Transcript of Astec Industries, Inc.
Fourth Quarter 2019 Earnings Call
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Participants
Steve Anderson - SVP & Director of Investor Relations
Barry Ruffalo – Chief Executive Officer
Becky Weyenberg – Chief Financial Officer

Analysts
Mig Dobre - Robert W. Baird
Joe Mondillo - Sidoti & Company

Presentation

Operator
Greetings and welcome to the Astec Industries, Inc. Fourth Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is my pleasure to introduce your host, Steve Anderson, Senior Vice President and Director of Investor Relations. Thank you, Mr. Anderson, you may begin.

Steve Anderson – SVP and Director of Investor Relations
Thank you, Doug. Good morning and welcome to the Astec Industries conference call for the fourth quarter and fiscal year ended December 31, 2019. As Doug stated, my name is Steve Anderson, and also on today's call are Barry Ruffalo, our Chief Executive Officer; and Becky Weyenberg, our Chief Financial Officer. In just a moment, I'll turn the call over to Barry to provide comments, and then Becky will summarize our financial results.

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

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

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

Barry Ruffalo – Chief Executive Officer
Thank you, Steve. Good morning, everyone, and thank you for joining us on the call this morning to discuss our fourth quarter and full year 2019 results. I'm joined here with our new CFO, Becky Weyenberg.

I'll start off by providing a high level summary of our quarterly results and an update on macro trends, and then turn the call over to Becky for financial details of the quarter. I'll then return to provide an update on our strategic transformation progress, and then open the call up for Q&A.

Overall, fourth quarter results showed continued delayed capital spending by our customers in North America, which was partially offset by an increase in international whole goods and after-market part sales. I know that our end-users are busy from my time spent with them in the field, but through the fourth quarter they continued to lean on lease options with extended terms. That, along with our dealers destocking initiatives had an impact on our volume. Despite these temporary headwinds, I'm very encouraged by the progress we are making towards our strategic initiative, simplified focus in growing our organization, which I will discuss in greater detail later in the call.

Now, let's turn our attention to the slide deck and slide 4, where you will see an overview of Astec Industries. For those of you new to our story, I'll highlight a few key metrics. We finished 2019 with $1.15 billion in adjusted revenue, comprised of 41% infrastructure, 35% aggregate mining, and 24% energy. Seventy-seven percent of our sales are domestic, with the remainder being in the international markets.

Turning to the highlights for the quarter and the year on slides 5 and 6. Becky will cover details later in our presentation but I want to call your attention to our performance relative to free cash flow conversion, where we finished the year at a rate of 230% with an improved year-over-year cash position. Adjusted EPS for the fourth quarter was at $0.40 compared to $0.61 in the prior year, and for the year we finished at an adjusted $1.59 compared to $2.94 in 2018. As we look forward, we are confident that the restructuring and reorganization steps we have taken thus far and subsequent actions we plan to take will position us well as we move into 2020.

Relative to the coronavirus and its potential impact for our business, to date our employees in China are safe and our supply chain is intact. And therefore, we do not foresee a short or medium-term impact. We understand that this is a fluid and dynamic situation and therefore it requires our constant monitoring and assessment.

Before I turn the call over to Becky to provide further details on our financial results, I wanted to briefly comment on the delayed 10-K filing, and our material weaknesses, as mentioned in our press release. The material weaknesses that we have today are similar in nature to weaknesses incurred in 2018. These are control-related issues and ultimately do not impact the validity of our reported financials.

To address these issues, we have strengthened our finance department with the addition of Becky, new group controllers, and by elevating our other finance professionals to help drive corrective actions. This was a priority for the board, for me personally, and I have full confidence that we will make significant progress towards remediation over the course of 2020 in eliminating these internal control matters going forward. We're working through these issues with our accountants, and are confident that we will file our 10-K prior to the extended deadline.

Now, I'm delighted to be able to introduce you to our new CFO, Becky Weyenberg, who started on December 4. Becky has great experience, with an ability to implement strategic change, which creates a great fit for her here at Astec Industries as we begin the next chapter in our company's rich history. She has held prominent leadership positions, including her most recent role as VP of Global Finance Operations at Welbilt. We have also had the pleasure of working together while at Case New Holland, and I'm very confident in her ability to lead the financial function here at Astec. We are thrilled to have her join our team.

Becky Weyenberg – Chief Financial Officer
Thank you, Barry. And good morning, everyone. I'm pleased to join you today on today's earnings call, my first as CFO of Astec Industries, after joining the company in early December. Almost three months into my new role,

I can say it's truly an honor to be working with such a great company, talented team and with an opportunity ahead of us to significantly improve financial results and drive shareholder value. On today's call, I'll provide further financial details of the quarter and full year results before turning the call back to Barry for an update on our strategic transformation progress, before opening the call to Q&A.

Turning your attention to slide 8, fourth quarter revenues decreased 10.7% to $283.2 million. Domestic sales declined 15.5%, was partially offset by growth of 6.9% in international sales, driven primarily by increases in Australia and Brazil. Continued softness in equipment sales, which decreased 21.4% in the quarter, were offset by strong sales growth of 9.5% in parts. Our dealer inventory levels remain elevated through much of 2019 which continue to impact sales into the fourth quarter 2019. Dealer rental fleets that are traditionally been converted to retail sales by this time in the year did not occur.

Our backlog decreased 23.6% to $263.7 million during the quarter. The backlog decline was mainly due to lower demand for paving equipment and a difficult comparison to record backlog a year ago with Aggregates & Mining. This was partially offset by growth in asphalt plant-related equipment. Activity for asphalt plant-related equipment exceeded our expectations and we ended the year with the highest level of new bookings. New bookings for paving equipment also improved during the quarter. Within Aggregate & Mining new equipment orders picked up modestly from the three previous quarters.

Before moving forward, I'll just briefly discuss the impact of several charges to our GAAP results for the quarter. In relation to the company's efforts to simplify the organization, we incurred a $9.9 million pre-tax restructuring charge or $0.30 per share. The restructuring items are related to the previously announced expected sale of the GEFCO subsidiary, closure of our German operations and the transfer of the CEI products to Heatec and RexCon facilities.

In the fourth quarter of 2019 we revised inventory control procedures to consider the age, quantities on hand, market acceptance of the equipment and other related factors. We determined that some units required additions to their net realizable value reserve resulting in a pre-tax inventory write-down of $26.5 million or $0.81 per diluted share.

Moving on to adjusted EBITDA. Adjusted EBITDA decreased 46.6% to $15 million. The decrease was due to a decline in gross profit, primarily driven by an increase in negative absorption variances of $4 million in the quarter. Adjusted SGA&E expenses declined 4% on a dollar basis, driven by lower commissions, consulting fees and payroll expenses.

On slide 9, our Infrastructure Group saw revenues decrease 7.4% to $115.7 million in the quarter, driven primarily by weakness in domestic equipment sales, partially offset by increase in part sales. International sales were flat compared to the fourth quarter 2018. Sales increased in asphalt production equipment while decreasing in road building equipment. Asphalt production equipment is sold direct, while the majority of road building equipment is sold through dealers. Most dealers had high levels of inventory and experienced longer term rentals that were supposed to convert to retail sales.

Infrastructure gross profit decreased 250 basis points to 20.2% as improvements in asphalt production equipment and parts margins was more than offset by softer margins in road building equipment. Gross profit was impacted by an increase of $3.2 million and under-absorption. Adjusted EBITDA increased 20.6% to $9.8 million, benefiting from a $4.1 million reduction in SGA&E expenses due to reduced commissions and consulting fees. Adjusted EBITDA margin increased 200 basis points to 8.5%.

Moving to slide 10. Our Aggregate and Mining Group revenues decreased 20.7% to $92 million. Capital equipment sales decreased 34.1% in the quarter. Domestic and international sales declined 28.6% and 6.7% in the quarter, respectively. As a reminder, most Aggregate & Mining sales go through dealer distribution, and as previously mentioned, high dealer inventories and lower rentals to retail conversions relative to last year resulted in softer demand. Adjusted gross profit declined 760 basis points to 18.8% as unabsorbed overhead increased by $0.9 million.

Adjusted EBITDA decreased 65.9% to $4.6 million, primarily due to the decline in gross profit, a decrease in SGA&E expenses of $4.3 million due to reduced commission, payroll and consulting fees and an offsetting positive impact on adjusted EBITDA during the quarter. Adjusted EBITDA margin decreased 650 basis points to 5%.

Slide 11. Our Energy Group revenues of $75.2 million decreased 1.1%. A decline of 11.4% in domestic sales were nearly fully offset by a 77% increase in international sales. Gross profit of 24.8% increased 260 basis points. A strong increase in part sales relative to total Energy Group sales contributed to the gross profit improvement. Adjusted EBITDA increased 35.1% to $9.4 million, benefiting from increased gross profit and $0.5 million drop in SGA&E expenses. Adjusted EBITDA margin increased 330 basis points to 12.5%.

We are pleased with the results realized from the restructuring actions taken in the Energy Group. We continue to maintain a strong balance sheet with minimal debt. This provides us the platform to launch our longer-term strategic initiatives. The cash position improved by 89.2% versus prior year, providing ample liquidity to execute our plans.

Slide 13. As we go forward, we will continue to have a disciplined approach to deploying our capital. While we consider the various avenues of capital deployment, we do so in the context of our long-term strategic objectives and related revenues, earnings and cash flows in order to maximize shareholder value.

And I'll now turn it back over to Barry for additional comments.

Barry Ruffalo – Chief Executive Officer
Thanks, Becky. Turning to slide 14 of the earnings presentation, I'll provide an overview of our strategic pillars: simplify, focus and growth.

First, simplify. Since becoming CEO, I've heard feedback from customers, analysts and shareholders that our business is too complex. I want to appropriately leverage our scale, reduce organization complexity, consolidate and rationalize our footprint and product portfolio. Second, focus. We want to strengthen our customer-centric approach, drive commercial excellence, streamline processes and instill a performance-based culture. Finally, growth. We want to reinvigorate innovation, leverage technology to enhance the customer experience, explore global growth opportunities and allocate capital to maximize shareholder value.

Within these pillars, we've made great progress in a very short time. Slide 15 outlines some of the major milestones we are executing against on our transformation journey and the progress we've made to date. Under simplify, where the majority of work has been done so far, we have strengthened the executive leadership team, flattened the reporting structure, restructured the organization from a subsidiary structure to product and functional groups and executed our Astec Strategic Procurement initiative.

For the first quarter of 2020 earnings, we plan to condense our reporting structure from three to two segments by rolling the Energy Group into the existing Infrastructure Group, to streamline our reporting structure and more accurately reflect our business, since we are in the process of selling the GEFCO business that effectively eliminates our exposure to the energy industry. The new segment structure will align more appropriately with the products in our portfolio and the end markets we serve.

Within focus, we have aligned our management incentive programs and hired a Senior Vice President of Operational Excellence to instill operational excellence across the organization and a Chief Information Officer, who will oversee implementing an enterprise data analytics strategy to further develop data connectivity across our businesses and streamline financial reporting and we look to further optimize our product portfolio in 2020. These actions and the expected cost savings will set the organization up to reinvest those savings into driving profitable growth and maximize shareholder value in the future.

Moving to our long-term targets on slide 16. As we referred to in the last earnings call, these metrics are meant to stand through the cycles of our industry and are also tied to our management incentive plans. We will measure ourselves against these targets to report our progress to you, our shareholders, on a regular basis. These targets will continue to be evaluated and updated over time based on our ability and consistency of attaining them. Broadly, we see an ability to achieve 5% to 10% revenue growth, EBITDA margins of greater than 12%, EPS growth of greater than 10%, free cash flow conversion of more than 100% of net income and return on invested capital above 14%.

With the clearly defined pillars of our strategy to simplify, focus and grow and the roadmap constructed to execute against our transformation plan, I'm even more excited about the future of Astec. We look forward to sharing our continued progress of our strategic transformation on upcoming conference calls. We now welcome the opportunity to take your questions.

Operator
Thank you. We will now be conducting a question-and-answer session. Our first question comes from the line of Mig Dobre with Robert W. Baird. Please proceed with your question.

Q: Yes, thank you. Good morning, everyone and welcome to Becky, looking forward to working with you.

Becky Weyenberg – Chief Financial Officer
Thank you, Mig.

Q: I actually have quite a few questions, so I'm just going ask two and maybe come back on a follow-up. My first one maybe is really related to the material weaknesses and the remedies. I'm trying to understand exactly what the nature of this material weakness is and what I'm trying to get at here is as you're sort of looking at the organization and the changes that you need to make, is there some needed investment that has to happen here from a system standpoint, IT standpoint? Do you get the sense that you have the right people in place at this point to be able to address everything that you need to address or is this something that kind of needs to progress and you need to staff up and the like as 2020 unfolds?

Barry Ruffalo – Chief Executive Officer
Good morning, Mig, this is Barry. I'll take a shot at answering your question. Great question. First and foremost, we really haven't filed our 10-K yet, so I think once we do that the clarity in regards to what types of material weaknesses are there will become more present to you.

I would tell you that from an investment perspective, we absolutely have under-invested in IT, and I think that with the onboarding of Matt Litchfield now, as the CIO, we're putting together a vision and strategy around how do we improve the data connectivity of our company. I think you have an appreciation for the fact that historically we've operated more as a holding company, with a bunch of subsidiary companies that really had disparate systems and disparate processes. So, as we now change the direction of the company to be more focused on product groups and functional expertise relative to a matrix organization, we'll start to pull in some of those inconsistencies and drive more standard operating procedures, which I think will help in general.

But we have many independent ERP systems. I think that part of our investment as we move forward will be to find a strategy to be able to get us on less. We're in the process of implementing a middleware that will allow us to be able to pull data in from these different sites and be able to do data analysis more effectively.

To answer your question about the right team, I think that from my first days in August it was my focus first and foremost to make sure we had a strong leadership team, and I believe that now we have the right team in place in order to be able to tackle these things and drive them to resolution very quickly. That's both on the finance side with Becky, on the IT side with Matt. Becky has added many group controllers to the organization now that bring many experiences and tool sets that will allow us to drive this with good rigor and good pace, and so I feel very good about where we're at. I don't feel good about where we're at today, but I feel good about where we're heading in the future with the right people, processes and investments.

Q: Sure. There is a lot of wood to chop here, and again, my experience looking at other companies that have gone through similar transformation, it takes time and it's not an easy road necessarily. So just as a follow-up here, can you size the incremental investment that you're going to have to make here and sort of the level of operational risk that's involved? Are you looking at migrating to a common ERP platform, what sort of outside help are using? Any color here would be helpful. And then I'll jump back in the queue. Thank you.

Barry Ruffalo – Chief Executive Officer
Yes, I would tell you that right now we're formulating the strategy and the actions that we're going to take in order to do that. So I'd ask for your patience to bear with us. As we get that defined, we'll share more effectively with you. I can tell you that Matt Litchfield, our CIO, he's personally been through 32 ERP implementations, he certainly has the scars and the wounds and the victories obviously to help us, keep us in perspective. I've been through ERP implementation, Becky has globally. So I think we've got a good array of people who understand the risks and the types of investments both in time and money that it's going to take to do this. So we'll have more to share on that as we go through 2020.

Q: Okay, thanks.

Barry Ruffalo – Chief Executive Officer
Thanks, Mig.

Operator
[Operator instructions]. Our next question comes from the line of Joe Mondillo with Sidoti & Company. Please proceed with your question.

Q: Hi, everyone. Good morning.

Barry Ruffalo – Chief Executive Officer
Good morning, Joe.

Q: Regarding some of the changes you made, one thing that you have are well into that you've been sort of looking at or even before your arrival, Barry, was procurement, so I was wondering, just given sort of the more of a decline that we've seen in your markets and in your business over the last six to nine months, could you update us what you're anticipating of savings regarding the changes that you've made with procurement already for 2020 or beyond or however you want to frame that?

Barry Ruffalo – Chief Executive Officer
Yes, good question. So we've committed in previous calls and other meetings that we were intending to hit a target of $25 million of annual cost savings from this initiative, we still stand by that. Certainly, that will have

headwinds of volume as the, as the demand has softened, but we're still sticking with the $25 million. I think what gives me confidence in that number is that with the changes we've made around the reorganization to get synergies from the, from the way we operate and the way we procure, but also one of the other changes we made at the leadership level is we brought in Greg Oswald as Senior Vice President of Operational Excellence. Greg brings in great rigor, great discipline and the processes and tools that we're using now that are on top of what we instituted back in the beginning of 2019 or even greater and so I suspect that with his leadership and with greater communication across the company, that the $25 million is still an achievable number for us.

Q: And just to clarify, that $25 million was based probably on a higher volume a year ago or so. So you wouldn't realize that fully in 2020, correct?

Barry Ruffalo – Chief Executive Officer
Our intentions are to realize it all in 2020. We do have a headwind of volumes, but we believe that we're going to continue to add to that funnel and we'll be able to realize those savings as we move forward.

Q: Okay. And then the CEI consolidation, when was that completed?

Barry Ruffalo – Chief Executive Officer
Actually, really at the end of February we were basically done with that as far as moving materials and closing down the facility. We still own the facility, so we're essentially done with that restructuring activity now.

Q: Okay. Is there any way to give us an idea of the savings regarding that consolidation?

Barry Ruffalo – Chief Executive Officer
I would tell you that for a full year 2019, we had about $11.4 million in restructuring, $9.9 million of that came in Q4 and we expect all of that to have less than two-year payback.

Q: Great. Just moving to the demand that you're seeing and the trends, you mentioned dealer inventories remain elevated through 2019. Does that mean they still remain elevated at this point or could you talk about the channel inventory? And then regarding your bookings, they seem to improve throughout the year. Is that an indication, or at least stabilize, do you think things have stabilized in the business?

Barry Ruffalo – Chief Executive Officer
Yes, I think you know from previous conversations, Joe, that we really know that our customers, our end-users are busy. And as I've spent a lot of time in the field, whether that was in National Dealer Conferences, the National Asphalt Pavement Association, making trips out to visit with customers myself to build those relationships, to understand the business, almost to a company, they've all said that 2019 was one of the best years they've ever had and they expect as they move into 2020, they expect it to be consistent with 2019. I'm happy to see that on our implied orders, we continued to build strength in those numbers as we went through 2019. I can quote you that as of February, our backlog is up 12% from where we finished 2019.

So, I'm hesitant to say we're at the bottom, but it feels like we're at the bottom, and I think we could potentially be turning the corner. I can also tell you on the dealer inventories, it's something that we're paying a lot of attention to. We know on our mobile Roadtec equipment, our dealer inventories dropped by 33% through 2019. So the dealers are working hard to right-size where they're at. Of course, they're managing lease fleets and inventory and everything. So, we feel good about where we are now in that cycle and what 2020 will bring to us as we move forward.

Q: Okay. And then last question just regarding the GEFCO sale, do you anticipate—that's not finalized, correct? You have not found a buyer for that?

Barry Ruffalo – Chief Executive Officer
We're in the process of talking to interested parties and we expect to have that closed in final by mid-year.

Q: Okay. My question was going to actually be, because I think that was stated in the press release several months ago that you still anticipate the mid-year, but I guess the answer is yes.

Barry Ruffalo – Chief Executive Officer
That's correct, yes.

Q: Okay. All right, great. Thanks.

Operator
Okay. Our next question is a follow-up question from the line of Mig Dobre with Robert W. Baird. Please proceed with your question.

Q: Great, thanks for the follow-up. So let's see where you start. I guess my first question is on Aggregate & Mining. Can you maybe provide some kind of context vis-à-vis demand normalization, I think that's a term that you have used in your release. I guess I'm wondering here that when I look at your order intake for 2019, it was about $350 million, the prior two years they were, call it 432, 407, so obviously lower order intake in 2019. What happened in 2017 and 2018 that maybe was a little bit unique, what's going on in 2019 and why were orders lower and how do you think about this concept of what normalized demand looks like?

Barry Ruffalo – Chief Executive Officer
Yes. Good question Mig, thanks. Of course, I wasn't here during the 2017 and 2018 years. I know that those were good years. As we went through finishing up 2018, there was a lot of market activity and our dealers were building up their inventories. Obviously we were busy supplying them with inventory. As we rolled from 2018 into 2019, I think as we discussed in the past, the season for 2019, and again this is feedback that I personally received from all the customers that I met with, it was a slow start to the season in 2019 for many parts of the United States. And then as they got into the season, everyone that I've spoken to on my customer visits have really referred to the leases and rental opportunities and leveraging that maybe more than they have in the past.

I know as I talk to some of our dealers, they're saying that the rental fleets are becoming a bigger part of the revenue stream. And so that has, I think somewhat delayed the conversions from rental to retail, which then obviously has an impact on us. The great news is if you look at the other public aggregate companies and as I make visits, they had a great 2019. They had great volume years, they had good pricing years. So they have capital available. I think it's more of a delayed spend than it is something that is really—I think that's really the change to the market as we've seen it today.

Q: Well, I mean that's the question, Barry, because—look, the customer is doing well helps, but the equipment investment cycle is not necessarily one-to-one perfectly correlated with that.

Barry Ruffalo – Chief Executive Officer
Correct.

Q: So again, I'm trying to understand the nature of what normalized demand looks like because if what you're saying is that your order intake in 2019 is more in line with what normalized demand looks like then at least in theory your segment revenue in 2020 probably should be down something like 15%, which I think if that would be the case, then that would make it consistent with what some of your peers, like Terex and Cat and on are saying about the aggregate business. So am I missing something here or should we all be thinking something like down 15 for 2020 here?

Barry Ruffalo – Chief Executive Officer
Yes, you know, I guess I'll reiterate the fact that we're not giving guidance as we move forward into the new year. So I'm not going to comment on what we see as far as the market being down on some percentage basis.

I can tell you, I think that as we went through 2019 we saw somewhat of a big swing in regards to we had a lot of inventory out in the dealers, the customers had units that they were comfortable with, and so I want to say, what's the right word, it's more probably a reflex as we finish with that higher inventory that 2019 saw a big drawback on our business. I think that I understand that logically on why that happened.

I think as we move into 2020, I think as we release Q1 results, it will be interesting to see where our implied orders are for that period. And I can tell you that typically we have a dealer orient program that we announced in the Aggregate and Mining side around the November timeframe. We didn't have a lot of customers take us up on that program as far as stocking for their equipment. But as we've exited 2019 and entered in 2020, we've seen more quoting activity. We've seen our dealers with less inventory. So I think 2020 will tell us what that normalized volume really is as we move through the course of the year.

Q: Well, I appreciate that. Look, I'm going to push back a little bit here and say this, if you're telling us on this call that you're seeing your backlog being up for the business 12% since December, you're providing long-term targets of being up 5% to 10% but not really being willing to speak as to what 2020, at least normalized demand would look like, you can appreciate that makes it pretty difficult for folks like us from the outside to look in and say okay, what's reasonable to assume on the fundamentals here. Are we really bottoming or are there other challenges that we need to sort of model in or bake in? So, I think that's what we're all struggling with, just to be kind of clear.

Barry Ruffalo – Chief Executive Officer
No, let me just comment. I appreciate your perspective, Mig, and I know that with us not giving guidance that makes it more difficult for you to have the right information in order to make sure you take care of your shareholders and customers. All I'm doing at this point in time is stating the facts and I think that if you were to press me to say are we at the bottom of the cycle, I think that I'm comfortable in saying here in this call that 2019 really showed us the bottom of our cycle and how fast does it change and how fast does it go up, I think that's yet to be determined. And that's where I'm reluctant to give guidance in regards to what that looks like as we go through 2020.

Q: Fair enough. So related to that, how do you think about the highway bill, especially within the context of an election year here, and that level of visibility, maybe getting a new highway bill approved as a requirement to sort of really put a floor on the business and maybe inflected higher. Is that needed in 2020 or can you sort of see a rebound even absent that?

Barry Ruffalo – Chief Executive Officer
Yes, as I've had that conversation with the customers, certainly any time you go through an election period there is some sort of concern or trepidation and uncertainty around what that means. I think the great thing about where we stand today, both parties agree that an infrastructure bill is something that's needed in the United States. As I talk to the customers, as I've alluded to earlier, they see generally 2020 looking a lot like 2019 for them. So the interesting part will be as we go through 2020, is what does that mean for us. As they convert more rentals to retail, as they make more capital purchases in order to support their year, how does that roll down into Astec Group.

So, I think that I said before as well that we're not going to hide behind the highway bill. We need to be a really good company without a highway bill. Over half the states today have their independent funding through gas tax and so there's been a lot of activity. So I don't necessarily see a big swing or big slowdown because of election based on the feedback I'm getting from customers. But we all know that as we get closer, the political environment could move that, so I think it's a little bit of a wait and see.

Q: Okay. A couple more questions and then I'm done. I don't know if I missed this in your releases, but on the inventory charge, was there a breakdown by segment that was in there, that you can share with us.

Barry Ruffalo – Chief Executive Officer
Go ahead, Becky.

Becky Weyenberg – Chief Financial Officer
Yes. We certainly have it broken down internally, but no, we did not share that break down, and it was really some specific units in specific areas of our business and across the board. But largely, the biggest portion of that was tied to used equipment and so we think of that as kind of a one-time event, as we were setting up dealers moving away from a direct sale business model to a dealer model. We're about 50% through that process, and so as our dealers will now be picking up the used equipment, we shouldn't see that repeat itself. But we did need to take some action on the used in particular along with some other select units.

Barry Ruffalo – Chief Executive Officer
Yes. Let me just add to that. I think you know, Mig, that we're in the process in parts of our business of going from direct sales to distribution and primarily in the mobile equipment side of the business. And as we move down that path and with new management, new leadership, new sets of eyes, we've looked at it and we have to update our policies. We update our policies on how we manage used equipment. We took the position that we needed to be more disciplined and moving forward, I think we all have clear accountability and visibility to how we'll manage that moving forward.

So, we don't suspect that we're going to have an impairment like this again moving forward, with better discipline, better processes, or new reinvigorated disciplined processes. So hopefully, that adds some more color to the situation.

Q: I mean, it does. I'm just looking to make sure that I have sort of clean financials at segment level so that we understand kind of what happened here. That's why I'm asking the question, because it's the same thing with restructuring, right, unless I'm missing something. I'm trying to understand how that played out at segment level as well, you have a couple of things this quarter that were pretty material.

Barry Ruffalo – Chief Executive Officer
Yes, I would tell you that the inventory impairment is primarily in the infrastructure business.

Q: Yes, okay. So on the mobile side probably, is what we're talking about here?

Barry Ruffalo – Chief Executive Officer
Yes.

Q: Okay.

Barry Ruffalo – Chief Executive Officer
And then on the restructuring, I would tell you that the lines share is in the energy business. I would also tell you that, as Becky alluded to in her script, that we're very pleased with the restructuring activities and you can start to see some of the benefit of that showing up in the energy business as we closed out 2019.

Q: Okay, understood. Then maybe my last question, as you're looking at whatever you're going to have left of energy, is there more portfolio action, potential asset sales to be done out of there, or are you considering what's leftover in that segment to be core and part of the company longer term?

Barry Ruffalo – Chief Executive Officer
Yes. So as I alluded to in my opening, we're going to move, as we go into Q1 of 2020 to reporting in two segments, Infrastructure and Aggregate & Mining, as we know them today. The Infrastructure side will include what's left of the Energy. It's really a better fit for the segments that we serve, the customers we work with and the systems that we sell. I think there's really good alignment there. And from a core, non-core, I believe we've done all the heavy lifting relative to the divestitures of our companies and product lines at this point in time.

We will always continue to have open eyes and continue to evaluate as we move forward through time, as you can imagine. But at this point in time, we feel that the product lines that we have left at Astec are product lines that we're going to continue to grow as we move forward in time.

Q: Great, thank you. Good luck.

Operator
Our next question is a follow-up question from the line of Joe Mondillo with Sidoti & Company. Please proceed with your question.

Q: Hi, everyone. Just two quick follow-up questions. Regarding some of the savings that you're going to see this year related to the few things that I sort of was mentioning in my prior Q&A as well as there is probably going to be some other things, how much, I guess reinvestment are you going to see? Or, maybe I can rephrase it another way, of the $25 million related to procurement, $5 million may be related to CEI consolidation, that's looking like $30 million, will that be a net number or are you going to be using some of that to reinvest in the business?

Barry Ruffalo – Chief Executive Officer
Yes, I think that as we look at our capital plan moving through 2020, certainly we've broken out the detail around what part of that is cost savings investment versus innovation versus just general maintenance, and I think we have a good proportional breakdown of the cost savings. I don't have a total right now in regards to, as we look forward on the IT side, you know what that investment is going to be on the ERP strategy. I suspect that the majority of that investment will be post 2020. We'll spend probably a lot of this year doing the work to make sure that we understand what we're going to do and how we're going to do and the timing of that plan.

So I think what we can do for you guys as we move through the subsequent calls and other meetings, we can give you an update on where that stands, so you can have a better feel for what that investment looks like.

Q: Okay. And then this leads me to my second question, which is, I appreciate you're still going through the turnaround strategy and what you want to do over the next few years and that may take a little more time. So, I understand that you haven't sort of maybe laid out the plan as clear as you probably would love to tell us, but I'm just wondering what you're envisioning the timing of maybe putting forth a little more detail on more comprehensive plan step-by-step of what you're doing and what the savings would be multi-year target. I know you have some multi-year targets out there already, but just curious on what your thoughts on that is?

Barry Ruffalo – Chief Executive Officer
Yes. First, let me tell you that I'm really excited and pleased by the energy and momentum in the organization from the changes we've already announced to you relative to really moving away from subsidiary companies and going more to groups around product lines and functional matrix type organization. Everyone sees the value.

We've had people from one site already visiting other sites that quite honestly said they've never been to before. We have expertise in all parts of our business that are now going to other sites and sharing that expertise. So, we're starting to see some real benefit on the operational aspect and operational excellence type initiatives around how do we leverage the skills and abilities to make us better everywhere where we are. So, that's exciting to me.

I see big opportunities relative to cross-selling, we have a very dominant position in the asphalt plant market in the United States, how do we leverage that to sell more of the other parts of our business and other parts of our product portfolio with those relationships and trust. So I think that there is lots of opportunities.

You can imagine some of the synergies and the value that can come from these types of synergies now that we reorganized the company. So we're very excited about that. I think as we move forward, we'll share more of that plan and some of the benefits from that plan through the course of this year. At this point in time, Steve and I and Becky have had a chance to talk about Investor Day later this year, probably in the December time frame, and that would be a great opportunity for us to be with all of you at one place and to roll things out a little bit more constructively and holistically.

Q: All right, perfect. I look forward to it. Thanks a lot, and have a good day.

Barry Ruffalo – Chief Executive Officer
Yes. Thanks, Joe.

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

Steve Anderson – SVP and Director of Investor Relations
Thank you, Doug. Again, we appreciate your participation on this fourth quarter 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 March 18, 2020 and an archived webcast will be available for 90 days. A transcript will be available under the Investor Relations section of the Astec Industries' website within the next seven days. All of that information is contained in the news release that was sent out yesterday afternoon. This concludes our call, so thank you all. Have a good week.

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