Astec Industries, Inc.

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Earnings Call

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Call Participants

EXECUTIVES

Brian J. Harris
Chief Financial Officer

Jaco G. van der Merwe
CEO, President & Director

Stephen C. Anderson
Senior VP of Administration & Investor Relations

ANALYSTS

David Sutherland MacGregor
Longbow Research LLC

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Freedom Broker, Research Division

Stephen Michael Ferazani
Sidoti & Company, LLC

Steven Ramsey
Thompson Research Group, LLC

Presentation

Operator

Hello, and welcome to the Astec Industries Second Quarter 2026 Earnings Call. As a reminder, this conference call is being recorded. It is my pleasure to introduce your host, Steve Anderson, Senior Vice President of Administration and Investor Relations. Mr. Anderson, you may begin.

Stephen C. Anderson
Senior VP of Administration & Investor Relations

Thank you, and good morning, everyone. Joining me on today's call are Jaco van der Merwe, our Chief Executive Officer, and Brian Harris, our Chief Financial Officer. In just a moment, I'll turn the call over to Jaco to provide his comments, and then Brian will summarize our financial results. For your convenience, a copy of our press release and presentation have been posted on our website under the Investor Relations tab at www.astecindustries.com.

Turning to slide 2, I'll remind you that our discussion this morning may contain forward-looking statements that relate to the future performance of the company. Factors that could influence our results are highlighted in today's financial news release, and others are contained in our filings with the U.S. Securities and Exchange Commission. In an effort to provide investors with additional information, the company refers to various GAAP and non-GAAP financial measures, which management believes provide useful information to investors. A reconciliation of GAAP to non-GAAP results are included in our news release and the appendix of our slide presentation.

And now, turning to slide 3, I'll turn the call over to Jaco.

Jaco G. van der Merwe
CEO, President & Director

Thank you, Steve. Good morning, everyone, and thank you for joining us. As you will see, we delivered a solid quarter with record revenues and adjusted EBITDA. We continue to make progress with our strategic initiatives as we drive greater consistency, profitability, and growth.

Moving to slide 4, net sales were up 23.6% over the same period the prior year, and adjusted EBITDA increased 26%. Adjusted EBITDA margins to 10.4%, which was a 20-basis-point increase over a solid second quarter in 2025, and we reported positive free cash flow. The Infrastructure Solutions segment remained healthy as net sales grew 11.6% over the same period the prior year, largely due to demand for concrete, mobile paving, forestry equipment, and inorganic contributions. For asphalt plant customers, order patterns remain consistent with the prior year.

However, macro-driven events such as higher oil prices and uncertainty over the timing of the renewal of the Federal Highway Bill have caused select deliveries to shift to future quarters. Much of our second quarter backlog growth was driven by the anticipated resurgence of our Material Solutions segment, and we are optimistic about the future. Federal, state, and local projects are expected to drive multi-year demand. And the global mining sector is poised for significant investment.

The surge in demand for lithium, nickel, copper, and rare earth elements is expected due to the electrification of transportation and growth in the construction of data centers. Dealer inventory levels in the Material Solutions segment are healthy, and we are seeing increased demand for mobile plants. Rental inventory conversions were active throughout the second quarter, and this provided dealers with the ability to replenish inventory. Our new product development efforts are also beginning to show benefits as new crushing and screening units manufactured in our Omagh, Northern Ireland facility gain traction.

Providing excellent availability of parts and service to Astec customers remains a key priority. In the second quarter, we generated revenue of $135.5 million of parts and service, which was a 34.8% increase over the same period the prior year. As a percentage of net sales, parts and service reached 33.2% for the quarter and trended upward to 35% on a year-to-date basis. Backlog of $601.1 million increased 57.9%. Both segments contributed with most of the increase being derived from our Material Solutions segment.

Overall, order activity in both segments remains encouraging. However, as stated, some asphalt plant customers have begun to schedule their deliveries for the fourth quarter of 2026 and first quarter of 2027. As such, we are revising our full-year 2026 adjusted EBITDA guidance from the previous range of $170 million to $190 million to $160 million to $175 million. For modeling purposes, we anticipate adjusted EBITDA for the second half of the year to have a split of approximately 1/3 in the third quarter and 2/3 in the fourth quarter.

Turning to slide 5, we had a spectacular show at the Hillhead 2026 quarrying, construction, and recycling event held in the United Kingdom in June. Hillhead drew thousands of attendees to see live [in-quarry] equipment demonstrations over a 3-day period. During the show, Astec was proud to launch 8 new models, including our Frontier series units produced in our Omagh facility in Northern Ireland. The Frontier crushing, screening, and washing material handling lines are now available for the global market. All equipment is engineered with the latest innovations, underpinned by proven technology, and is fully compliant with CE standards. We were also pleased to display and operate 2 new prototypes at the show that will be available for sale later this year. Lastly, 2 new U.K. dealers for Astec products were introduced at the show as part of our overall growth strategy internationally.

On Slide 6, we provide a status update for the renewal of the Federal Highway Bill. Two eras of federal surface transportation funding are shown side by side. The infrastructure Investment and Jobs Act, which runs through September 2026, and its proposed successor, the BUILD America 250 Act, covering 2027 through 2031. At first glance, the $580 billion headline number in the BUILD America 250 Act appears smaller. As it pertains to Astec, however, that comparison can be misleading. Astec equipment is primarily used to process aggregates and produce asphalt and concrete that goes into our nation's infrastructure.

We are pleased with the proposed 7% increase in highway funding from roughly $351 billion to $376 billion, and approximately 12% increase to improve our nation's bridges. Money also gets more certain as the formula-funded share climbs from 87% to 90%. These guaranteed non-discretionary portions increase every year, beginning with $65.54 billion in 2027 and progressively stepping up to $69.54 billion by 2031. So the takeaway is this. The BUILD America 250 Act may make a smaller headline, but it channels more government-guaranteed formula-based money into the core highway and bridge programs. The Federal Highway Program provides a meaningful volume of work for the infrastructure industry. This is good for our customers and in turn good for Astec. Exact timing of the Federal Highway Bill renewal has yet to be determined, but a temporary extension in the form of a continuing resolution appears likely.

That said, whether the bill is renewed by September 30th or extended, a longer-term bill is a matter of when, not if. For Astec, this provides a baseline for achieving our 2030 revenue and EBITDA targets. Our implied orders and book-to-bill trends are shown on slide 7. On a consolidated basis, implied orders of $460 million grew $151.5 million, or 49.1%, for the same period the prior year, and 6.7% sequentially. As I mentioned previously, we are seeing strong across-the-board order intake by our Material Solutions segment, while macro uncertainty has created the shift in deliveries for selected asphalt customers.

Moving to slide 8, backlog of $601.1 million increased 57.9% over the same period in the prior year. The majority of the increase was derived from our Material Solutions segment, which grew 150.6% from a combination of organic and inorganic growth. Infrastructure Solutions posted a 12.7% increase, primarily due to additional orders for concrete, mobile paving, and forestry products.

I will now turn the call over to Brian Harris, our Chief Financial Officer.

Brian J. Harris
Chief Financial Officer

Thank you, Jaco, and good morning. Our consolidated financial results are highlighted on Slide 10. Net sales of $408.1 million increased $77.8 million, or 23.6%, over the same period in the prior year. Net sales include parts and service revenue, which grew 34.8% to $135.5 million. Adjusted EBITDA increased 26% to $42.6 million, compared favorably to $33.8 million of adjusted EBITDA in the second quarter of the prior year. Adjusted EBITDA margin reached 10.4% for an increase of 20 basis points. Adjusted earnings per share of $0.94 in the quarter compared to a strong adjusted earnings per share of $0.90 in the second quarter of last year.

Moving on to the Infrastructure Solutions segment shown on Slide 11, net sales grew 11.6% to $228.3 million from a combination of organic and inorganic contributions. This included aftermarket parts and service, which increased $2.9 million, or 4.6%, compared to the second quarter, the prior year. Operating adjusted EBITDA in dollars increased slightly. However, margin compression of 130 basis points was primarily due to a change in mix between asphalt plant and mobile paving equipment.

The Material Solutions segment is shown on Slide 12. Net sales for the quarter grew 43% to $179.8 million due to organic and inorganic growth, while adjusted EBITDA grew 54.5% to $22.1 million. Segment operating adjusted EBITDA margin grew 90 basis points to 12.3% and compared favorably to the same period the prior year.

Moving to Slide 13, we continue to maintain a strong balance sheet with ample liquidity. The quarter ended with cash and cash equivalents of $75.7 million, available credit of $190.1 million, for a total available liquidity of $265.8 million. Net leverage of 2.2x was well within our target range of 1.5x to 2.5x. We expect net leverage to further reduce to approximately 1.7x by end of 2026.

As we have previously communicated, our 2026 outlook includes the following anticipated full-year ranges: adjusted EBITDA of $160 million to $175 million; an effective tax rate of 26% to 30%; depreciation and amortization of $55 million to $65 million; capital expenditures of $35 million to $45 million. We also expect the following quarterly ranges: adjusted SG&A of $70 million to $75 million; interest expense of approximately $7 million.

I will now turn the call back to Jaco.

Jaco G. van der Merwe
CEO, President & Director

Thank you, Brian. Slide 14 reiterates the Astec Build to Connect Way and the key performance metrics shared during our 2026 Investor Day. These are the measures we believe matter most to investors as they deliver significant value. While progress will not occur in a straight line, we remain confident in our ability to achieve these targets by 2030.

Slide 15 summarizes our key investment highlights. We have built a strong reputation as a dependable provider of internationally recognized brands and high-quality solutions. Our team remains closely engaged with customers, and ongoing conversations indicate continued optimism about activity levels across the construction market. We are encouraged by the results of our operational excellence efforts and expect continued improvement over time. We believe our manufacturing and procurement initiatives are increasing efficiency and will support further adjusted EBITDA growth.

Several attractive opportunities and growth drivers support our path to 2030. We have launched a significant number of new products, including the models introduced at the Hillhead 2026 construction show. These products have been vetted through our disciplined, stage-gate approval process. We have additional products scheduled for launch over the next 12 to 18 months, each targeted at specific areas of market opportunity. Continued growth in our parts and service businesses will support margin expansion over time. Public funding remains stable and modestly growing, while our public end markets are generally non-cyclical. Our robust digital offering enables us to meet customer needs for unified connectivity suites that aggregate data across product types.

Next, industry megatrends point to multi-years of growth in demand for construction materials. These megatrends include the construction of data centers, reindustrialization, and the domestic mining and rare earth minerals. Lastly, our strong balance sheet provides attractive options for capital allocation, including strategic inorganic growth opportunities aligned with our financial objectives, growth opportunities in both established and emerging international markets.
With that, operator, we are ready for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of David MacGregor with Longbow Research.

David Sutherland MacGregor
Longbow Research LLC

I wonder if I could just start by asking you to talk about the different scenarios and assumptions behind the upper and the lower ends of the revised EBITDA guidance.

Jaco G. van der Merwe
CEO, President & Director

Yes, Jaco here. Yes, we -- when we look at the new guidance range, obviously, we talked in the earnings release around the shift that we've seen in asphalt plant delivery. So we've actually seen bookings comparable to 2025. But interesting, earlier than normal, we've seen some deliveries from customers being scheduled for Q4 and then already for Q1 next year. So what we've done there is we looked at our ability to react. In the short term, we feel that there's still an opportunity for us to fit orders into the fourth quarter that will drive us to a higher end of the range. And you know, the bottom end of the range, we feel that we have great visibility to achieve at least that range, so it just depends a little bit on timing here in the next couple of weeks of orders coming in.

One thing that I will say is that we actually had very strong bookings towards the end of the quarter for asphalt plants. July turned out to be one of our best bookings months. And we've also seen a very strong bookings month for parts here in July. So, the momentum that we've seen late in the quarter is definitely giving us confidence that we can play within that range. And if we get 1 or 2 plant deals to fall, we can get to the higher end of the range.

David Sutherland MacGregor
Longbow Research LLC

Right. And just to clarify on that, do you think the delays are related to the continuing resolution around BA250 or -- I'm just curious what you're seeing as maybe an explanation for why these are being pushed out?

Jaco G. van der Merwe
CEO, President & Director

Yes, no, good question. We actually looked at the order pattern for last year, and we've seen a similar pattern last year, although I will say, there was maybe a 3-, 4-week period at the beginning of Q2 last year where bookings were slow. This year it was more the first 6 to 8 weeks. And then obviously, orders started to flow through strongly in June and July.

I mean, as you know, there's a lot of uncertainty in the market right now. Our customers are affected by the spike in oil prices, diesel fuel prices. And smaller customers are definitely looking at the highway bill to give them confidence while our larger customers, you know, they typically have a capex cycle and they, you know, apply that as they see fit.

So really David, I mean, it's -- I will say there's a difference maybe of 3, 4 weeks this year compared to last year. But the development and orders here in June and July gives us confidence that there's still demand out there. We have a good pipeline. And, you know, when we talk to customers, there's still a lot of work out there.

David Sutherland MacGregor
Longbow Research LLC

Right. Okay. And as a follow-up, I guess, you know, you made passing reference to the spike in energy prices and some of the cost inflation that's in the market today. I just was wondering if you could talk about the Infrastructure Solutions results this quarter, which didn't really show much operating leverage and you kind of explained that, or Brian did, with regard to the mix and the asphalt plants versus mobile concrete plants. But to what extent was that lack of operating leverage maybe a function of price/cost pressures, and if so, you know, how does that play out from a cadence standpoint over the second half?

Jaco G. van der Merwe
CEO, President & Director

Yes. No, good question. So we've definitely seen a little bit of a mix difference compared to prior year. We saw a little bit of a slower -- lower parts mix, and we did see a little bit of margin pressure on parts. But David, we don't see that to be the norm. We feel that the team is putting the right actions in place to drive that higher.

Last year Q2 obviously was a very strong quarter for the IS team, and our visibility into H2 and into early part of next year, we feel the pricing action that we've taken will hopefully drive that -- back to the margins we've seen last year.

Operator

Your next question comes from the line of Steve Ferazani with Sidoti.

Stephen Michael Ferazani
Sidoti & Company, LLC

Jaco, I do have to follow up some of the previous questions because I'm trying to think about, one, what your guide -- does your guidance now assume we're just going to get the 1-year extension because that seems to have developed much more recently? And then have you gone back and looked at asphalt plant demand when we get into this, you know, extension cycle like we did in 2009? And what's the downside risk, do you think, from that, given a [progress] that appears to be relatively dysfunctional?

Jaco G. van der Merwe
CEO, President & Director

Yes, so just on the bill, Steve, we're obviously very close to our trade associations there, and we're very active in those conversations. I will say, unfortunately, the delay in the bill is not necessarily because of this bill, it's because of other priorities that's overshadowed this. So we did get an indication that there will be a, probably continuing resolution until the end of the year and then hopefully either a new bill introduced or further resolution.

If you look at the historical periods around the infrastructure bill, I mean, basically since the '50s, we've always had a bill. Now, there was a couple of years where we saw a slowdown in orders due to that 1-year extension. But Steve, looking at our bookings here the last 2 months, been very strong. We have a very active pipeline. Our parts booking is very strong. So at this point in time, I mean, there's no indication that we have that, you know, we're going to see a slowdown here. There's a lot of work to be done. We all know the state of our country's roads. So at this point in time, we have no indicators to give us a view that this will cause a slowdown.

Stephen Michael Ferazani
Sidoti & Company, LLC

Great. That's very helpful. And then clearly, I mean, we can look at the numbers, look at what was actually very strong IS revenue, just on the lower margin, and that's clearly mixed with the lower asphalt plant deliveries. But that clearly indicates outside of that, some of your other IS product lines have to be doing quite well. Can you talk a little bit about what's driving that and how much of that's driven by new product innovation, all the new ones you've come out with, or just gaining share?

Jaco G. van der Merwe
CEO, President & Director

Yes, so on the IS side, we actually have a really nice diversified portfolio now on the IS side between asphalt, concrete, and the mobile equipment side. Over the last 4 or 5 years, as you know, Astec has the same old, I will say, market-leading position in concrete. And we are very proud of the mix that business have provided us.

It's a very strong performing business for us. On the mobile side, last year we had a pretty slow business on the mobile side, especially, you know, Q3 and Q4 last year. We feel that Q3, Q4 this year on that side is going to be stronger. So, you have to be overall strong.

Stephen Michael Ferazani
Sidoti & Company, LLC

But why?

Jaco G. van der Merwe
CEO, President & Director

From -- oh, from why? Yes, I mean we have, we introduced a new Shuttle Buggy or a replacement of an older model. That has received very good reaction from our customers. So now we have 2 models in the market, and our backlog on that equipment is now well into next year. Most of the new products that we've talked about at ConExpo and at Hillhead is actually in the Material Solutions side. So that's -- we're very confident about what that team is doing and the pipeline of new products that's flowing going through that business.

Stephen Michael Ferazani
Sidoti & Company, LLC

Got it. That's helpful. When we think about the Material Solutions side, which is clearly generating stronger results, the concern would be we know that things sort of slowed down when we had higher interest rates. We might be heading into that environment potentially again, um, any risks there and what are you seeing?

Jaco G. van der Merwe
CEO, President & Director

Yes Steve, I think, obviously interest rates is always something that customers and dealers are thinking about. What I will say, interest rates have been on the higher end now compared to the absolute low we saw. And we think that everybody is just used to doing business in that higher environment now. Our dealers' rental fleet utilization is actually really strong.

I spoke to one of our regional sales leaders yesterday, and the rental utilization of various of our top dealers are well above 80% in some cases. And that just gives an indication that there's a lot of work, equipment is on the rental. And like we said in the prepared remarks, we've actually seen a very nice conversion of our rental to purchase, which gives the dealers the opportunity to purchase, to buy new equipment and put that back into their rental fleets.

Operator

Your next question comes from the line of Steven Ramsey with Thompson Research Group.

Steven Ramsey
Thompson Research Group, LLC

I wanted to continue the topic in the materials segment. Can you talk about the organic demand within the segment, and then using the word resurgence to describe the demand profile there, can you talk about the nuances there of resurgence and if it's simply tied to some of the dynamics you just talked about or if it applies to other market verticals?

Jaco G. van der Merwe
CEO, President & Director

If you look back at Material Solutions a little bit over the last 4 or 5 years, you will remember that when we came out of COVID, we obviously came out with a very strong backlog and to some extent a backlog that was probably higher than what the market was absorbing at the time. And then we went through a period of time where we saw us working down inventory that was created in the dealer channel.

So we are now probably more in a, I want to say, a stable environment for that business. Our dealers' inventory is very healthy and right now there's a lot of work across the country. When we came out with that record backlog in 2022, a lot of it was focused to 1 or 2 dealers. This time we're seeing it across the board, and we're actually seeing a couple of significant retail orders where a dealer got orders for equipment that will go directly to a customer, no rental. So yes, just overall, it's been a strong business there.

Obviously, you know, TSG is in that product line. We actually had our best bookings month for TSG last month. So, you know, overall there's good strength. International on -- MS has been strong. So, you know, the work that the team have done there on new products, improving the quality of the product over the last 2, 3 years are, in our mind, really starting to pay off.

Steven Ramsey
Thompson Research Group, LLC

Okay. That's helpful. And then in the infrastructure segment, the concrete and mobile equipment side of things, as those are improving for you, what is the mix impact to margin from those 2 categories growing? And if concrete lags asphalt plants, is there a pathway to concrete getting to parity with asphalt plants?

Jaco G. van der Merwe
CEO, President & Director

Yes, so from a financial performance, I will say our concrete plants are in line with the performance of our asphalt product line. It's performing very well. Once again, since we've acquired those companies, we've done a lot of great work there. Typically margins on your mobile equipment is lower than what we have on the, I will say the engineer-to-order product lines. So if we see a bigger mix of mobile equipment, it will definitely put a bit of pressure on the overall margins. However, we do see maybe a couple of percentage points swing in that mix, but I don't think it will be significant that it will drive margins down from where they are right now.

Operator

Your final question comes from the line of Dilyara Sailaubayeva from Freedom Broker.

Dilyara Sailaubayeva
Freedom Broker, Research Division

So I just would like to ask on the Material Solutions side, like given the mix shift toward this segment, how should we think about the timing of the backlog conversion in the second half?

Jaco G. van der Merwe
CEO, President & Director

Yes, we -- backlog on Material Solutions. We already have quite a bit of product for deliveries out in the early part of next year. But most of the backlog that we have will convert this year already. So that gives us good confidence about H2, especially on the Material Solutions side, because we have quite a bit of the outlook already covered in terms of capital orders.

Dilyara Sailaubayeva
Freedom Broker, Research Division

Yes, thanks. So just to follow up on the guidance side, like is the revised guidance mainly reflecting the pressure in the Infrastructure Solutions, or are there any other factors that you are implementing in the guidance?

Jaco G. van der Merwe

CEO, President & Director

Yes, I mean, I want to make sure we clear here that the guidance change was primarily due to the shift in deliveries of plants. So, the business is strong, bookings is comparable to last year, and I've already mentioned, June bookings was strong, July bookings was strong. So we see a shift of deliveries to Q4 into Q1 on that side. And as you know, if you move 3 or 4 plants from one quarter to the next, or from one year to the next, it can have a significant effect on our financial results.

Operator

There are no further questions at this time. I will now turn the call back to Steve Anderson for closing remarks.

Stephen C. Anderson
Senior VP of Administration & Investor Relations

Thank you. We appreciate your participation in our conference call this morning and thank you for your interest in Astec. As today's news release states, this conference call has been recorded. A replay of this conference call will be available through the registration link provided in our news release, an archived webcast will be available for 12 months. The transcript will be available under the Investor Relations section of the Astec Industries website in 5 business days. This concludes our call, and I'm happy to connect if you have additional questions. Thank you all, have a good day.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.