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Earnings Call

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Call Participants

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Stephen Michael Ferazani
Sidoti & Company, LLC

Steven Ramsey
Thompson Research Group, LLC

Presentation

Operator

Hello, and welcome to the Astec Industries Fourth Quarter and Full Year 2025 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. 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 the presentation have been posted on the 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, and these statements are intended to qualify for the safe harbor liability established by the Private Securities Litigation Reform Act. Such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions. Factors that could influence our results are highlighted in today's financial news release and others are contained in our filings with the U.S. Securities and Exchange Commission. As usual, we ask that you familiarize yourself with those factors.

In an effort to provide investors with additional information regarding the company's results, the company refers to various U.S. GAAP and non-GAAP financial measures, which management believes provide useful information to investors. These non-GAAP measures have no standardized meaning prescribed by U.S. GAAP and are, therefore, unlikely to be comparable to the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures. 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 will 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. We were pleased to report strong fourth quarter and full year results that shows the benefits of our focus on consistency, profitability and growth. I would like to thank our Astec team members for their dedication and hard work that produced a successful year in 2025.

On Slide 4, we highlight our fourth quarter and full year performance. For the quarter, we achieved record fourth quarter net sales of \$400.6 million. Full year net sales increased 8.1% due to a combination of organic and inorganic growth. Adjusted EBITDA for the quarter was a solid \$44.7 million. This yielded an adjusted EBITDA margin of 11.2%. Adjusted EBITDA of \$140.7 million for the year was at the upper end of our guidance range. The full year adjusted EBITDA margin was 10%, which was a 140 basis point increase over the prior year.

We are optimistic about 2026 due to our progress on internal initiatives, positive customer sentiment and the stability provided by federal funding for infrastructure in the United States. Based on expected organic and inorganic contributions, our full year 2026 adjusted EBITDA guidance range is \$170 million to \$190 million. We continue to generate positive free cash flow, which allows us to fund both organic and inorganic growth. In 2025, we saw healthy demand for asphalt plants and concrete plants within the Infrastructure Solutions segment, while forestry and mobile paving equipment were challenged. During the fourth quarter, we saw an increase in the backlog for forestry and mobile paving equipment, though they remain at the lower end of historical ranges.

The Materials Solutions segment demonstrated anticipated recovery late in the year with a combination of organic and inorganic growth. Federal funding, healthy state and local budgets and the construction of data centers are expected to drive multiyear demand in the Materials Solutions and Infrastructure Solutions segments in 2026. Parts sales increased 19.7% versus the fourth quarter prior year. For the year, parts sales totaled \$432.7 million, representing an 11.5% increase over the prior year and 30.7% of total net sales in 2025. As previously stated, growing our parts and service business continues to be a priority. We were pleased to show an increase in backlog to \$514 million. This represented sequential year-over-year growth of 14.4% and 22.5%, respectively, through a combination of organic and inorganic activity.

On Slide 5, we highlight the acquisitions of TerraSource and CWMF that collectively represent over \$200 million of annual revenue acquired by Astec. As part of the TerraSource integration, we will share their new brand designs at ConExpo. The new designs are consistent with existing Astec products and incorporate our name and logo with the TerraSource legacy flagship brands, including Gundlach, Jeffrey Rader, Pennsylvania Crusher and Elgin. Our joint teams are busy expanding the parts sales force, coordinating sales channels and cross-selling strategies, pursuing new product development and assessing opportunities for optimal factory use. We anticipate benefits from these actions will be realized in 2026.

On January 1, 2026, we were excited to welcome the skilled and dedicated employees of CWMF to the Astec family. As a reminder, CWMF is a highly respected manufacturer of portable and stationary asphalt plant equipment and parts, primarily concentrated in the Midwest, South Central and Great Lakes regions of the United States. Our organizations are a strong cultural fit, and we expect CWMF to be accretive from day 1.

Slide 6 provides detail on the state of the U.S. infrastructure and aggregate industries. Astec benefits from strong road construction and aggregate markets in the United States. As you may know, in 2022, Congress approved a 5-year \$347.5 billion infrastructure investment bill. Funds committed within the bill totaled \$248 billion or 71% through November 30, 2025. These highway and bridge formula funds support over 111,000 new projects and construction increased over the prior year. Although the existing 5-year bill is set to expire on September 30, 2026, Congress recently reached an agreement on transportation spending legislation for the remainder of fiscal year 2026 and now plans to turn their attention to securing an on-time renewal of a robust long-term surface transportation reauthorization.

Investments in highways, bridges and street construction also supports the U.S. aggregate industry as aggregates are used in asphalt, concrete and as base material. In addition to expected increases in federal funds for roads and bridge construction, 2026 state transportation budgets anticipate growth as well. Data centers and the aggregates and the infrastructure necessary to support them are also expected to drive multiyear demand. In an October 2025 study by Thompson Research Group, aggregate quarries within a 30-mile truck haul distance of a major data center construction project saw the demand for aggregate tonnage that nearly doubled that of preconstruction levels.

Overall, a healthy compound annual rate of 3.41% is expected for the U.S. aggregate markets through 2033. These industry trends provide advantages for Astec, a company specializing in the rock to road sector. Ongoing infrastructure enhancements contribute to sustained demand for our equipment, parts and digital solutions. Our established reputation in aggregates as well as road and bridge construction underpins consistent growth.

On Slide 7, we show fourth quarter implied orders, which were up \$46 million or 11% from the prior quarter in 2024. The Infrastructure Solutions segment showed a 31% increase, while our Material Solutions segment declined slightly by 6.8%. We were pleased with our overall order intake as our book-to-bill ratio was 116% on a consolidated basis. The book-to-bill ratios for the Infrastructure and Material Solutions segments were 115% and 117%, respectively.

Moving to Slide 8. We are pleased to report that our backlog grew to \$514 million and increased on a sequential and year-over-year basis by 14.4% and 22.5%, respectively. The backlog in our Infrastructure Solutions segment reflects a combination of strong order activity for asphalt and concrete plants, partially offset by softer demand for mobile and forestry equipment. We are especially pleased with increased backlog in our Material Solutions segment, which grew \$105.8 million or 92.7% over the prior year fourth

quarter from organic and inorganic contributions and \$29.9 million or 15.7% sequentially. As a reminder, backlog represents the dollar value of firm orders with executed contracts. Backlog is also a function of lead times, and we continue to focus on increasing our manufacturing velocity to fulfill customer orders as soon as possible.

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

Brian J. Harris
Chief Financial Officer

Thank you, Jaco, and good morning. Next, I will cover our fourth quarter consolidated results, details by segment, liquidity and leverage, along with some 2026 outlook detail.

Turning to our financial performance for the quarter and the full year as represented on Slide 10, we achieved record fourth quarter sales driven by heightened demand for both capital equipment and aftermarket parts. Adjusted EBITDA and margins increased due to strong volume, favorable pricing and product mix. For the fourth quarter, adjusted earnings per share were \$1.06. For the full year, net sales grew 8.1%, which was attributable to incremental net sales from the acquired TerraSource business as well as positive organic volume and mix, coupled with favorable pricing.

As Jaco mentioned, we were pleased to report an adjusted EBITDA of \$140.7 million, which was at the high end of our guidance range. Both segments experienced growth as adjusted EBITDA margin on a consolidated basis expanded by 140 basis points to 10%. Adjusted earnings per share for the full year ending 2025 were \$3.33, representing a 28.6% increase over the prior year.

On Slide 11, we show the Infrastructure Solutions segment, which generated fourth quarter net sales of \$223.6 million. This measured to a strong prior year comparison of \$248.8 million as solid demand for asphalt and concrete plant sales were offset by softness for mobile paving and forestry equipment. Aftermarket parts sales were relatively flat, albeit at healthy levels. Q4 delivered an adjusted EBITDA margin of 15.8% that compared to an exceptional prior year Q4 EBITDA margin of 21.3%. For the year, net sales increased \$20 million or 2.4%. Segment operating adjusted EBITDA was \$134.3 million for 2025 compared to \$121.5 million for 2024 for an increase of \$12.8 million or 10.5%. Full year adjusted EBITDA margin grew 120 basis points to 15.7% compared to 14.5% in 2024.

The Material Solutions segment is shown on Slide 12. Net sales and segment operating adjusted EBITDA for the quarter increased substantially over the same period in 2024. Increases were primarily due to the impact of net favorable volume and mix from inorganic and organic operations, coupled with favorable pricing. Adjusted EBITDA margin for the quarter increased 530 basis points to 11.8%. For the year, net sales increased 18.2% to \$553 million over the prior year, and adjusted EBITDA grew 49.5% to \$55.6 million. Adjusted EBITDA margin in 2025 reached 10.1% compared to 8% in 2024 for an increase of 210 basis points.

As shown on Slide 13, our balance sheet remains strong, supported by substantial liquidity. At quarter end, we had \$70 million in cash and cash equivalents, along with \$244.7 million of available credit, resulting in total liquidity of \$314.7 million. Net debt to adjusted EBITDA of approximately 2x is well within our target range of 1.5 to 2.5x. This provides us with the capacity for continued organic and inorganic growth. For our 2026 outlook, you should take into account the following anticipated full year ranges: adjusted EBITDA of \$170 million to \$190 million, an effective tax rate between 25% and 28%, capital expenditures of \$40 million to \$50 million, depreciation and amortization of \$55 million to \$65 million and the quarterly range for adjusted SG&A of \$70 million to \$80 million.

I will now hand the call back to Jaco.

Jaco G. van der Merwe
CEO, President & Director

Thank you, Brian. Moving to Slide 14. Please mark your calendars to visit us at the 2026 CONEXPO-CON/AGG trade show in Las Vegas from March 3 through the 7. Our display will be located in the central hall in Booth C30236, where we will showcase several new products. We will also demonstrate our existing

new Signal digital platform and extended reality offerings. These products are all available for sale and will have a positive impact on organic growth. We hope to see you there.

Slide 15 provides an overview of our key investment highlights. We are proud of Astec's long-standing reputation as a trusted source of globally recognized brands and premium solutions for our customers. Our team is highly engaged with customers. Based on recent interaction, customers have a favorable outlook about ongoing construction market activity. We are glad to see our dedication to operational excellence is producing strong results, and we expect to realize additional benefits moving forward. Efforts within our manufacturing and procurement are enhancing efficiency, and we are seeing continued improvement in adjusted EBITDA.

Our growth is supported by several promising opportunities, including growing our recurring aftermarket parts business, which remains a top priority for the Astec team, advancing our robust pipeline of innovative new products, many of which will be on display at ConExpo, having a consistent multiyear federal and state funding for interstate and highway projects within our core U.S. market. Exploring expansion possibilities in both established and emerging international markets, pursuing inorganic growth with our demonstrated disciplined and focused approach to strategic acquisitions. As Brian mentioned, our strong balance sheet provides flexibility to fund our growth initiatives and manage leverage effectively. With that, operator, we are ready for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Steve Ferazani with Sidoti.

Stephen Michael Ferazani

Sidoti & Company, LLC

Obviously positively surprised by the strong fourth quarter revenue. I know you were facing a challenging comp and then really surprised by the strong backlog in 4Q, the orders as well as the guide. So I want to dig into some of those pieces. As far as what you're seeing in Material Solutions, it looks like that's where you really significantly beat me on the top line this quarter. I'm assuming that's what's contributing to the strong guide given the orders. What started to turn that around, Jaco? I know we went through several quarters where it just remains soft. You had pointed before to higher interest rates as they came down, that could help as well as all of those products were underused just because some of the smaller customers weren't ready to buy and it was coming, and now we see it's coming even if we back out TerraSource, we see you saw it on the organic side. Can you talk about what's turned that market so quickly?

Jaco G. van der Merwe

CEO, President & Director

Yes. Steve, we definitely saw a good order intake on both businesses, the legacy MS and TSG business. I will say TSG also came through really strong during the fourth quarter, and we got the results that we were looking for when we did the business. I will say we talked a lot about the state of inventory in our dealer network. And we have seen and spoke to our dealers this year recently, they have very healthy backlog situations. Now they have very healthy inventory.

For a while there, they didn't necessarily have the right inventory. We worked through all of that. Their rental utilization is really strong. And obviously, some of those inventory started to convert and hence, the bookings on our side. We have also seen a very positive development around data centers that is affecting this business. We see multiple of those super large projects coming through. And our team is very well positioned to enjoy some of that business. And I know our dealers are highly engaged with these large projects. So yes, we are also excited about this. I think our team is ready to take advantage of this and hence, the outlook that we provided for 2026.

Stephen Michael Ferazani

Sidoti & Company, LLC

Okay. And flipping over to Infrastructure Solutions, that backlog actually was ahead of where we were thinking as well. Just because our expectation was as you enter the last year of the current highway funding bill, maybe you'd see a slowdown in concrete and asphalt plant orders. That doesn't seem to be happening.

Jaco G. van der Merwe

CEO, President & Director

Yes. No, you're right, Steve. So we're happy with how the year ended. Obviously, we had a very strong comp versus the prior year, but bookings stayed pretty strong. And I'm happy to say here in the first couple of weeks of the year, both MS and the IS business, the order intake has been strong as well.

Stephen Michael Ferazani

Sidoti & Company, LLC

And you're a little bit closer to this. Any updates on what you think highway funding might move forward this year? And are there any concerns on your end if it slowed down?

Jaco G. van der Merwe

CEO, President & Director

Yes. So a couple of things on that. So we were at the National Asphalt Pavement Association just here a couple of weeks ago, and we got an update there from our government affairs teams. And they believe that conversations are on track that we will hear something about an infrastructure bill here in the next couple of months. On a positive note, as we mentioned in our prepared remarks, is that funding for 2026 was actually approved by Congress.

So overall, I think our customers is in a good space. We know that most of them have very good backlogs for the year. So I think our customers are very focused on the long-term possibilities of U.S. infrastructure. And even if the bill doesn't get renewed on time, we feel that there is good momentum, the need for infrastructure is there. And I think our customers are looking beyond just the bill year at the end of the year. Of course, if we do get -- I think it will be very positive for us and for our customers.

Stephen Michael Ferazani
Sidoti & Company, LLC

Got it. That's helpful. When we -- I want to turn to the guidance, which is certainly on EBITDA well above where we were. I'm trying to think about, Jaco, since you've taken over, you've tried to improve production efficiencies. I know you've made investments in the plants. You've been growing parts sales, which are higher margin. I'm trying to think of how much of this growth is driven straight by top line or how much you think this is on margin beyond just the margin improvement generated by higher throughput?

Jaco G. van der Merwe
CEO, President & Director

Yes. Steve. So I mean, if you look at the walk from '25 to '26, there's obviously a couple of things that plays a role there. We have full year TSG. We have CWMF, which will basically be work for us for the full year. We've built some synergies in there for those 2 deals, and we feel pretty good about our progress around synergies. Obviously, these synergies take a while to work through the inventory that we already have. And we do see some organic growth for this year. And obviously, we baked some of that into the number. If we get a highway bill or a new infrastructure bill, we could probably go to the higher end of the range, but we felt that, that range is something that we feel makes sense this early on in the year.

Stephen Michael Ferazani
Sidoti & Company, LLC

You haven't talked that much about the numbers around. I know CWMF is much smaller. Can you talk about what that contribution is to your range in 2026? And then as a follow-up, just how we should read through on your -- what your M&A strategy sort of is with TerraSource and now CWMF?

Jaco G. van der Merwe
CEO, President & Director

Yes. So on CWMF, obviously, we disclosed the sales that they have. And we haven't shared exactly what their profitability is. But Steve, we did mention that it's accretive from day 1. So we are very happy with where they fit their margin profile fit in with the rest of our asphalt business. So you can do that math a little bit. But overall, we feel that they will be accretive day 1.

From an acquisition point of view, I mean, obviously, we have good momentum right now. I will say our team have done a fantastic job with teaming these 2 deals up. The integration has been going really well. And so we have the team available to continue to go down this path. Our liquidity is in a strong position right now. So we're going to continue to look. And there's a lot of opportunities for us still to grow both in the U.S. and internationally. So yes, we're excited about where we are. We're excited about the firepower we have available. And hopefully, we'll find similar companies like TSG and CWMF to add to the team.

Operator

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

Steven Ramsey

Thompson Research Group, LLC

I wanted to start with the -- maybe kind of continue the CWMF topic for a minute, the improvement potential that you can bring to that business or how both businesses can benefit from each other and seeing that it's accretive day 1, if you could talk to their parts contribution and maybe where Astec can help on that front.

Jaco G. van der Merwe

CEO, President & Director

Yes. No, absolutely. When I look at the CWMF business, the first thing is the owners, Carmie and Travis, they've done a fantastic job with this business. They've created a great culture, and that culture fits in so well with Astec -- it is amazing to me just how fast our teams have come together here. Obviously, we know this business in and out. And the discussions between our teams around working together, integrating sales structures, synergies has gone as good as what we could have imagined. This business and the previous owners, they've done a fantastic job creating a very nice manufacturing facility with good capabilities. And we see opportunities to use that facility and grow the output together with the rest of our Astec asphalt teams.

From a parts point of view, their parts mix is a little bit lower than what we have on our traditional asphalt business, Steve. So there's a big opportunity there to grow that, we're going to do the same thing with them to make sure we have great parts availability. And we'll give our customers the support that they deserve and they used to from a legacy Astec point of view. So yes, we're excited about this. This buy will give us much more than just another asphalt product line. It will give us manufacturing capability. It brings a great team to the table. So yes, we feel very confident about what this will look like in a couple of years.

Steven Ramsey

Thompson Research Group, LLC

Excellent. And then sticking to acquisition -- recent acquisitions. For TerraSource, can you talk about the progress with this business? Good to see margin improvement in the Materials segment. And can you talk about the improving fill rates within TerraSource? I know that was a focal point. Can you talk about where it is now versus where it was when you closed the deal?

Jaco G. van der Merwe

CEO, President & Director

Yes. No, Steve, obviously, we're still pretty early in that improvement cycle. One thing that I will say is that our teams have done all the calculations. We know exactly what we need to do and what is the inventory that we need to put on the shelf. That process is going. And I will say within the next 3 to 6 months, we're going to be very close to where we want them to be. And we know that, that will have a positive influence on the business. So good interaction, good buy-in from the team. They're running with this. And obviously, the Astec team just supports them.

The other thing that we're making sure of is as we bring this inventory in, we make sure that we take advantage of the synergy opportunities that we have so that we can bring that inventory in at the levels that we can buy for in our legacy Astec business. So yes, we're excited about that. Overall, the performance for TerraSource for the 6 months we've owned them have been in line with our expectations. And I will say here in the last couple of weeks, we've made significant improvements in the integration of the team. Just yesterday, I listened to our engineering team talking about the products that we're going to have at ConExpo. And I mean, this just fits in so well with the Astec business. So yes, we're excited about what they're going to bring to the table in the future.

Steven Ramsey

Thompson Research Group, LLC

Okay. That's great. And on the Materials Solutions segment, you pointed out, obviously, infrastructure activity and data centers. Can you talk a little bit more on data centers and how your equipment is being deployed there? And how much of your data center growth is following customers versus intentional efforts on your part? And then maybe one other thing on data centers is ballpark how -- if you can gauge it, how much data center exposure you have?

Jaco G. van der Merwe
CEO, President & Director

Yes. We actually try to calculate that a little bit because I will say the majority of the crushing and screening that's going to be needed to get these data centers built will be done by companies that we already do business with. So it's not that you will see a huge amount of new start-ups popping up. So these are customers that we have relationships with. They are close to our dealers, and we're taking advantage of historical relationships.

We've seen quite a few large projects that's coming our way. And we're going to try to take advantage as much as we can. We are adding capacity in our facilities, again, to make sure we can take advantage of this. So Steve, I think we're well positioned exactly how much it will contribute. We haven't got to a number that we feel comfortable yet, but we can just see what is in our quoting pipeline. And we feel that this business will be strong and support our EBITDA guidance range for the year.

Steven Ramsey
Thompson Research Group, LLC

Okay. That's excellent. And to clarify, the demand for data centers that you're -- is it being filled through dealers primarily? Or is there any direct business?

Jaco G. van der Merwe
CEO, President & Director

Yes. No, most of that is through dealers. So our crushing and screening product line goes through dealers. Obviously, there's concrete needed there as well. That goes through a dealer structure. Obviously, any asphalt that is done around data centers that we sell directly to customers. And once again, there -- a lot of our existing customers are involved in that construction.

Steven Ramsey
Thompson Research Group, LLC

Okay. That's helpful. And one thing I wanted to make sure of with the EBITDA guidance, do you expect margin expansion in both segments?

Jaco G. van der Merwe
CEO, President & Director

Yes. So Stephen, we've been talking about growing our margins 0.7% to 1.5% a year on average. And if you go and look at the last 3 years, I think we've successfully done that. And I mean, it's our aim to build on our consistency and continue to try to achieve those improvements year-over-year. And we won't do our job if we don't do that again this year. So obviously, there's a lot of work to be done to achieve that. But I think we've shown that we can do it. And the team is ready to go and execute this year. We know how to do it. We know that we have the opportunities. So now it's just to us to go and execute.

Steven Ramsey
Thompson Research Group, LLC

Excellent. And then last quick one for me. ConExpo, a big event that clearly doesn't happen every year. Can you talk about in the past, if this helps sales in the coming quarters to a degree as you roll out new products or highlight improvements to existing products? And is there any scenario where ConExpo is a needle mover enough to shift the guidance or go to the high end?

Jaco G. van der Merwe
CEO, President & Director

Yes. Yes. These big shows, you can always question, is it delivering a good return on investment. I will just say we are very excited about this ConExpo. Basically, every product that we have on display is either new or substantially upgraded. We are going to launch our Signal digital platform there that I'm very excited about. So Steven, I will say, are we going to walk away there with \$100 million in new orders? Probably not. But will this send a signal to the market and to our customers that Astec is strong. We are unified under our brand. We will have TerraSource on display. Our CWMF team will be part of us. So I think we're going to show really strong, and it's going to give our customer confidence. And I'll be honest with you, I think it's going to give our own team members a boost just to see how well we show up now as we're still a relatively small player in the market. So yes, I'm excited. Hopefully, we'll see you there next week. And hopefully, we'll have great attendance as well.

Operator

Your next question comes from the line of David MacGregor with Longbow Research.

David Sutherland MacGregor

Longbow Research LLC

Congratulations on the strong results. I wanted to begin by just maybe picking up on your last point there with regard to rolling out the digital platform at ConExpo. Maybe you could just talk about kind of progress on building out digital solutions generally. And I know this is something you've been doing a lot of work on, but I guess the goal is ultimately to make Astec easier to buy from. And just how should we think about this as a revenue growth facilitator in '26?

Jaco G. van der Merwe

CEO, President & Director

Yes. No, David, I mean, that's a great question. And if I look at the state of our industry and some of the larger players and where we want to take this business, the world is going to look at basically what I call dumb iron and how do we make this dumb iron more productive and more reliable. And that's one of the things that we want to achieve with our digital platform. I mean we want to give our customers great visibility around how their equipment is performing, are they getting the utilization of their equipment. And then most importantly is how do we help our customers to ensure that their equipment runs all the time. And our digital platform is going to help them to do that. And we see various opportunities coming out of that, driving parts business and increasing our service offerings. So it will help us to grow that parts and service business in the future.

And there's a big opportunity here. I will say we're just scratching the surface on what this business can become. And if you go to ConExpo, you will see how this is now integrated in every piece of equipment. And I hate to use the AI term here, but our teams are doing really good things to start to bring more and more opportunities that we can help our customers using the data to make better decisions. And we have multiple large customers now that's standardizing on our platform, and they're going to be the beneficiaries of this. So I know they're all looking forward to next week because they're going to see the full capability. And we're excited. I think it's going to be great for us long term.

David Sutherland MacGregor

Longbow Research LLC

Yes. It's exciting. The second question for me. You mentioned in your prepared remarks that you were seeing a modest positive inflection in orders within the forestry business. I just wanted to maybe get you to talk about that a little bit further and what you think you're seeing there and the extent to which you may expect some follow-through.

Jaco G. van der Merwe

CEO, President & Director

Yes, the forestry business was an interesting one in the last 12, 18 months. We've owned the Peterson business now for, I think, 12, 13 years. And this down cycle was probably the worst we've seen since we've owned it. A couple of things there. The paper and pulp industry is a little bit in turmoil. And then

thank goodness, the U.S. didn't have much storm damage last year. But obviously, that typically drives quite a bit of business for us. So I am, however, happy to say that the last couple of weeks, we've actually seen some decent order intake there. And that's a business that traditionally when it was running at full cylinders that we -- it made really good profit. So if that comes back, it will add to our profitability. And obviously, we baked some of that in already in the EBITDA outlook.

David Sutherland MacGregor

Longbow Research LLC

Okay. Good. I wanted to get you to talk a little bit about the parts business in 2026 as well. And I know that you've put a lot of work in the strategic inventory investments and expanding the service support. How should we think about the drivers here in 2026? What changes, if anything, in terms of how you go after that business?

Jaco G. van der Merwe

CEO, President & Director

Yes. So a couple of things there. We're continuously looking at the way we go to market. One of the platforms that you will see at ConExpo is what we call MyAstec. And that's a digital platform that we've created starting for asphalt plants, where we're creating a digital twin for our customers that makes the ordering so much easier. So that platform is rolled out. We've just started to now introduce that to the concrete plant side of the business. So we're really trying to find ways to make it easier for our customers to do business with us. So that's one thing.

The second thing is we are continuously strengthening our presence in the market. So with CWMF on board now, we got some part sales guys from them. We've broken up our territories a little bit. So now we have even more feet on the street for parts on asphalt side. And then, of course, the TSG side, big opportunity there. These guys, when we bought them, they basically were in the, I will say, the second or third innings of reviving these historical strong brands. And we are enabling them, focusing on full rate. We're adding salespeople to go after that parts business. And David, obviously, these things take time. The actions of last year will pay off this year. And the actions we're putting in place now will play out well later in the year and into next year.

David Sutherland MacGregor

Longbow Research LLC

Got it. Last question for me is maybe for Brian, just on working capital in the model for '26 and how we should be thinking about source versus use. And I guess within that, I know that on the equipment side, you've seen people ordering on shorter lead times. Does that give you the ability to fund growth in parts inventory with maybe a little less equipment inventory?

Brian J. Harris

Chief Financial Officer

Yes. Thanks, Dave. Thanks for the question. Yes, working capital continues to be an area of focus for us, obviously, the better cash flow that we can generate, the more ability we have to grow. I think in 2026, we're going to see further opportunities to improve our working capital management. It's always a little bit tricky to judge exactly where you'll be at the year-end. We shipped a lot of inventory, but sometimes it goes into receivables in the short term. So year-end forecasting can be a little challenging.

But overall, I do see opportunities for continued improvement. And of course, we're going to drive cash through increased operating earnings as well. And then we've got -- you'll see our guide on our capital expenditure of \$40 million to \$50 million next year. We've got a lot of good projects in our plants for operational improvement, improved quality and automation. So we'll be reinvesting some of that free cash flow back into the business. But overall, I think working capital should improve slightly.

Jaco G. van der Merwe

CEO, President & Director

David, maybe one other comment just to add to that. We -- a lot of our ETO business, we don't have finished goods inventory. So it's -- the real opportunity is strengthening that parts availability. And you hit the head on the nail or the nail on the head there by saying that we want to make sure we drive that. And on the TSG side, we've done the calculations. And yes, it will take a couple of million or so of inventory, but it's not that it's going to be a double-digit number that we need to add to fix that. So it's doable within a fairly decent investment.

David Sutherland MacGregor

Longbow Research LLC

Congrats again on all the progress and look forward to catching up with you next week.

Operator

That concludes the Q&A session. And now I'll turn the call over to Steve Anderson, Senior Vice President of Investor Relations.

Stephen C. Anderson

Senior VP of Administration & Investor Relations

All right. 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 the conference call will be available through March 11, 2026, and an archived webcast will be available for 90 days. The transcript will be available under the Investor Relations section of the Astec Industries website within the next 5 business days. This concludes our call, but we're happy to connect later if there are additional questions. Thank you all, and have a good day.

Operator

Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.

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