

Terex Corporation (TEX)

\$21.28 (As of 03/04/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/31/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Terex's fourth-quarter adjusted earnings per share (EPS) and revenues declined from the prior-year quarter. However, while EPS beat the Zacks Consensus Estimate, revenues missed the same. The company projects EPS at \$1.85-\$2.35 for fiscal 2020. The mid-point of the guidance indicates a decline of 35% from 2019. Overall slowdown in industrial equipment and cautious spending at customers' end will continue to impact Terex. The company is cutting down production and managing inventories on account of lower demand in the major markets for the Aerial Work Platforms segment. This along the impact of coronavirus on its China operations will impact the segment's margins. Nevertheless, going forward Terex will gain from focus on innovative products, strengthening global footprint and growing the parts and services business.

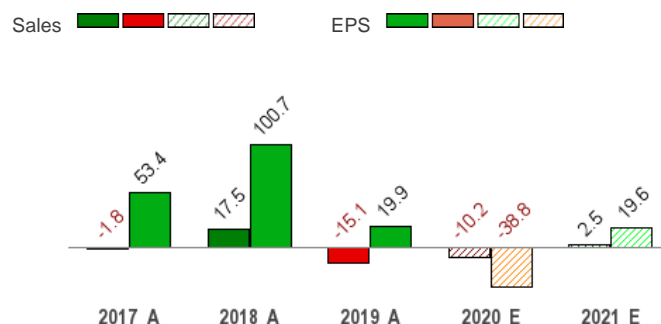
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.67 - \$20.19
20 Day Average Volume (sh)	867,573
Market Cap	\$1.5 B
YTD Price Change	-28.5%
Beta	1.60
Dividend / Div Yld	\$0.48 / 2.1%
Industry	Manufacturing - Construction and Mining
Zacks Industry Rank	Bottom 6% (240 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	100.0%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-10.7%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	6.5
P/E F1	10.7
PEG F1	1.2
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	922 E	1,210 E	968 E	925 E	4,007 E
2020	888 E	1,163 E	965 E	891 E	3,910 E
2019	1,137 A	1,307 A	1,025 A	885 A	4,353 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.28 E	\$1.07 E	\$0.67 E	\$0.52 E	\$2.38 E
2020	\$0.08 E	\$0.94 E	\$0.56 E	\$0.44 E	\$1.99 E
2019	\$0.87 A	\$1.21 A	\$0.82 A	\$0.36 A	\$3.25 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/04/2020. The reports text is as of 03/05/2020.

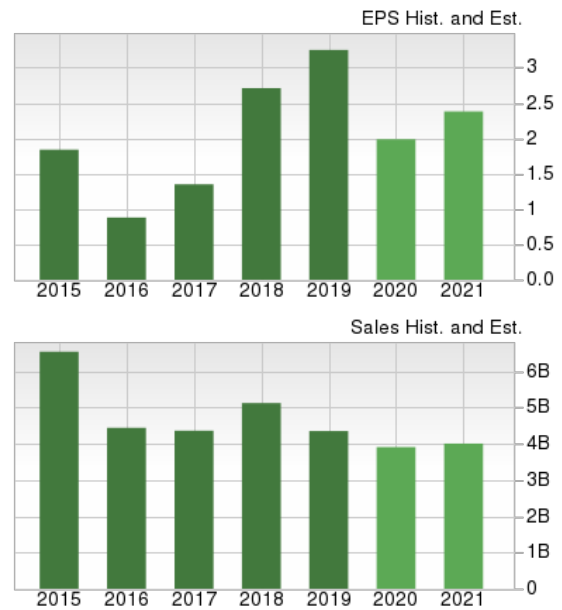
Overview

Incorporated in 1986, Terex Corporation is a global manufacturer of aerial work platforms, materials processing machinery and cranes. It designs, build and support products used in construction, maintenance, manufacturing, energy, minerals and materials management applications. The company's manufacturing facilities are located in the United States, Canada, Europe, Australia, Asia and South America. Terex sells its products through a worldwide distribution network. Terex also offers a complete line of financial products and services to assist in the acquisition of equipment through Terex Financial Services.

On Jul 31, 2019, Terex completed the previously announced disposition of Demag to Tadanos. Products divested are Demag all terrain cranes and large lattice boom crawler cranes. In addition to selling Demag, Terex sold its boom truck, truck crane and crossover product lines and related inventory, previously manufactured in its Oklahoma City facility, on Apr 24, 2019.

Terex engages with customers through all stages of the product life cycle, from initial specification and financing to parts and service support. The company manages and report business in the following segments: Aerial Work Platforms (AWP) and Materials Processing (MP).

- Aerial Work Platforms** (approximately 67% of 2019 revenues): This segment designs, manufactures, and markets aerial work platform equipment, telehandlers, power equipment, construction trailers and utility equipment. Products include portable material lifts, portable aerial work platforms, as well as their related components and replacement parts. Customers use these products to construct and maintain industrial, commercial and residential buildings and facilities and for other commercial operations, as well as in a wide range of infrastructure projects. The company market AWP products under the Terex and Genie brand names.
- Material Processing** (approximately 33% of 2019 revenues): This segment designs and manufactures materials processing equipment, including crushers, washing systems, screens, apron feeders and chippers. Terex recently announced that its Tower and Rough Terrain Cranes businesses have become part of the MP segment.



Reasons To Buy:

- ▲ Terex has made considerable progress in its strategic transformation plan that has three principal elements – Focus, Simplify and Execute to Win. While the Focus element calls for increased investments on high performing businesses, the Simplify aspect focuses on complexity reduction and cost management. The Execute to Win is focused on three key management processes — talent development, strategy development and deployment, and operational excellence. In sync with this, Terex sold the Demag mobile crane business and exited the mobile crane product lines manufactured at Oklahoma City facility, to improve operating performance. The company has also simplified key elements of infrastructure, including implementing a new global performance management system, consolidating to a single chart of accounts and up-grading primary ERP system. Under its Execute to Win strategy, the company remains focused on enhance capabilities by investing in people, processes and tools in three priority areas: Commercial Excellence, Parts and Lifecycle Solutions and Strategic Sourcing.
- ▲ Terex's AWP segment will gain from strategic source and savings, operational execution, strengthening global footprint and innovative new products in the long haul. The segment continues to increase sales in the Asia Pacific region and China, fueled by increasing product adoption. The utilities business will benefit from the new manufacturing facility being built in Watertown, SD, which will increase capacity and significantly improve productivity. The utility equipment market has significant potential in North America and developing markets. In the MP segment, the company continues to invest in India to capitalize on the growth potential in the country and the surrounding markets. Its strong product pipeline and consistent strong execution also positions the segment well for growth.
- ▲ Terex continues to follow a disciplined capital allocation strategy while investing in future growth and creating additional value for shareholders. The company has \$195 million remaining on its share buyback authorization. Terex is making strategic investments in high performing businesses. The company anticipates free cash flow of \$140 million in 2020, higher than \$86 million in 2019. Capital expenditure is projected at for 2020. Net debt has gone down to \$636 million as of Dec 31, 2019 from \$847 million as of Dec 31, 2018. Terex's net debt to adjusted EBITDA thus remains a healthy 1.6x as of Dec 31, 2019, lower than its target of 2.5x.
- ▲ Terex continues to invest in innovative products, the most recent introductions being the Terex Ecotec Shredder and Terex Advance mixer truck. In addition to expanding product offerings, the company is also investing in adding to its manufacturing capabilities to ensure future growth. It has brought online new manufacturing capabilities, including Campsie facility in Northern Ireland and expanded the Hosur, India facility. This will enable the company to cater to global demand. Its new utilities facility will consolidate multiple production buildings into one state-of-the-art, world-class manufacturing and engineering facility. The Changzhou, China facility, which will undergo an expansion in 2020 to accommodate the market growth in China for aerial products, will be another growth driver. Additionally, Material Processing and utility product lines will be added to the facility.
- ▲ Driving parts and service growth is one key element of its Execute to Win initiative. To deliver industry-leading customer service, the company is providing distribution partners easy-to-use digital tools that help them to service their customers more efficiently. This maximizes their opportunity to win business. This will provide Terex a competitive edge and accelerate parts growth.

Terex will gain from focus on the Execute to Win strategy and introducing innovative products. Its disciplined capital-allocation strategy and backlog strength will fuel growth.

Reasons To Sell:

- ▼ The U.S.-China trade tensions and waning global demand seems to have taken its toll on the U.S manufacturing sector, which is likely to impact demand for Terex. Industrial production decreased 0.3% in January following a decline of 0.5% in fourth-quarter 2020. Further, the U.S Purchasing Managers' Index (PMI) released by the Institute for Supply Management had been below 50 (indicating contraction) for five consecutive months till December 2019. Even though the index has climbed to 50.9 in January and 50.1 in February, it remains to be seen whether this recovery will stay. The coronavirus outbreak has also dealt a severe blow to the already ailing sector. Weakening global economic conditions and the impact of the coronavirus outbreak are weighing on consumer confidence. Customers have thus taken a conservative stance to manage their businesses by aggressively destocking inventory and holding back on new product launches. This slowdown in customer orders remains a major headwind. The company also stands the risk of supply chain disruptions due to the spread of the coronavirus.
- ▼ Terex projects earnings per share of \$1.85-\$2.35 for fiscal 2020 on net sales of approximately \$3.9 billion. Sales are expected to decline 6.3%-7.3% in 2020 from the prior year. The company had reported adjusted earnings per share of \$3.25. The company anticipates customers to remain cautious with their capital expenditure decisions in 2020. In 2020, operating will decrease by approximately 150 basis points to 6.3-7.3% primarily due to lower sales volumes, both in the AWP and MP segments. The company projects lower sales and earnings from the AWP China facility in the first half of the year thanks to the coronavirus outbreak. Terex's margin outlook is also tempered by pricing and steel cost headwinds. The market prices and the futures prices for steel have flared up significantly due to imposition on certain steel imports. Inability of the company to pass on the increase by implementing price hikes might not always be feasible, given the competitive environment. This is likely to dent the company's margins in the forthcoming periods.
- ▼ For the Aerial Work Platform segment, there has been a downward trend in net bookings since the fourth quarter of 2018. Backlog at year end was \$753 million, down 31% from the prior year. For the AWP segment, Terex anticipates the segment's sales to be down 7-10% in 2020 from the prior year. Demand in the major markets for Aerial Work Platforms segment has declined, putting pressure on sales. Terex is cutting down production and managing inventory levels to align with demand. Moreover, lower volume, adverse foreign exchange rates and product mix will weigh on margins for the year. Impact of the coronavirus outbreak will weigh on the segment's results as well. Operating margin for the segment for 2020 is guided in the range of 6-7%, down from 7.5% in 2019.
- ▼ The MP segment's sales in 2020 are now expected to be down 8-11% from the prior year. The segment's operating margin is anticipated at 12.3-13% for 2020 compared with 14.2% in 2019. Global market uncertainty is weighing on the segment. Backlog of \$295 million was 42% lower than last year. . Cautious customer sentiment is leading to delayed capital purchases of crushing and screening products, material handlers, and environmental equipment.

The overall slowdown in industrial equipment demand, impact of coronavirus and higher input costs due to the implementation of tariffs will weigh on near-term results.

Last Earnings Report

Terex's Q4 Earnings Surpass Estimates, Sales Miss

Terex reported adjusted earnings per share of 36 cents in fourth-quarter 2019 which beat the Zacks Consensus Estimate of 18 cents by a massive margin of 100%. However, the bottom line declined 55% from the prior-year quarter reflecting the ongoing challenging global market conditions for industrial equipment.

Including one-time items, the company reported earnings of 26 cents per share in the quarter, flat compared with the year-ago figure.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	-1.08%
EPS Surprise	100.00%
Quarterly EPS	0.36
Annual EPS (TTM)	3.26

Operational Update

Revenues in the quarter declined 16% year over year to \$885 million. Moreover, the company's revenues missed the Zacks Consensus Estimate of \$895 million. Cost of goods sold declined 14% to \$716 million from \$834 million in the prior-year quarter. Gross profit fell 21.4% year over year to around \$169 million.

Selling, general and administrative expenses increased 9.5% to \$146 million from \$133 million in the prior-year quarter. Terex reported operating income of \$22.9 million compared with \$81.6 million in the year-ago quarter, reflecting a year-over-year decline of 72%. Operating margin was 2.6% in the reported quarter compared with 7.8% in the prior-year quarter.

Segmental Performance

The Aerial Work Platforms (AWP) segment reported revenues of \$500 million in the fourth quarter, down 21% from \$631 million in the prior-year quarter. Operating income declined 88% to \$4.4 million from the prior-year quarter.

The Material Processing (MP) segment's revenues totaled \$321 million, reflecting a year-over-year decline of around 10%. The segment reported operating income of \$39 million, down 23% year over year.

Financial Position

Terex had cash and cash equivalents of \$535 million at the end of 2019 compared with \$340 million at 2018 end. In 2019, the company generated \$173 million of cash from operating activities compared with \$94 million in the prior year. Long-term debt was \$1,169 million as of Dec 31, 2019, compared with \$1,210.6 million as of Dec 31, 2018.

2019 Results

Terex reported adjusted earnings per share of \$3.25 in 2019, down 20% from the prior year. Earnings beat the Zacks Consensus Estimate of \$3.07. On a reported basis, including one-time items, earnings per share came in at \$2.92 compared with \$3.14 recorded in 2018.

Sales came in at \$4,353 million in 2019 compared with the previous year's \$4,517 million. The top-line figure also missed the Zacks Consensus Estimate of \$4,366 million.

2020 Guidance

Terex now projects earnings per share of \$1.85-\$2.35 for fiscal 2020 on net sales of approximately \$3.9 billion. The company expects customers to remain cautious with their capital expenditure decisions in 2020.

Valuation

Terex's shares are down 37.3% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are down 8.7% and 2.3% over the past year, respectively.

The S&P 500 index has gained 10.9% in the past year.

The stock is currently trading at 10.35X forward 12-month earnings, which compares with 13.30X for the Zacks sub-industry, 16.97X for the Zacks sector and 17.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.96X and as low as 6.42X, with a 5-year median of 12.58X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$23 price target reflects 11.19X forward 12-month earnings per share.

The table below shows summary valuation data for TEX:

Valuation Multiples - TEX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.35	13.3	16.97	17.89
	5-Year High	42.96	30.83	19.89	19.34
	5-Year Low	6.42	9.47	12.6	15.18
	5-Year Median	12.58	16.74	16.67	17.46
EV/EBITDA TTM	Current	5.39	7.24	15.36	10.93
	5-Year High	19.62	12.79	17.42	12.88
	5-Year Low	5.33	6.05	10.89	8.49
	5-Year Median	7.78	8.64	14.73	10.79
P/B TTM	Current	1.63	3.81	4.59	4.18
	5-Year High	3.51	6.22	5.67	4.54
	5-Year Low	0.82	1.94	3.44	2.85
	5-Year Median	2.18	3.79	4.46	3.62

As of 03/04/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (240 out of 255)



Top Peers

AGCO Corporation (AGCO)	Neutral
Caterpillar Inc. (CAT)	Neutral
CNH Industrial N.V. (CNHI)	Neutral
Crane Company (CR)	Neutral
Deere & Company (DE)	Neutral
The Manitowoc Company, Inc. (MTW)	Neutral
Oshkosh Corporation (OSK)	Neutral
Astec Industries, Inc. (ASTE)	Underperform

Industry Comparison Industry: Manufacturing - Construction And Mining				Industry Peers		
	TEX Neutral	X Industry	S&P 500	CAT Neutral	CR Neutral	MTW Neutral
VGM Score	A	-	-	B	A	D
Market Cap	1.50 B	1.35 B	22.29 B	70.08 B	4.17 B	447.16 M
# of Analysts	9	4	13	10	4	6
Dividend Yield	2.07%	2.06%	1.97%	3.23%	2.44%	0.00%
Value Score	B	-	-	B	A	C
Cash/Price	0.34	0.12	0.05	0.12	0.10	0.45
EV/EBITDA	5.55	4.62	13.20	7.62	13.94	4.62
PEG Ratio	1.15	1.65	1.94	1.41	NA	1.88
Price/Book (P/B)	1.63	1.31	3.05	4.79	2.86	0.69
Price/Cash Flow (P/CF)	5.36	5.41	12.16	7.91	8.83	4.29
P/E (F1)	10.17	11.66	17.58	13.64	11.06	18.82
Price/Sales (P/S)	0.35	0.60	2.45	1.30	1.27	0.24
Earnings Yield	9.35%	8.58%	5.69%	7.33%	9.04%	5.30%
Debt/Equity	1.25	0.54	0.70	1.80	0.57	0.54
Cash Flow (\$/share)	3.97	4.07	7.01	16.10	7.97	2.95
Growth Score	A	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	15.79%	15.79%	10.85%	27.28%	10.08%	-23.30%
Proj. EPS Growth (F1/F0)	-38.87%	-13.73%	6.26%	-15.54%	5.86%	-64.46%
Curr. Cash Flow Growth	5.52%	17.91%	6.03%	-6.65%	-1.40%	71.04%
Hist. Cash Flow Growth (3-5 yrs)	-8.19%	7.61%	8.52%	4.31%	7.00%	-13.41%
Current Ratio	2.32	1.68	1.23	1.47	1.64	1.98
Debt/Capital	55.63%	34.88%	42.57%	64.24%	36.32%	34.88%
Net Margin	1.25%	4.51%	11.69%	11.32%	4.06%	2.54%
Return on Equity	27.17%	19.13%	16.66%	41.85%	22.65%	11.03%
Sales/Assets	1.28	0.91	0.54	0.68	0.78	1.13
Proj. Sales Growth (F1/F0)	-10.18%	-0.41%	3.94%	-8.15%	7.26%	-10.14%
Momentum Score	C	-	-	C	B	F
Daily Price Chg	0.47%	1.11%	3.75%	2.43%	1.88%	3.61%
1 Week Price Chg	-12.59%	-9.88%	-12.06%	-9.45%	-19.99%	-4.81%
4 Week Price Chg	-21.53%	-9.99%	-7.42%	-7.31%	-21.17%	-21.25%
12 Week Price Chg	-27.45%	-14.77%	-4.61%	-11.53%	-17.34%	-24.18%
52 Week Price Chg	-37.39%	-10.89%	7.38%	-5.51%	-15.90%	-31.49%
20 Day Average Volume	867,573	398,740	2,456,671	3,930,738	356,259	714,935
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-10.73%	-1.20%	-0.06%	-0.03%	-0.21%	-56.05%
(F1) EPS Est 12 week change	-11.88%	-8.76%	-0.41%	-13.47%	-0.21%	-55.02%
(Q1) EPS Est Mthly Chg	-83.64%	-18.18%	-0.27%	-0.06%	-0.71%	-180.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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