to work with them. And we're a premium product with premium service and premium value. And so we've been able to find a way to work with them to pass that price on quite effectively. And I think on the other side of it Mig, we continue to do what we need to do as best as possible to manage our material margins in regards to how we buy materials? How we buy components? How we negotiate?

In this environment, there's not just one silver bullet that we pull out from an inflationary perspective and such that we do this. In regards to the strategy around procurement, that it works every time, you have to be flexible. And I think the value that we've put in and we're getting from our procurement team and our operations teams, and everyone at Astec is finding a way for us to try and offset and mitigate that as much as possible.

And just one last comment, I'm really proud of the organization in regards to this is an environment where it'd be very easy to just say, hey, we're just going to accept the circumstances and deal with it. But this organization is determined that we are not going to be a victim of those circumstances. And so everyone's on deck to make sure that we take care of our customers and add value just as we have for years. And we will do moving forward.

Q: My last question, if I may has to do with this bridge on Slide 12, that you've mentioned. You call out here inflation at 705 basis points, in terms of in the drag. Looking at last quarter, very similar number, it was 697 basis points last quarter. So sequentially, seems like, things are tough, but they haven't gotten materially worse. And I'm sort of curious. First, is my understanding of this correct? And then second, as you think about, say, the next couple of quarters, do you expect these drags from inflation to escalate from this call it 700 basis points run rate, because I'm presuming, as we move into the second quarter of next year and beyond just base effect. We'll have this drag be quite a bit lower than what we're experiencing currently? Thank you for that.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, good question, Mig. Generally I'd answer this way. And I'll start it off and if she has anything to add, she certainly can. I think your assessment is correct. We've seen a plateauing of the inflationary pressures. You can see from quarter-to-quarter Q2 to Q3. We see that also relief from a Q4 perspective. And I think that's what gives us the confidence on that price cost ratio that we'll see that we should be able to continue to claw some of that back, as we go through forward in time.

Obviously, what happens with inflation as we get into 2022? We don't have that crystal ball. But I think ultimately, we're in a much better place now in regards to having to manage it than we were at the beginning of this year. Because you know Mig that as inflationary pressures like steel did over the last many months, it's hard for an organization. And quite honestly, it's hard for us to stay ahead of it. But when steel moves at a slower pace, up or down, we're in a much better position to be able to manage that change, and mitigate and offset it with the appropriate levers.

And so I don't see the same type of trajectory, if there is inflation that we've had over the last 12 months. So therefore, I think we'll be in much better position to be able to manage that moving forward.

Q: All right. Appreciate the comments. Good luck.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Thank you.

Operator

Thank you. Our next question today is coming from Steve Ferazani at Sidoti. Your line is live. You may begin.

Q: Good morning, Barry. Good morning, Becky. I do want to follow-up a series of previous questions just to ask. As we've gone through this earnings season, we're hearing from companies saying that the supply chain issues are actually getting worse. Certainly not getting better and that the duration could be longer or maybe that's just lack of visibility. You've been going through it a couple of quarters. Given your sense on turning backlog into revenue. Do you think it isn't getting worse? Or do you think you're finding more workarounds?

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, I would say yes and yes. Steve, good morning. We want to experience, I've never seen a quarter like Q3 that we've experienced here in the industry, and certainly at Astec relative to those types of disruptions and struggles around supply chain and logistics in labor. But I am proud of the fact that our organization has found ways to minimize that impact as best as possible. I do agree that there's a likelihood that it could get worse, as a matter of fact, we see lead times continue to slip out on major components. In the supply performance, even on minor components, it's a little erratic.

And so I don't necessarily think it's going to get better. The best we could hope for is that it's plateaued in regards to the amount of severity that it's causing to the business. But we're prepared for it to get worse. And I think, so when we're working on the supply chain today. Of course, we're working on the firefighting that we have on a daily basis. We're also in the background with our procurement team, working on strategies and supply chains that allow us to get out of potential, looming situations.

And I think one thing that the backlog does give us is great visibility. So we know when we're going to be running production, and that gives us the ability to look out in the future to say, where do we think we have constraints or concerns. And then put a plan in place to be able to mitigate that. And I think, we've talked a lot about recently, this ERP transformation. And ultimately, you can imagine, Steve, that as we go forward and start to get some of our sights on the Oracle platform, and the more sites we get on, the better visibility, and we even have then.

And so today, we're working across many ERPs. And so I know that's not necessarily going to happen completely in 2022. But we're excited about the investment we're making and the teams were putting the resources behind it, in order to put that system in place. So we can be a lot more effective in regards to how do we play it and have visibility to future production.

Q: And if I could touch on labor, it sounds like you have made some real made up some ground here. I think Becky had said that was up 8.5%. Do you feel like you're caught up on labor now in terms of, if supply chain issues recede? You have the workforce in place to meet growing production? And also, are you expecting any, how should we think about the impact of wage inflation or how do you avoided that?

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, so I would say that today, we have not caught up generally across the company relative to our labor needs. We could hire more people today we would, part of the issue that we're dealing with is the attraction part of it, but then also the retention part of it.

And I think the slide that we put in the deck today was to demonstrate to you guys, some in our shareholders, what are we doing in order to try and mitigate and get ahead of this. And so I'm pleased with the team's efforts to continue to find ways to improve that situation. But the reality is, we are still short. And I think when I look at the backlog, I'd rather have that backlog smaller, and have those products into our customers' hands. And so labor is going to be something that's going to determine our ability to do that effectively.

But I also would say, some of our labor issues are site-by-site specific. So in some plants were much better in regards to being able to pull in labor than we are and others, but the strategy and the tools we're using are really tools we're using across the company. So I guess long answer to basically say, we're still constrained by labor, and we're doing everything we can to try and attract and retain folks.

From a labor inflation perspective, yes, we're going to see a little bit of that hit us in Q4, because we've had to do some things to adjust rightly so, our workforce in regards to compensation. And we've had to do that on employees that we have within the company today and to attract employees moving forward. So we'll see that hit us a little bit in Q4 and be more of a mainstay as we get into 2022.

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

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Thanks, Steve.

Operator

Thank you. Our next question today is coming from Stanley Elliot at Stifel. Your line is live. You may begin.

Q: Hi, good morning, everyone. Thank you all for taking the question. Quick question, first starting off on the CarbonCure. Our state DOTs adopting these sorts of technologies and allowing for various aspects of ready mix, and any sort of the projects were still kind of in more of an earlier phase.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Hi, Stanley. Thanks for the question. We're really super excited about the relationship that we have with CarbonCure today. And quite honestly, we see it as just a budding step into what really could develop into moving forward across many more of our products and solutions that we have to the market. Everything from crushing and screening to asphalt to where we're at today now with concrete.

And so to answer your question specifically, today, our CarbonCure partnered process really is more on the ready mix side, Stanley, and not necessarily from a transportation perspective. As you probably know and heard from others, Stanley, changing specifications or departments transportations can be a tough process and can take time, we feel confident that we're going to get there with the partnership that we have with the CarbonCure team. But today, most of the CarbonCure solutions that we are partnering on are really around types of concrete installations, other than roadways and other DOT work, which is plentiful.

And of course, that's a big part of our concrete plan, customer base as well. But we like the CarbonCure relationship, because obviously, we've made a commitment. And you look at our one Astec business model, sustainability is going to be one of our key initiatives as we move forward in time. Two years ago, when I started with this company, I could meet with customers, and no one would talk about sustainability.

Today, if I talk to 10 customers, eight of them are bringing up the topic on their own, and asking what we can do to provide sustainable solutions. And I think this is one huge step that we've put in place for this relationship to really add value to our customers in regards to their own initiatives around driving sustainability. And we'll continue to find more ways with our product development through partnerships and acquisitions to do more of this moving forward in time.

Q: Great, that's very helpful. I was just curious if -- with DOTs, and you hadn't adopted kind of the recycled asphalt piece fairly broadly, if this was kind of next in line and so. So we will see. Question for you on the international business and certainly nice pickup here, attractive new product coming out. And then also you kind of overlay that with the margin piece with kind of given the headwind across the supply chain. Are we to think that, several quarters ago, when you had the more opportunistic sale internationally, that you wish you'd think of the international margin being kind of above or at least kind of in target with what you're looking at from a longer term perspective.

Becky Weyenberg - Chief Financial Officer, Astec Industries, Inc.

Thanks, Stanley. This is Becky, good morning. On our international sales, we have seen some nice pickup and some of those seeds that we planted in Q1 have paved the way for that, but certainly we are seeing growth there as we anticipate it. And we are seeing the margins come in as we would have expected. So there was going to be a little bit behind the domestic, because we're still producing many of the products here and then we've got the transportation challenges with the cost inflation that's going on. But what we produce in those regions for those regions is certainly at that level that we are expecting.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, and I think as we think about, where we continue to invest, Becky, we've said all along, stand that we know to really grow a substantial profitable international business. We have to be closer to the customer. And today, I really am proud that the work that we're doing and all the international sites, as you might remember we're producing in Belo Horizonte, Brazil, Johannesburg, South Africa, and in Omagh, Northern Ireland.

And in other sites, we're partnering with people in supply chain in order to build non-proprietary components locally, which helps that kind of margin profile and in deliverability perspective. So we're doing things in a very disciplined way. And I think as we move forward in time, we also believe that we can use our capital to continue to build those capabilities both organically. But also, we believe as you look at our filters around M&A, global growth and our ability to have the right specifications in the right global footprint is a targeted approach in regards to how we invest capital through mergers and acquisitions.

Q: And that's actually kind of a nice segue to the last piece. It sounds like the M&A market seems pretty full or at least the pipeline does. Do you have more of a bias towards the material side or the infrastructure side? And then also spending more your time domestically or internationally on those assets?

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, first and foremost, I might just call your attention Stanley. We feel good about changing our dividend going from $0.11 to $0.12, we haven't changed our dividend for quite a while. And hopefully, that gives you the sense that we feel good about our cash generation in a long-term basis, and dividends are something we plan on paying.

And it's a big part of our capital allocation strategy along with investing back into our business primarily in M&A. I feel good about our funnel, I would tell you that it's really mixed. What I like about our team and our approach, Stanley is we're not sitting here waiting for the phone to call for someone or a bank to tell us that there's an opportunity to look at a company, we know where we have gaps, we know where we want to invest the capital to grow this business. And it really is across both reporting segments.

And it really is global. And we believe that we can accelerate our investments in technology to continue to build our technology platforms, through M&A. We also believe we can grow globally through M&A. So we're looking at those as well. But as I've always said, we'd like to do business in our own backyard. So the domestic piece is also attractive when those targets are ready to interact and potentially do transactions. But we are very focused and targeted in regards to where we want to drive the M&A strategy.

Q: Perfect. Thanks so much for the time and best of luck.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Thank you, Stanley.

Operator

Thank you. Our next question in the queue is coming from Larry De Maria at William Blair. Your line is live. You may begin.

Q: Thanks. Good morning, everybody. So let's come back to the backlog. It sounds like price cost potential doesn't turn positive until 2Q or maybe 3Q next year. So is that the right way to think about things? And then related to that? Would you expect margin expansion and positive price cost in 2022, and plan on that from where you stand now? Thank you.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, Larry. Good morning and thanks for the question. I wouldn't say we're waiting until Q2 for that to happen. We're going to see it continue to improve. We've seen it improve actually from Q2 to Q3, we expect to see more attraction in Q4. And we'll see more in Q1. So I think as we move forward through quarter-to-quarter, we'll continue to see that continue to improve, some product lines today we were there, and others were not.

But generally, I think that as we get into to Q1, we'll start to see it actually become neutralized. Certainly, we expect it. If you remember this, Larry, as we've priced and took pricing actions throughout the course of 2021, we also had a big backlog there. And for those orders to work their way through which is really what we're waiting for, we should start to see that flow through in Q4 and Q1 in Q2 of 2022, we should be in a pretty healthy position. Relative to margin accretion, I would say, as we go through 2022 without additional inflationary type pressures, we should be in a pretty good place to see some margin improvement. But you and I both don't have that crystal ball to be able to determine if we're going to see that increase or decrease.

But as I talked about earlier with one of the questions, I certainly don't see it increasing significantly in such a spiked way, as we have in the past, which should allow us to be able to manage it more effectively throughout the course of 2022.

Q: Okay, that's really good color. Thanks, Barry. And then you referenced a price increases, can you maybe break down for all of us a call, the timing and the cumulative effects? We can kind of just see the carryover and what do you think about for the impact on the top line, given the price increases this year, would that mean for next year? So I mean, cumulatively we up 20%? I don't know, can you help us understand that?

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, it really does again Larry depend on the product line. Our competitive position, our ability to deliver -- our ability to pass on the premium because of the value that we add. And so I think when we talk about it with you guys, I think the chart that we have really shows a summary level of our ability, and we're positioned today. So generally, you can see -- that column that shows the pricing volume and mix. We are obviously using other parts of our tools in order to offset pricing. But the biggest part of that pricing, or biggest part of that bar is pricing. And so, we're not going to really break it out in color of product-by-product, but generally, I feel good about the action we've taken, they've been throughout the course of 2021, sometimes quicker than what we would have probably have would have liked, but we had to do it.

And as I said, our customers are pretty smart. And so they were able to understand and digest it. But as I said as well, Larry, we're not done with pricing yet, either. It's now really part of our DNA. We want to continue to be a price leader in the markets, and make sure we're doing the right things for our customers and right thing for our shareholders.

Q: Okay, thank you. Good luck.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Thanks, Larry.

Operator

Thank you. Our next question today is coming from Mig Dobre at Baird. Your line is live. You may begin.

Q: Hi, thanks for taking the follow ups. Just two very quick ones. And I guess maybe you kind of answered this question. But to make sure that I get a straight. If I'm sort of looking at this volume pricing mix bar that you've got on slide 12. So this accelerated a couple 100 basis points sequentially. I'm looking to make sure that I understand, is this pricing that's accelerating sequentially or are there some other base effects here is, when I'm looking at revenue, revenue was actually a little bit lower sequentially, the third quarter versus the second that's why I'm asking the question, I guess?

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes, Mig. It's is really a mix. I mean, I think that as we've talked about for a while now, we've invested in resources that are sites to try and find ways to become more effective and efficient. And as you can imagine, we've been able to generate this revenue with less square footage. So that's obviously part of the story and part of the numbers you're seeing flow through. But pricing is a big part of it. And I think that's just a testament that inflation hit us so fast, that the margin that we're seeing from the pricing actions we took is obviously taking us a little while for it to flow through. And so it's really mixed.

And I think we have to give credit to the teams again, for the work they're doing in our facilities and our supply chain, and it's really in some cases may get all hands on deck relative to what we're doing in order to try and get products delivered and manage our throughput. So I think you'll see pricing continue to see price/cost, as I mentioned several times now improve that ratio as we move forward in time, but there is quite a bit of work that's going on facilities to try and increase throughput. We're working our tails off to try and get that backlog converted into orders and we know that the faster we can do that, the better off we're going to be and the better offer customers are going to be.

Q: My final question has to do with steel. As you're looking at the fourth quarter of '21. Can you give me a sense what sort of steel prices are flowing through your P&L at this point? And maybe you can use half roll as a benchmark if you would? Because we all understand that one. And I'm kind of curious as to how you're handling material purchases looking into 2022. Are you buying anything forward or really approaching if you would -- your purchases any different than what you have done in the past? Thank you.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Yes. Thanks, Mig. I would tell you that we meet on a monthly basis and a steel counsel that basically gives the business leaders the executive team perspective in regards to what's going on and steel relative the capacities, pricing lead times. And so I feel really good about our process that we have, and we put that in place some time ago. So I think that we have good visibility in regards to what we're doing. I will tell you that for Q4, I guess maybe first before I go there, we've also transitioned over time, maybe from a service center buying approach to more of a mill direct.

And I think ultimately that's helped us, it's helped us with supply, it's helped us with pricing. And we're going to continue to grow our percentage of steel purchases to mill direct. But I've been in this game long enough to know that, when it comes to steel, again, there's not just one approach that works all the time. So you have to have the ability to do buy in on spot, buy in forward buys, and locking up inventory, pulling in and ahead of time, and potentially hedging it just as some examples.

And so we've been pretty good at buying ahead and locking our prices. And we'll continue to do that as we move into 2022. But as you would expect, Mig, we've seen a plateauing of steel. And so therefore, the timeline in which we buy ahead, probably will become shorter, because if it starts to soften, and we want to make sure that we can pull that in a timely basis versus being stuck with a locked in agreement that doesn't allow us to really leverage that material margin. So I think moving forward, we're being a little bit more cautious in regards to how far out we go.

But I also want to make sure -- just to give you a piece of how I think about it Mig, when we quote an order and agree to a margin that's with that order, we're going to do our best to try and lock that in. And so that's the struggle we have really right with a long backlog and not being locked all the way through is that we're not going to gamble our shareholders money in regards to betting on the calm and so on and so forth. So we talk about this often. We're very strategic about it. But generally, I would say, we're going to start to probably manage our timeframe of pre-purchasing with the idea that we could maybe actually see some softening and take advantage of that as well.

Q: Understood. Appreciate the color.

Barry Ruffalo - President and Chief Executive Officer, Astec Industries, Inc.

Thanks, Mig.

Operator

Thank you. That concludes our Q&A. I will now turn the floor back over to Steve Anderson for any closing remarks.

Steve Anderson - Senior Vice President, Administration and Investor Relations, Astec Industries, Inc.

Thank you. We appreciate everyone's participation on this 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 this conference call will be available through November 17, 2021. An archived webcast will be available for 90 days. The transcript will be available under the investor relations section of the Astec website within the next seven days. All of this information is contained in the news release sent out earlier this morning. So again, this concludes our call. Thank you all. Have a good day.