

Terex Corporation (TEX)

\$25.90 (As of 01/30/20)

Price Target (6-12 Months): **\$28.00**

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:B

Value: B

Growth: A

Momentum: F

Summary

Terex's Aerial Work Platforms (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. Moreover, the company has made considerable progress in its strategic transformation plan that has three principal elements – Focus, Simplify and Execute to Win. However, Terex is cutting down production and managing inventory level due to lower demand in the major markets for AWP segment. This along with lower volume, adverse foreign exchange rates and product mix will impact the segment's margins. Terex's earnings estimates for the fourth quarter have been stable lately.

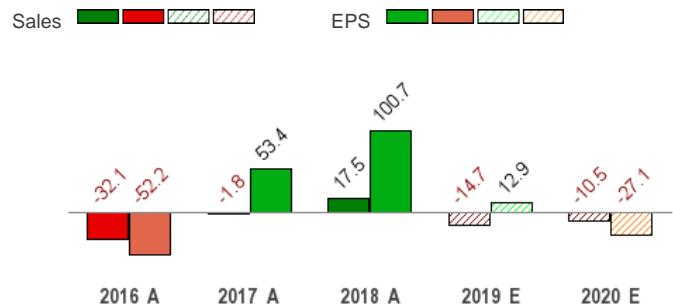
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.52 - \$22.84
20 Day Average Volume (sh)	440,972
Market Cap	\$1.8 B
YTD Price Change	-13.0%
Beta	1.77
Dividend / Div Yld	\$0.44 / 1.7%
Industry	Manufacturing - Construction and Mining
Zacks Industry Rank	Bottom 27% (187 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.2%
Last Sales Surprise	-7.2%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	02/14/2020
Earnings ESP	-6.7%

P/E TTM	7.6
P/E F1	11.6
PEG F1	1.3
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	926 E	1,105 E	946 E	878 E	3,911 E
2019	1,137 A	1,307 A	1,025 A	899 E	4,370 E
2018	1,261 A	1,403 A	1,229 A	1,233 A	5,125 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.50 E	\$0.75 E	\$0.66 E	\$0.31 E	\$2.23 E
2019	\$0.87 A	\$1.21 A	\$0.82 A	\$0.18 E	\$3.06 E
2018	\$0.55 A	\$0.98 A	\$0.68 A	\$0.51 A	\$2.71 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 01/30/2020. The reports text is as of 01/31/2020.

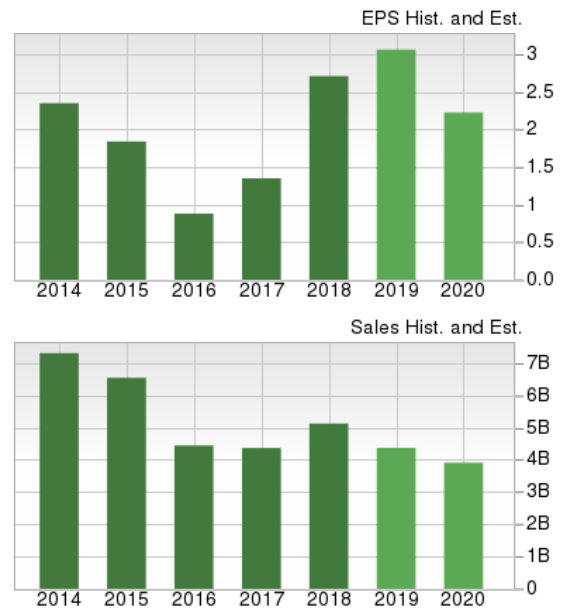
Overview

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 Tadano and received approximately \$215 million of consideration, as adjusted for estimated amounts of cash, debt, working capital and certain other items. 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 68% of 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** (32%): This segment designs and manufactures materials processing equipment, including crushers, washing systems, screens, apron feeders and chippers.



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. 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.
- ▲ Terex continues to follow a disciplined capital allocation strategy while investing in future growth and creating additional value for shareholders. The company has \$200 million remaining on its share buyback authorization. Terex is making strategic investments in high performing businesses. The company anticipates capital expenditure of \$120 million in 2019 and \$100 million in 2020. Net debt has gone down to \$700 million as of Sep 30, 2019 from \$847 million as of \$847 million as of Dec 31, 2018. Terex's net debt to adjusted EBITDA remains a healthy 1.5x as of Sep 30, 2019, down from 2.0x as of Jun 30, 2019.
- ▲ 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 will gain from focus on the Execute to Win strategy, momentum in AWP and MP segments. Its disciplined capital-allocation strategy and backlog strength will fuel growth.

Reasons To Sell:

- ▼ Considering the overall slowdown in industrial equipment demand and impact of adverse foreign exchange rates, Terex now projects earnings per share of \$3.00-\$3.20 for fiscal 2019 on net sales of approximately \$4.4 billion. It had earlier expected earnings per share of \$3.40-\$3.80 and net sales of \$4.6 billion. The company now anticipates sales to be down 2-4% compared with the prior expectation of 1-3%. For 2020, Terex anticipates sales to be down 10% year over year. 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 dropped 33% year over year and 34% sequentially to \$494 million in the third quarter of 2019. For the AWP segment, Terex anticipates the segment's sales to be down 6-7% compared with its prior guidance of flat to 1% growth. Demand in the major markets for Aerial Work Platforms ("AWP") has declined, putting pressure on sales. Terex is cutting down production and managing inventory levels to align with demand, which will impact margins. Moreover, lower volume, adverse foreign exchange rates and product mix will weigh on margins for the year. Operating margin for the segment for 2019 is guided in the range of 7.25-7.75%, down from the prior estimate of 9-9.5%.
- ▼ The MP segment's sales are now expected to be up 3-5% down from the prior expectation of 4-7%. The segment's operating margin is expected at 14-14.5%. Global market uncertainty is weighing on the segment. The segment's backlog in the quarter declined 44% year over year and 27% sequentially to \$264 million. There has been a dip in net bookings for the segment so far this year, pointing to weaker demand in their global markets.

The overall slowdown in industrial equipment demand, adverse foreign exchange rates and higher input costs due to the implementation of tariffs will weigh on Terex's near-term results.

Last Earnings Report

Terex Q3 Earnings and Revenues Fall Short Of Estimates

Terex reported adjusted earnings per share of 82 cents in third-quarter 2019, missing the Zacks Consensus Estimate of 83 cents by 1%. The bottom line declined 24% from the prior-year quarter.

Including one-time items, the company reported earnings of 73 cents per share in the quarter compared with the year-ago figure of 92 cents per share.

Operational Update

Revenues in the quarter declined 6.8% year over year to \$1.025 billion. Moreover, the company's revenues missed the Zacks Consensus Estimate of \$1.105 billion. Cost of goods sold declined 5% to \$815 million from \$858.7 million in the prior-year quarter. Gross profit fell 12.7% year over year to \$209.6 million.

Selling, general and administrative expenses declined 9.3% to \$123.2 million from \$135.9 million in the prior-year quarter. Terex reported operating income of \$86.4 million compared with \$104.2 million in the year-ago quarter, reflecting a year-over-year decline of 17%.

Segmental Performance

The Aerial Work Platforms (AWP) segment reported revenues of \$628.2 million in the third quarter, down 13.9% from \$729.4 million in the prior-year quarter due to a decline in demand in its major market. Operating income declined 43.8% to \$45.9 million from the prior-year quarter.

The Material Processing (MP) segment's revenues totaled \$338.6 million, reflecting a year-over-year improvement of around 8%. The segment reported operating income of \$52.4 million, up 26.6% year over year.

Financial Position

Terex had cash and cash equivalents of \$470.6 million at the end of the third quarter of 2019 compared with \$339.5 million at 2018 end. In the nine months ended Sep 30, 2019, the company generated \$78.4 million of cash from operating activities against cash outflow of \$19.6 million in the prior-year comparable period. Long-term debt was \$1,166.6 million as of Sep 30, 2019, compared with \$1,210.6 million as of Dec 31, 2018.

2019 Guidance

Terex now projects earnings per share of \$3.00-\$3.20 for fiscal 2019 on net sales of approximately \$4.4 billion. It had earlier expected earnings per share of \$3.40-\$3.80 and net sales of \$4.6 billion. Further, the company adjusted its yearly free cash flow guidance to roughly \$110 million.

Considering the overall slowdown in the industrial equipment demand, the company anticipates sales to be down 10% year over year in 2020.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-7.24%
EPS Surprise	-1.20%
Quarterly EPS	0.82
Annual EPS (TTM)	3.41

Valuation

Terex's shares are down 15.7% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are up 1.1% and 11.1% over the past year, respectively.

The S&P 500 index has gained 20.1% in the past year.

The stock is currently trading at 11.32X forward 12-month earnings, which compares with 12.73X for the Zacks sub-industry, 17.84X for the Zacks sector and 18.80X 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 \$28 price target reflects 12.24X 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	11.32	12.73	17.84	18.8
	5-Year High	42.96	30.83	19.91	19.34
	5-Year Low	6.42	9.47	12.6	15.18
	5-Year Median	12.58	16.8	16.58	17.46
EV/EBITDA TTM	Current	5.49	7.81	16.93	12.25
	5-Year High	19.62	12.79	17.44	12.86
	5-Year Low	5.21	6.05	10.89	8.48
	5-Year Median	7.75	8.67	14.73	10.7
P/B TTM	Current	2.13	4.13	5.58	4.48
	5-Year High	3.51	6.22	5.74	4.55
	5-Year Low	0.82	1.94	3.44	2.85
	5-Year Median	2.2	3.77	4.45	3.62

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (187 out of 255)



Top Peers

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

Industry Comparison Industry: Manufacturing - Construction And Mining				Industry Peers		
	TEX Neutral	X Industry	S&P 500	CAT Neutral	CR Neutral	MTW Outperform
VGM Score	B	-	-	C	C	D
Market Cap	1.85 B	1.52 B	23.94 B	74.81 B	5.22 B	521.04 M
# of Analysts	9	4.5	13	9	5	6
Dividend Yield	1.70%	1.74%	1.77%	3.04%	1.79%	0.00%
Value Score	B	-	-	B	C	C
Cash/Price	0.25	0.10	0.04	0.10	0.08	0.13
EV/EBITDA	9.40	5.17	14.14	7.90	9.74	141.99
PEG Ratio	1.29	1.40	2.01	1.47	4.04	0.96
Price/Book (P/B)	2.13	1.39	3.25	4.99	3.53	0.83
Price/Cash Flow (P/CF)	7.11	6.63	13.56	8.21	10.91	8.61
P/E (F1)	11.33	12.23	18.90	12.82	13.77	9.64
Price/Sales (P/S)	0.39	0.75	2.64	1.36	1.59	0.28
Earnings Yield	8.61%	8.21%	5.28%	7.80%	7.27%	10.38%
Debt/Equity	1.46	0.55	0.72	1.71	0.57	0.55
Cash Flow (\$/share)	3.64	3.95	6.92	16.49	7.97	1.71
Growth Score	A	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	10.20%	10.20%	10.68%	23.01%	8.99%	-30.76%
Proj. EPS Growth (F1/F0)	-27.35%	-10.13%	7.59%	-2.50%	4.92%	-17.76%
Curr. Cash Flow Growth	37.66%	35.57%	10.81%	35.57%	-1.40%	95.88%
Hist. Cash Flow Growth (3-5 yrs)	-8.26%	7.61%	8.78%	6.65%	10.05%	-27.62%
Current Ratio	2.21	1.68	1.22	1.44	1.64	1.91
Debt/Capital	59.43%	35.34%	42.99%	63.05%	36.32%	35.34%
Net Margin	-0.07%	3.32%	11.69%	10.99%	4.06%	-2.17%
Return on Equity	29.17%	20.66%	17.33%	42.51%	22.65%	10.11%
Sales/Assets	1.35	0.95	0.55	0.70	0.78	1.18
Proj. Sales Growth (F1/F0)	-10.49%	-4.81%	4.12%	-4.81%	7.26%	-6.71%
Momentum Score	F	-	-	C	D	F
Daily Price Chg	1.09%	0.00%	0.36%	-0.30%	0.50%	0.41%
1 Week Price Chg	-5.82%	-3.82%	-1.09%	-5.01%	-2.15%	-8.80%
4 Week Price Chg	-14.15%	-8.22%	-0.22%	-10.07%	-0.65%	-15.48%
12 Week Price Chg	-9.44%	-1.09%	4.08%	-7.92%	8.29%	5.89%
52 Week Price Chg	-15.66%	-0.75%	16.06%	1.66%	5.09%	-3.15%
20 Day Average Volume	440,972	140,705	1,808,632	2,720,973	225,738	223,381
(F1) EPS Est 1 week change	-0.20%	-0.10%	0.00%	-0.57%	0.11%	0.00%
(F1) EPS Est 4 week change	-1.67%	-0.73%	0.00%	-1.45%	0.14%	0.00%
(F1) EPS Est 12 week change	-2.01%	-2.54%	-0.09%	-3.08%	0.14%	-11.91%
(Q1) EPS Est Mthly Chg	-4.49%	-0.23%	0.00%	-0.23%	-20.25%	0.00%

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	B
Growth Score	A
Momentum Score	F
VGM Score	B

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.

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