

Terex Corporation (TEX)

\$20.40 (As of 08/17/20)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Terex reported narrower-than-expected loss in second-quarter 2020. It anticipates sales in the second half of the ongoing year to be similar to the first half, thanks to the current market conditions. Terex's operating results will continue to be negatively impacted further by the pandemic-related crisis. Moreover, overall slowdown in industrial equipment demand and cautious spending at customers' end will continue to impact Terex's results. However, the company is poised to grow on investment in innovative products, digital innovation in parts and services as well expansion of manufacturing facilities to ensure growth. Terex is focused on aligning production plans across its segments in response to lower customer demand while aggressively managing cost and working capital. Its strong liquidity and cash position will drive growth.

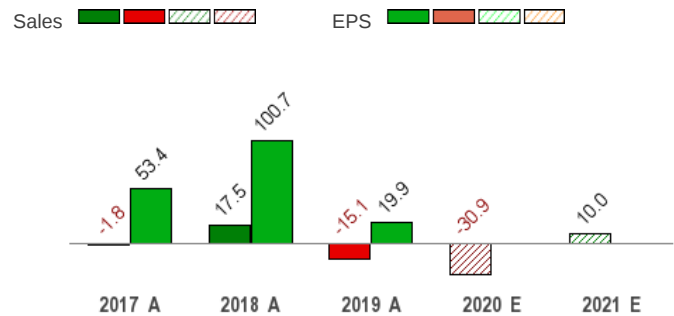
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.28 - \$11.54
20 Day Average Volume (sh)	706,992
Market Cap	\$1.4 B
YTD Price Change	-31.5%
Beta	1.60
Dividend / Div Yld	\$0.23 / 0.0%
Industry	Manufacturing - Construction and Mining
Zacks Industry Rank	Bottom 19% (203 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	91.1%
Last Sales Surprise	9.6%
EPS F1 Est- 4 week change	57.7%
Expected Report Date	11/04/2020
Earnings ESP	251.6%
P/E TTM	26.2
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	857 E	859 E	845 E	808 E	3,307 E
2020	834 A	691 A	760 E	738 E	3,007 E
2019	1,137 A	1,307 A	1,025 A	885 A	4,353 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.03 E	\$0.41 E	\$0.43 E	\$0.25 E	\$0.89 E
2020	-\$0.35 A	-\$0.05 A	\$0.01 E	-\$0.05 E	-\$0.42 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 08/17/2020. The reports text is as of 08/18/2020.

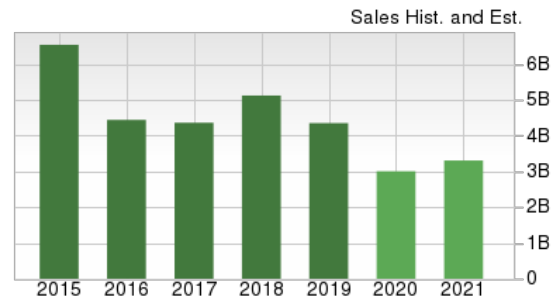
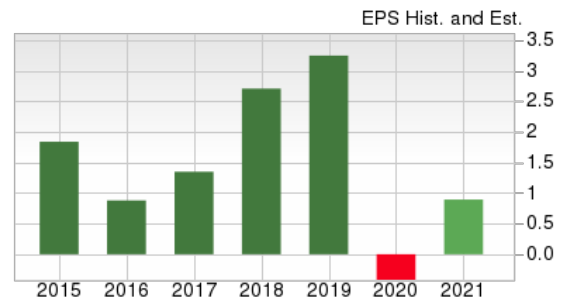
Overview

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.
- ▲ The company resumed manufacturing across its global plants beginning late April and increased production through the June-end quarter. Terex is focused on aligning production across its segments in response to lower customer demand while also aggressively managing cost and working capital. Its Aerial Work Platform (AWP) segment will gain from strategic source and savings, operational execution, strengthening global footprint and innovative new products in the long haul. The utilities business will benefit from the new manufacturing facility being built in Watertown, SD, which will increase capacity and significantly improve productivity. In the MP segment, strong product pipeline, expansion into new geographies, delivering innovative, new products and consistent strong execution positions the segment well for future growth. The segment has integrated the Cranes business into its portfolio of specialty businesses.
- ▲ Terex is focused on maintaining strong liquidity and cash position, placing it well to sail through the current unprecedented situation. At the second-quarter end, the company had available liquidity of \$1 billion. It has implemented several cost reductions actions to preserve cash in response to the current turbulent situation. That includes suspension of dividends and share repurchases for the current year, reduction of team-member compensation, temporarily suspension of manufacturing operation and giving temporary leaves and permanent layoffs of team members. The company expects positive free cash flow for this year based on the current demand scenario and cost-reduction initiatives. It remains focused on rightsizing its cost structure for remaining period of the year. Terex has reduced capital expenditure for the current year while continuing to fund growth capital projects.
- ▲ Terex continues to invest in innovative products and expansion of manufacturing facilities 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. Terex's Utilities business has moved into its new, state-of-the-art facility, which will improve production efficiency and enable future growth. The Changzhou manufacturing facility in China ramped up production over the second quarter and reached at pre-pandemic levels. The facility will undergo an expansion in the current year 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 company is bearing the brunt of lower customer demand in its end markets amid the coronavirus pandemic. Also, it is reducing supplier-component purchases in line with lower production. Even though the global economic activity continues to recover, it remains below the pre-pandemic levels. Therefore, Terex anticipates sales in the second half of the year to be similar to the first half, thanks to the current market conditions. Its operating results will be negatively impacted further by the pandemic-related crisis.
- ▼ For the AWP segment, there has been a downward trend in net bookings since the fourth quarter of 2018. In second-quarter 2020, bookings were down 63% year over year to \$190 million as customers cancelled their orders. At the quarter end, backlog was \$509 million, down 32% from the prior year. The company witnessed shift in customer orders from the second quarter to the second half of the current year. Challenging global markets and weak end market demand in United States and Europe are putting pressure on the segment's 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. Global market uncertainty and the coronavirus-induced crisis is weighing on the MP segment. Backlog of \$262 million at the end of the second quarter was 36% lower than last year. Cautious customer sentiment is leading to delayed capital purchases of crushing and screening products, material handlers, and environmental equipment. This will likely continue in the current year.
- ▼ Per the Institute for Supply Management's report, the U.S. Purchasing Managers' Index (PMI) came in at 41.5% for April — the lowest since April 2009 when it registered 39.9%. In May, the PMI came in at 43.1%. A reading below 50 denotes contraction. Even though the index climbed to 52.6% in June, the manufacturing index averaged 45.7% for the second quarter. The July PMI reading came in at 54.2%. It remains to be seen whether the recovery in the past two months will sustain considering the surge in coronavirus cases. Weakening global economic conditions and the uncertainty regarding the impact of the pandemic are weighing on the sector's customers. 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.
- ▼ 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.

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

Last Earnings Report

Terex Posts Narrower-Than-Expected Loss in Q2

Terex reported loss per share of 5 cents in second-quarter 2020, significantly narrower than the Zacks Consensus Estimate of a loss per share of 56 cents. The company had reported adjusted earnings per share of \$1.21 in the prior-year quarter.

Operational Update

Revenues in the quarter declined 47.1% year over year to \$691 million. However, the revenue figure beat the Zacks Consensus Estimate of \$630 million.

Cost of goods sold plunged 43.7% year over year to \$583 million. Gross profit plummeted 60.7% year over year to around \$107 million.

Selling, general and administrative expenses dropped 31.7% year on year to \$99.7 million in the June-end quarter. Terex reported an operating profit of \$7.4 million compared with the year-ago quarter's \$126 million. Operating margin came in at 1.07% compared with the 9.6% witnessed in the year-earlier period.

Segmental Performance

The Aerial Work Platforms (AWP) segment generated revenues of \$414 million in the second quarter, significantly down 52.4% from the year-ago quarter. The segment reported an operating loss of \$5 million, as against the operating profit of \$86.3 million recorded in the prior-year quarter.

The Material Processing (MP) segment's revenues totaled \$264 million, reflecting a year-over-year decline of 38.7%. The segment reported operating income of \$23.4 million, significantly down 64.2% year over year.

Financial Position

Terex had cash and cash equivalents of \$426 million as of Jun 30, 2020, compared with \$535 million as of Dec 31, 2019. The company generated \$12.3 million cash in operating activities in the first half of the current year compared with cash utilization of \$48.3 million in the first half of 2019. Long-term debt was \$1,167 million as of Jun 30, 2020, compared with \$1,169 million as of Dec 31, 2019. At the end of the April-June quarter, Terex had available liquidity of \$1 billion.

Additionally, the company undertook significant cost-reduction actions, including suspending dividends and share repurchases, reducing team-member compensation, and making temporary furloughs and permanent layoffs of team members.

Guidance

Terex anticipates sales in the second half of the ongoing year to be similar to the first half of the year, thanks to the current market conditions. Its operating results will be negatively impacted further by the pandemic-related crisis. Terex is focused on aligning its production plans in response to lower customer demand. The company will continue to focus on managing its cost and working capital.

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	9.64%
EPS Surprise	91.07%
Quarterly EPS	-0.05
Annual EPS (TTM)	0.78

Valuation

Terex's shares are down 31.5% in the year-to-date period and 17.7% over the past year. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products are down 6.9% and 1% in the year-to-date period, respectively. Over the trailing 12-month period, the Zacks sub-industry and sector are up 16.7% and 13.3%, respectively.

The S&P 500 index is up 4.9% in the year-to-date period and 15.8% in the past year.

The stock is currently trading at 0.44X forward 12-month sales, which compares with 1.43X for the Zacks sub-industry, 2.99X for the Zacks sector and 3.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.95X and as low as 0.23X, with a 5-year median of 0.49X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$21 price target reflects 0.45X forward 12-month sales per share.

The table below shows summary valuation data for TEX:

Valuation Multiples - TEX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.44	1.43	2.99	3.71
	5-Year High	0.95	1.64	2.99	3.71
	5-Year Low	0.23	0.71	1.52	2.53
	5-Year Median	0.49	1.19	2.04	3.05
EV/EBITDA TTM	Current	12.63	9.6	19.80	12.78
	5-Year High	19.62	12.92	19.95	12.85
	5-Year Low	3.73	5.95	10.76	8.25
	5-Year Median	7.86	8.5	14.95	10.91
P/B TTM	Current	1.77	4.46	2.99	3.71
	5-Year High	3.51	6.22	2.99	3.71
	5-Year Low	0.82	1.94	1.52	2.53
	5-Year Median	2.18	3.88	2.04	3.05

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (203 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AGCO Corporation (AGCO)	Outperform	1
DeereCompany (DE)	Outperform	1
Astec Industries, Inc. (ASTE)	Neutral	1
Caterpillar Inc. (CAT)	Neutral	3
CNH Industrial N.V. (CNHI)	Neutral	3
Crane Company (CR)	Neutral	3
The Manitowoc Company, Inc. (MTW)	Neutral	3
Oshkosh Corporation (OSK)	Neutral	3

Industry Comparison Industry: Manufacturing - Construction And Mining				Industry Peers		
	TEX	X Industry	S&P 500	CAT	CR	MTW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	C	A	D
Market Cap	1.41 B	1.42 B	23.75 B	75.12 B	3.47 B	353.15 M
# of Analysts	8	3	14	9	3	6
Dividend Yield	0.00%	0.94%	1.62%	2.97%	2.88%	0.00%
Value Score	A	-	-	B	A	D
Cash/Price	0.29	0.12	0.07	0.12	0.17	0.35
EV/EBITDA	5.60	5.99	13.49	8.06	11.24	4.79
PEG Ratio	NA	4.86	3.03	2.24	NA	NA
Price/Book (P/B)	1.77	1.56	3.18	5.45	2.44	0.57
Price/Cash Flow (P/CF)	5.14	7.03	12.85	8.62	7.50	3.47
P/E (F1)	NA	26.76	22.17	26.83	15.99	NA
Price/Sales (P/S)	0.41	0.82	2.49	1.61	1.12	0.23
Earnings Yield	-2.06%	3.65%	4.32%	3.73%	6.25%	-9.97%
Debt/Equity	1.46	0.63	0.77	1.95	0.59	0.63
Cash Flow (\$/share)	3.97	3.46	6.94	16.10	7.97	2.95
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	12.35%	13.04%	10.44%	31.63%	9.34%	-18.48%
Proj. EPS Growth (F1/F0)	-112.85%	-52.11%	-5.97%	-53.25%	-37.87%	-153.88%
Curr. Cash Flow Growth	5.52%	-0.57%	5.22%	-6.65%	-1.40%	71.04%
Hist. Cash Flow Growth (3-5 yrs)	-8.19%	2.40%	8.52%	4.31%	7.00%	-13.41%
Current Ratio	2.53	1.68	1.33	1.50	1.33	2.10
Debt/Capital	59.33%	38.79%	44.59%	66.14%	37.18%	38.79%
Net Margin	0.34%	1.75%	10.13%	8.90%	1.22%	0.43%
Return on Equity	6.70%	6.70%	14.51%	30.52%	19.07%	1.49%
Sales/Assets	1.11	0.73	0.51	0.60	0.70	0.98
Proj. Sales Growth (F1/F0)	-31.31%	-14.33%	-1.67%	-23.33%	-12.58%	-27.20%
Momentum Score	A	-	-	D	B	F
Daily Price Chg	-2.67%	-1.15%	-0.02%	-0.89%	-1.84%	-3.49%
1 Week Price Chg	6.67%	6.17%	1.09%	3.74%	1.08%	6.11%
4 Week Price Chg	9.62%	2.98%	4.83%	3.04%	1.56%	-7.34%
12 Week Price Chg	44.07%	23.96%	13.09%	23.34%	15.33%	18.27%
52 Week Price Chg	-17.74%	8.47%	2.77%	18.20%	-21.34%	-29.79%
20 Day Average Volume	706,992	218,205	1,932,479	2,879,060	260,101	307,832
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	57.69%	0.89%	1.80%	-2.10%	-1.75%	-39.50%
(F1) EPS Est 12 week change	54.37%	14.30%	2.88%	3.61%	-0.27%	-39.50%
(Q1) EPS Est Mthly Chg	107.33%	-18.08%	0.80%	-18.08%	-7.21%	-217.07%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	B
Momentum Score	A
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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