

TEREX CORP
Form 10-K
February 16, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITIONAL REPORTS PURSUANT TO
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission file number 1-10702

TEREX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

34-1531521

(State of Incorporation)

(IRS Employer Identification No.)

200 Nyala Farm Road, Westport, Connecticut 06880

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (203) 222-7170

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, \$.01 PAR VALUE

(Title of Class)

NEW YORK STOCK EXCHANGE

(Name of Exchange on which Registered)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act.

YES NO

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer
Smaller Reporting Company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant was approximately \$3,314 million based on the last sale price on June 30, 2017.

The number of shares of the Registrant’s common stock outstanding was 81.0 million as of February 12, 2018.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Terex Corporation Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the 2018 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

As used in this Annual Report on Form 10-K, unless otherwise indicated, Terex Corporation, together with its consolidated subsidiaries, is referred to as “Terex,” the “Registrant,” “us,” “we,” “our” or the “Company.” This Annual Report generally speaks as of December 31, 2017, unless specifically noted otherwise.

Forward-Looking Information

Certain information in this Annual Report includes forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995) regarding future events or our future financial performance that involve certain contingencies and uncertainties, including those discussed below in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contingencies and Uncertainties.” In addition, when included in this Annual Report or in documents incorporated herein by reference, the words “may,” “expects,” “should,” “intends,” “anticipates,” “believes,” “plans,” “projects,” “estimates” and the negatives thereof and analogous or similar expressions are intended to identify forward-looking statements. However, the absence of these words does not mean that the statement is not forward-looking. We have based these forward-looking statements on current expectations and projections about future events. These statements are not guarantees of future performance. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties, many of which are beyond our control, include, among others:

- our business is cyclical and weak general economic conditions affect the sales of our products and financial results;
- our need to comply with restrictive covenants contained in our debt agreements;
- our ability to generate sufficient cash flow to service our debt obligations and operate our business;
- our ability to access the capital markets to raise funds and provide liquidity;
- our business is sensitive to government spending;
- our business is highly competitive and is affected by our cost structure, pricing, product initiatives and other actions taken by competitors;
- our retention of key management personnel;
- the financial condition of suppliers and customers, and their continued access to capital;
- our providing financing and credit support for some of our customers;
- we may experience losses in excess of recorded reserves;
- our ability to obtain parts and components from suppliers on a timely basis at competitive prices;
- our business is global and subject to changes in exchange rates between currencies, commodity price changes, regional economic conditions and trade restrictions;
- our operations are subject to a number of potential risks that arise from operating a multinational business, including compliance with changing regulatory environments, the Foreign Corrupt Practices Act and other similar laws, and political instability;
- a material disruption to one of our significant facilities;
- possible work stoppages and other labor matters;
- compliance with changing laws and regulations, particularly environmental and tax laws and regulations;
- litigation, product liability claims, intellectual property claims, class action lawsuits and other liabilities;
- our ability to comply with an injunction and related obligations imposed by the United States Securities and Exchange Commission (“SEC”);
- disruption or breach in our information technology systems;
- our ability to successfully implement our Execute to Win strategy; and
- other factors.

Actual events or our actual future results may differ materially from any forward-looking statement due to these and other risks, uncertainties and significant factors. The forward-looking statements contained herein speak only as of the

date of this Annual Report and the forward-looking statements contained in documents incorporated herein by reference speak only as of the date of the respective documents. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained or incorporated by reference in this Annual Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

TEREX CORPORATION AND SUBSIDIARIES
 Index to Annual Report on Form 10-K
 For the Year Ended December 31, 2017

<u>PART I</u>	PAGE
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>16</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>22</u>
<u>Item 2. Properties</u>	<u>23</u>
<u>Item 3. Legal Proceedings</u>	<u>23</u>
<u>Item 4. Mine Safety Disclosure</u>	<u>23</u>
 <u>PART II</u>	
<u>Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
<u>Item 6. Selected Financial Data</u>	<u>27</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>51</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>53</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>54</u>
<u>Item 9A. Controls and Procedures</u>	<u>54</u>
<u>Item 9B. Other Information</u>	<u>54</u>
 <u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>55</u>
<u>Item 11. Executive Compensation</u>	<u>55</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>55</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>55</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>55</u>
 <u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>56</u>
<u>Item 16. Form 10-K Summary</u>	<u>58</u>

PART I

ITEM 1. BUSINESS

GENERAL

Our Company was incorporated in Delaware in October 1986 as Terex U.S.A., Inc. Since that time, we have changed significantly, and much of this change has been historically accomplished through acquisitions and managing our portfolio of companies by divestiture of non-core businesses and products. Today, Terex is a global manufacturer of aerial work platforms, cranes and materials processing machinery. We design, build and support products used in construction, maintenance, manufacturing, energy, minerals and materials management applications. Our products are manufactured in North and South America, Europe, Australia and Asia and sold worldwide. We engage with customers through all stages of the product life cycle, from initial specification and financing to parts and service support. We continue to focus on becoming an industry leading operating company.

We manage and report our business in the following segments: (i) Aerial Work Platforms (“AWP”); (ii) Cranes; and (iii) Material Processing (“MP”).

Further information about our industry and reportable segments, including geographic information, appears in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note C – “Business Segment Information” in the Notes to the Consolidated Financial Statements.

AERIAL WORK PLATFORMS

Our AWP segment designs, manufactures, services and markets aerial work platform equipment, telehandlers and light towers. Products include portable material lifts, portable aerial work platforms, trailer-mounted articulating booms, self-propelled articulating and telescopic booms, scissor lifts, telehandlers and trailer-mounted light towers 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. We market aerial work platform products principally under the Terex® and Genie® brand names.

AWP has the following significant manufacturing operations:

• Aerial work platform equipment is manufactured in Redmond and Moses Lake, Washington, Rock Hill, South Carolina, Umbertide, Italy and Changzhou, China;

• Telehandlers are manufactured in Oklahoma City, Oklahoma and Umbertide, Italy; and

• Trailer-mounted light towers are manufactured in Rock Hill, South Carolina.

We have a parts and logistics center located in North Bend, Washington for our aerial work platform equipment. Additionally, a portion of our aerial work platform parts business is conducted at a shared Terex facility in Southaven, Mississippi. Our European, Asian Pacific and Latin American parts and logistics operations are conducted through out-sourced facilities.

CRANES

Our Cranes segment designs, manufactures, services, refurbishes and markets mobile telescopic cranes (all terrain cranes, rough terrain cranes, truck-mounted cranes (boom trucks), truck cranes, and pick and carry cranes), lattice boom crawler cranes, tower cranes and utility equipment, as well as their related components and replacement parts. Customers use these products primarily for construction, repair and maintenance of commercial buildings, manufacturing facilities, energy related projects, construction and maintenance of utility and telecommunication lines, tree trimming, certain construction and foundation drilling applications and a wide range of infrastructure projects. We market our Cranes products principally under the Terex® and Demag® brand names.

Cranes has the following significant manufacturing operations:

- Rough terrain cranes are manufactured in Crespellano, Italy and Oklahoma City, Oklahoma;
- All-terrain cranes are manufactured in Zweibrücken, Germany;
- Truck cranes and truck-mounted cranes are manufactured in Oklahoma City, Oklahoma;
- Tower cranes are manufactured in Fontanafredda, Italy;
- Lattice boom crawler cranes are manufactured in Oklahoma City, Oklahoma and Zweibrücken, Germany;
- Pick and carry cranes are manufactured in Brisbane, Australia; and
- Utility products are manufactured in Watertown and Huron, South Dakota and Betim, Brazil.

We also provide service and support for utility and aerial products in the U.S. through a network of service branches and field service operations. We have announced plans to exit and sell our facility in Betim, Brazil.

We have a minority interest in a Chinese company which manufactures truck cranes and truck-mounted cranes in China.

MATERIALS PROCESSING

Our MP segment designs, manufactures and markets materials processing and specialty equipment, including crushers, washing systems, screens, apron feeders, material handlers, wood processing, biomass and recycling equipment, concrete mixer trucks and concrete pavers, and their related components and replacement parts. Customers use these products in construction, infrastructure and recycling projects, in various quarrying and mining applications, as well as in landscaping and biomass production industries, material handling applications, and in building roads and bridges. We market our MP products principally under the Terex®, Powerscreen®, Fuchs®, Evoquip® and CBI® brand names and the Terex® name in conjunction with certain historic brand names.

MP has the following significant manufacturing operations:

- Mobile crushers, mobile screens and washing systems are manufactured in Omagh and Dungannon, Northern Ireland;
- Mobile crushers, mobile screens, base crushers, base screens, modular and wheeled crushing and screening plants, track conveyors and washing systems are manufactured in Hosur, India, primarily for the Indian market and for export in Asia, Middle East and East Africa Regions;
- Modular, mobile and static crushing and screening equipment and base crushers are manufactured in Oklahoma City, Oklahoma;
- Base crushers and base screens are manufactured in Subang Jaya, Malaysia;
- Screening equipment is manufactured in Durand, Michigan;
- Base crushers are manufactured in Coalville, England;
- Fabrications, sub-assemblies and steel kits are manufactured in Ballymoney, Northern Ireland;
- Wood processing, biomass and recycling equipment systems are manufactured in Newton, New Hampshire, and Dungannon, Northern Ireland.

Material handlers are manufactured in Bad Schönborn, Germany;
Concrete pavers are manufactured in Canton, South Dakota; and
Front discharge concrete mixer trucks are manufactured in Fort Wayne, Indiana.

We have North American distribution centers in Louisville, Kentucky and Southaven, Mississippi and service centers in Australia, Thailand, Turkey and Malaysia.

OTHER

We may assist customers in their rental, leasing and acquisition of our products through Terex Financial Services (“TFS”). TFS uses its equipment financing experience to provide financing solutions to our customers who purchase our equipment. TFS continually evaluates the level to which it provides direct customer financing versus utilizing third party funding to meet its business objectives.

In the United States and on a limited basis in China, TFS originates and services financing transactions directly with end-user customers, distributors and rental companies. Most of the transactions are fixed and floating rate loans; however, TFS also provides sales-type leases, operating leases and rentals. In the normal course of business, loans and leases are sold to financial institutions with which TFS has established relationships. Globally, TFS also facilitates financing transactions directly between our customers and third party financial institutions. TFS also arranges wholesale financing for dealers and distributors who sell our equipment to end users. These financing arrangements are third party financings between the dealer/distributor and the financial institutions with which TFS has established relationships.

TFS continually monitors used equipment values of Terex equipment in the secondary market sales channels for all of our equipment categories. This provides a basis for TFS to project future values of equipment for the underwriting of leases or loans. These secondary market sales channels are also used for re-marketing any equipment which is returned at end of lease, or is repossessed in case of a customer default. TFS uses the resale channel which maximizes proceeds and/or mitigates risk for Terex and our funding partners.

DISCONTINUED OPERATIONS

Material Handling and Port Solutions (“MHPS”)

On January 4, 2017, we completed the disposition of our MHPS business (the “Disposition”) to Konecranes Plc (“Konecranes”). The MHPS business sold constituted the entirety of one of our previous reportable operating segments and comprised two of our six previous reporting units, represented a significant portion of our revenues and assets, and is therefore accounted for as a discontinued operation for all periods presented. The Disposition represented a significant strategic shift in our business away from universal, process, mobile harbor and ship-to-shore cranes that will have a major effect on our future operating results.

See Note B – “Sale of MHPS Business” and Note E – “Discontinued Operations and Assets and Liabilities Held for Sale” in the Notes to the Consolidated Financial Statements for further information regarding the Disposition and our discontinued operations.

BUSINESS STRATEGY

Terex is a specialized manufacturer of capital equipment and related services. Our goal is to design, manufacture and market equipment and services that provide superior life-cycle return on invested capital to our customers (“Customer ROIC”). Customer ROIC is a key focus of our organization and is central to our ability to generate returns for investors.

We operate our business based on our value system, “The Terex Way.” The Terex Way values shape the culture of our Company and reflect our collective commitment to what it means to be a part of Terex. The Terex Way is based on six key values:

• **Integrity:** Integrity reflects honesty, ethics, transparency and accountability. We are committed to maintaining high ethical standards in all of our business dealings and we never sacrifice our integrity for profit.

• **Respect:** Respect incorporates concern for safety, health, teamwork, diversity, inclusion and performance. We treat all our team members, customers and suppliers with respect and dignity.

• **Improvement:** Improvement encompasses quality, problem-solving systems, a continuous improvement culture and collaboration. We continuously search for new and better ways of doing things, focusing on continuous improvement and the elimination of waste.

• **Servant Leadership:** Servant leadership requires service to others, humility, authenticity and leading by example. We work to serve the needs of our customers, investors and team members.

• **Courage:** Courage entails willingness to take risks, responsibility, action and empowerment. We have the courage to make a difference even when it is difficult.

• **Citizenship:** Citizenship means social responsibility and environmental stewardship. We comply with all laws, respect all people's values and cultures, and are good global, national and local citizens.

During 2016, Terex began implementing a strategic transformation that has three principal elements:

1. Focus the portfolio on businesses best positioned to generate returns above the cost of capital through the cycle.
2. Simplify company structure, systems and footprint to improve efficiency and enhance global competitiveness.
3. Execute to Win, driving process discipline, execution rigor, and accountability in core processes.

The “Focus” element of this strategy concentrated our business portfolio in product categories where we are among the market leaders. Where we were not among the market leaders our strategy has been to either divest those product lines or pursue a business strategy which we believe will enable us to become a market leader. Work related to this strategic theme involved review of all businesses in the portfolio from the perspectives of market attractiveness and competitive position. Several portfolio actions were taken as a result, including the sale of our former MHPS segment and sale of certain of our former Construction segment product lines. We now consider the Focus element of our strategy to be complete.

The “Simplify” element of the Terex strategy is centered on complexity reduction and cost management. Historically, Terex has grown through acquisitions and our businesses were generally operated autonomously. This resulted in a complex legal entity structure, multiple financial systems, and high organizational complexity. As part of our transformational strategy, we are addressing these issues and are implementing strategic initiatives to simplify our structure, footprint and processes. We are working to flatten and streamline the organization. We have undertaken finance initiatives that will simplify the way that we measure and manage the Company day-to-day. We are also simplifying the Company’s manufacturing footprint by reducing the number of production facilities, sharing facilities across businesses, and driving aggressive productivity improvement within the facilities we operate. We have already exited 12 facilities around the world. In total, our actions have eliminated approximately 2.6 million square feet, or 27%, of our global footprint. We have also reduced our number of legal entities by over 70 legal entities, or 40%, since the end of 2016, resulting in the fewest number of legal entities since 1999. Our smaller manufacturing footprint and simpler legal structure is expected to enable streamlined business processes and lower costs.

The third major theme of the Terex strategy is “Execute to Win” (“ETW”), which is a focus on three key management processes: Talent development, strategy development and deployment, and operational excellence. ETW represents a major change in the philosophy of our Company in terms of where and how work is done. Our goal is to become operationally excellent, balancing desire for business autonomy with the need for overall efficiency and relying on process excellence as a critical enabler of both business and company performance. We are implementing three specific near-term transformational priorities in our Execute to Win initiatives.

1. Lifecycle Solutions are comprehensive solutions that include our equipment and other offerings such as financing, spare parts, technical and repair services, operator training, and technology solutions that drive Customer ROIC.
2. Commercial Excellence is about driving process discipline and execution in our commercial operations, such as sales, pricing, marketing, and sales support.
3. Strategic Sourcing will involve implementing a standard, Terex-wide strategic sourcing process that will help us leverage our spending, thereby achieving lower costs from suppliers.

Each of these activities is being managed as a company-wide priority, with leadership from the center and support from within Terex businesses. Implementation involves a wide-ranging set of actions that are intended to deliver step-change performance improvement. These actions appropriately balance the unique needs of specific businesses with overall potential for efficiency and for leverage on investments. Our long-term financial plan includes major contributions in these three areas as well as improved processes that will become foundational drivers for differentiating Terex in the years ahead.

Capital allocation is the final element of our overall strategy. We view capital allocation priorities (in order) as follows:

1. Maintain an optimal capital structure (~2.5 x average net debt to EBITDA over the cycle)
2. Organic growth investments (product & service development, maintenance capex, geographic expansion)
3. Restructuring investments (transformation initiatives, general & administrative cost reduction, footprint rationalization)

4. Efficient return of capital to shareholders (dividends and share repurchases)

During 2017, we repaid debt, net of debt issuances, of approximately \$583 million and repurchased approximately \$924 million of our common stock.

Execution of our strategy of Focus, Simplify and Execute to Win was announced in 2016 and we do not anticipate material deviation from this strategy over the next several years. With Focus now complete and Simplify well underway, the bulk of our effort will now be concentrated on Execute to Win and on steadily improving cash flow to enable the capital allocation priorities outlined above.

PRODUCTS

AERIAL WORK PLATFORMS

AERIAL WORK PLATFORMS. Aerial work platform equipment safely positions workers and materials easily and quickly to elevated work areas to enhance productivity. These products have developed as alternatives to scaffolding and ladders. We offer a variety of aerial lifts that are categorized into six product families: portable material lifts; portable aerial work platforms; trailer-mounted articulating booms; self-propelled articulating and self-propelled telescopic booms; and scissor lifts.

Portable material lifts are used primarily indoors in the construction, industrial and theatrical markets.

Portable aerial work platforms are used primarily indoors in a variety of markets to perform overhead maintenance.

Trailer-mounted articulating booms are used both indoors and outdoors. They provide versatile reach, and have the ability to be towed between job sites.

Self-propelled articulating booms are primarily used in construction and industrial applications, both indoors and outdoors. They feature lifting versatility with up, out and over position capabilities to access difficult to reach overhead areas.

Self-propelled telescopic booms are used outdoors in commercial and industrial construction, as well as highway and bridge maintenance projects.

Scissor lifts are used in indoor and outdoor applications in a variety of construction, industrial and commercial settings.

TELEHANDLERS. Telehandlers move and place materials on residential and commercial construction sites and are used in the energy and infrastructure industries.

LIGHT TOWERS. Trailer-mounted light towers are used primarily to light work areas for construction, entertainment, emergency assistance and security during nighttime or low light applications.

CRANES

We offer a wide variety of cranes, including mobile telescopic cranes, lattice boom crawler cranes, tower cranes, and utility equipment.

MOBILE TELESCOPIC CRANES. Mobile telescopic cranes are used primarily for industrial applications, in commercial and public works construction, and in maintenance applications to lift equipment or material. We offer a complete line of mobile telescopic cranes, including rough terrain cranes, truck cranes, truck-mounted cranes (boom trucks), all terrain cranes and pick and carry cranes.

Rough terrain cranes move materials and equipment on rugged or uneven terrain and are often located on a single construction or work site for long periods. Rough terrain cranes cannot be driven on highways (other than in Italy) and accordingly must be transported by truck to the work site.

Truck cranes have two cabs and can travel rapidly from job site to job site at highway speeds. Truck cranes are often used for multiple local jobs, primarily in urban or suburban areas.

Truck-mounted cranes (boom trucks). We manufacture telescopic boom cranes and articulated hydraulic cranes for mounting on a commercial truck chassis. Truck-mounted cranes are used primarily in the construction and maintenance industries to lift equipment or materials to various heights. Boom trucks are generally lighter and have less lifting capacity than truck cranes, and are used for ma