

Oshkosh Corporation(OSK)

\$74.70 (As of 03/03/20)

Price Target (6-12 Months): **\$79.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

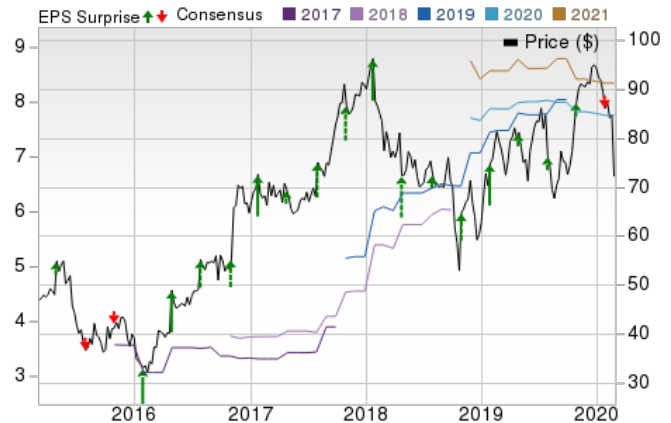
Growth: F

Momentum: B

Summary

Oshkosh updated fiscal 2020 expectations on strong backlogs along with integrated operations and supply chain. Also, improved product pricing and higher sales volume bode well for its Access Equipment, Defense, and Fire & Emergency segments. Further, the company's execution and operations have been performing well due to the MOVE strategy and simplification efforts. Moreover, the company pays out regular dividends and engages in share buyback programs to boost shareholders' value. However, dependence on the U.S. government for the defense segment's sales is a concern for Oshkosh. Further deceleration in Commercial segment's order activity could pose increased downside to consolidated results. Also, rise in raw material costs, labor challenges, uncertain trade policies and tariffs are hurting the company's bottom line.

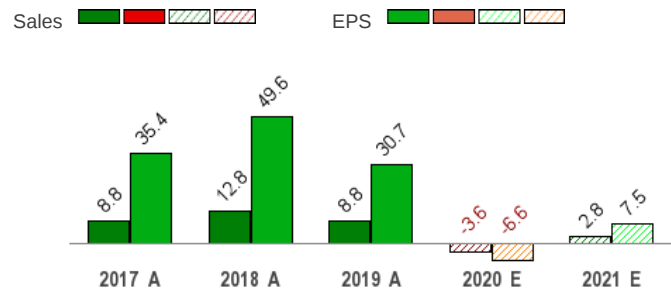
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.62 - \$66.04
20 Day Average Volume (sh)	764,741
Market Cap	\$5.1 B
YTD Price Change	-21.1%
Beta	1.96
Dividend / Div Yld	\$1.20 / 1.6%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 28% (184 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.2%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/05/2020
Earnings ESP	0.1%
P/E TTM	9.6
P/E F1	9.6
PEG F1	0.8
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,714 E	2,005 E	2,380 E	2,191 E	8,306 E
2020	1,695 A	1,947 E	2,297 E	2,105 E	8,079 E
2019	1,803 A	1,990 A	2,393 A	2,196 A	8,382 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.30 E	\$1.84 E	\$2.97 E	\$2.21 E	\$8.34 E
2020	\$1.10 A	\$1.67 E	\$2.74 E	\$2.12 E	\$7.76 E
2019	\$1.61 A	\$1.82 A	\$2.72 A	\$2.17 A	\$8.31 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 03/03/2020. The reports text is as of 03/04/2020.

Overview

Established in 1917, WI-based Oshkosh Corporation is a designer, manufacturer and seller of a varied range of vehicle bodies and specialty vehicles. The primary markets, which the company caters to, consist of defense, concrete placement, refuse hauling, access equipment, and fire and emergency. A few of the major brands that it offers include — Oshkosh, JLG, Pierce, McNeilus, IMT, Frontline, Jerr-Dan, CON-E-CO and London. Currently, the company employs approximately 15,000 people globally.

Oshkosh has manufacturing operations in Australia, Canada, China, France, Mexico, Romania and the United Kingdom, apart from the seven states of the United States.

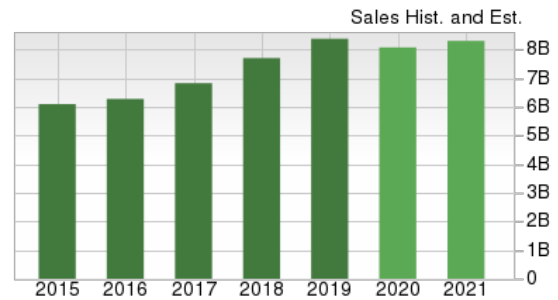
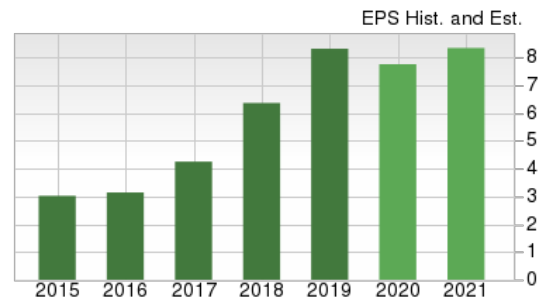
The four reportable segments of Oshkosh are-

Access Equipment (contributed 49% in consolidated net sales in fiscal 2019) - The segment operates under JLG and Jerr-Dan brands. JLG engages in the designing and manufacturing of aerial work platforms and telehandlers that are used for construction, industrial, institutional and general maintenance applications. JLG's customer base consists of equipment rental companies, construction contractors, manufacturing companies and home improvement centers. Further, Jerr-Dan offers tow trucks (wreckers) and roll-back vehicle carriers that cater towing companies in the United States and abroad.

The Defense (24%) unit designs, manufactures and markets military tactical wheeled vehicles. Oshkosh Defense offers a wide range of products, which include severe-duty, heavy- and medium-payload tactical trucks, hauling tanks, missile systems, ammunition, fuel, troops, and cargo for combat units.

The Fire & Emergency (15%) unit manufactures custom and commercial firefighting vehicles and equipment, simulators, and firefighting (ARFF) vehicles. Its products are sold to fire departments, airports and other governmental units in the United States and abroad.

The Commercial (12%) segment produces concrete mixers, refuse collection vehicles, and portable and stationary concrete batch plants for commercial and municipal waste haulers across the globe. Additionally, it manufactures field service vehicles and truck-mounted cranes that caters mining and construction.



Reasons To Buy:

- ▲ For fiscal 2020, the company anticipates diluted earnings per share estimate in the range of \$7.30-\$8.10. Further, net sales are projected between \$7.9 billion and \$8.2 billion, and operating income is expected in the band of \$690-\$765 million. Diverse end markets, integrated operations and supply chain along with solid backlogs across segments are expected to drive its financials in the current fiscal.
- ▲ Higher sales volume is aiding the Access Equipment, Defense, and Fire & Emergency segments and generating robust revenues. During full-year fiscal 2019, the segments' revenues rose roughly 8%, 11.11% and 18.36%, respectively year over year. The upside was supported by higher sales resulting from the continued ramp up of JLTV sales to the U.S. government, higher refuse collection vehicle sales volumes, application of new revenue recognition standard and improved pricing.
- ▲ The company's execution and operations have been performing well, as a result of the MOVE strategy and simplification efforts, which may allow Oshkosh to deliver strong results in 2020, while also continuing to invest in the business. Additionally, the benefits of being a differently integrated global industrial, provides the firm with a stable foundation, based on solid outlooks for its fire & emergency, defense and commercial segments.
- ▲ Strong cash flow aids Oshkosh to engage in share buybacks and regular dividend payouts in almost every quarter. During first-quarter fiscal 2020, the company repurchased 128,869 shares of common stock for \$9.4 million. Further, it declared quarterly dividend payout of 30 cents per share raising the dividend rate by a double-digit percentage for the sixth consecutive time. Oshkosh's board declared the same quarterly dividend to be paid in February 2019.

Diverse end markets, integrated operations and supply chain along with solid backlogs drive Oshkosh's segments. Also, strong cash flow aids share buyback and dividend payment.

Reasons To Sell:

- ▼ Huge dependence on the U.S. government under the Joint Light Tactical Vehicle (JLTV) program for Defense segment's sales is a concern. The segment has been under pressure due to the absence of international Mine Resistant Ambush Protected-All Terrain Vehicle (M-ATV) sales. If the company keeps failing to add foreign militaries as customers within the segment, a trend of sales decline is likely to be witnessed in the upcoming quarters.
- ▼ The biggest risk that could impede OSK from achieving estimates would be deterioration in the Commercial segment. Net sales in the Commercial segment decreased 3.4% year over year to \$1.02 billion in full-year fiscal 2019. Any further deceleration in order activity could pose increased downside to consolidated results given that Commercial is OSK's one of the most profitable business segment.
- ▼ Oshkosh is facing significant rise in raw material costs, specifically in its key components — steel and aluminum. Moreover, other material costs, freight rates and unstable foreign currency are increasing expenses. In order to tackle this situation, the company has implemented steel and aluminum surcharges on its non-defense segments.
- ▼ Uncertain trade policies and tariffs, labor challenges and extreme weather conditions are threats to Oshkosh's financial performance. Tariff woes in China remain a concern and may affect the top-line growth of the firm. The company expects a continued flat to slow growth firetruck market in North America in 2020, and slower international activity, especially in Asia owing to these trade tensions.

Uncertain trade policies and tariffs, labor challenges, increasing raw material costs and extreme weather conditions are threats to Oshkosh's financial performance.

Last Earnings Report

Oshkosh's Q1 Earnings Miss, Down Y/Y

Oshkosh Corporation recorded earnings of \$1.10 per share in the first quarter of fiscal 2019 (Dec 31, 2019), missing the Zacks Consensus Estimate of \$1.16. The reported figure also comes in lower than the year-ago quarter's \$1.61 per share. The company's performance was mainly impacted by lower sales volume, higher operating expenses, unfavorable product mix and production inefficiencies. Net income came in at \$75.7 million, down from the year-ago quarter's \$109 million.

In the reported quarter, consolidated net sales declined 6% to \$1,695 million. However, the figure surpassed the Zacks Consensus Estimate of \$1,685 million.

In the fiscal first quarter, consolidated operating income plunged 32% year over to \$109.1 million (6.4% of sales).

Segmental Details

Net sales in the Access equipment decreased 13.1% year over year to \$717.9 million, due to lower sales volumes for both aerial work platforms, and telehandlers in North America and the Europe, Africa and the Middle East. In the reported quarter, operating income was up 3.9% to \$69 million (9.6% of sales), primarily aided by favorable price/cost dynamics, solid mix, and improved operational efficiencies.

The Defense segment's net sales increased 6.2% to \$493.1 million in the quarter, owing to higher sales resulting from the continued ramp up of JLTV sales to the U.S. government. Operating income slumped 56.5% to \$30.9 million (6.3% of sales) due to an unfavorable product mix, and higher new product-development spending.

Net sales in the Fire & Emergency segment declined 11.2% to \$262.4 million in the fiscal first quarter. The impact of lower sales volume, higher selling, general and administrative expenses, unfavorable product mix and production inefficiencies caused the operating income to slip 22.3% to \$31 million (11.8% of sales) during this period.

Net sales in the Commercial segment inched up 0.9% to \$224.2 million in the reported quarter, backed by a higher mix of package sales, which include third-party chassis. The segment's operating income decreased 4.8% to \$17.8 million (7.9% of sales) in the quarter, mainly due to unfavorable product mix and higher new product-development spending.

Financial Details

Oshkosh had cash and cash equivalents of \$264 million as of Dec 31, 2019. The company's long-term debt was \$819.2 million, representing a debt-to-capital ratio of 30.55%.

Oshkosh's net cash used by operating activities was \$149.9 million as of Dec 31, 2019 compared with the \$85.9 million reported at the end of the year-ago period.

Share Buyback & Dividend

During the December-end quarter, the company repurchased 128,869 shares of common stock for \$9.4 million.

Oshkosh's board has announced a quarterly cash dividend of 30 cents per share for its shareholders. The amount will be paid on Feb 28, to shareholders as of Feb 14, 2020.

Fiscal 2020 Outlook

For fiscal 2020, the company reaffirmed diluted its earnings per share estimate of \$7.30-\$8.10. Further, net sales are projected between \$7.9 billion and \$8.2 billion, and operating income is expected in the band of \$690-\$765 million.

Quarter Ending 12/2019

Report Date	Jan 29, 2020
Sales Surprise	0.58%
EPS Surprise	-5.17%
Quarterly EPS	1.10
Annual EPS (TTM)	7.81

Valuation

Oshkosh's shares are down 20.8% in the year-to-date period and down 4.6% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 10.7% and down 1.8%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.5% and up 8.6%, respectively.

The S&P 500 index is down 3.9% in the year-to-date period and up 12% in the past year.

The stock is currently trading at 9.33X forward 12-month earnings, which compares to 12.03X for the Zacks sub-industry, 10.67X for the Zacks sector and 17.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.86X and as low as 7.9X, with a 5-year median of 12.25X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$79 price target reflects 9.87X forward 12-month earnings per share.

The table below shows summary valuation data for OSK:

Valuation Multiples - OSK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.33	12.03	10.67	17.66
	5-Year High	21.86	13.46	11.75	19.34
	5-Year Low	7.9	8.52	8.23	15.18
	5-Year Median	12.25	11.6	9.91	17.46
EV/EBITDA TTM	Current	6.37	5.57	10.12	10.93
	5-Year High	11.28	8.63	11.33	12.88
	5-Year Low	5.35	4.64	7.05	8.49
	5-Year Median	7.73	6.61	9.35	10.79
P/S F12M	Current	0.62	0.58	0.65	3.26
	5-Year High	0.98	0.81	0.76	3.43
	5-Year Low	0.36	0.49	0.5	2.54
	5-Year Median	0.65	0.64	0.62	3.01

As of 03/03/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (184 out of 255)



Top Peers

Allison Transmission Holdings, Inc. (ALSN)	Neutral
BorgWarner Inc. (BWA)	Neutral
Daimler AG (DDAIF)	Neutral
General Dynamics Corporation (GD)	Neutral
Lockheed Martin Corporation (LMT)	Neutral
Navistar International Corporation (NAV)	Neutral
Terex Corporation (TEX)	Neutral
Textron Inc. (TXT)	Neutral

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	OSK Neutral	X Industry	S&P 500	DDAIF Neutral	GD Neutral	NAV Neutral
VGM Score	D	-	-	A	B	A
Market Cap	5.08 B	638.40 M	21.37 B	43.32 B	46.64 B	3.52 B
# of Analysts	8	3	13	3	8	4
Dividend Yield	1.61%	0.00%	2.04%	0.00%	2.53%	0.00%
Value Score	B	-	-	A	B	B
Cash/Price	0.05	0.13	0.05	0.72	0.02	0.42
EV/EBITDA	6.13	4.63	12.65	5.85	9.97	8.07
PEG Ratio	0.83	1.01	1.87	2.20	1.60	0.98
Price/Book (P/B)	1.90	1.18	2.96	0.62	3.44	NA
Price/Cash Flow (P/CF)	7.28	4.35	11.68	2.64	10.81	5.55
P/E (F1)	9.60	10.10	16.98	7.20	12.64	15.15
Price/Sales (P/S)	0.61	0.40	2.44	0.22	1.19	0.31
Earnings Yield	10.39%	9.60%	5.87%	13.88%	7.91%	6.59%
Debt/Equity	0.31	0.51	0.70	1.58	0.66	-1.16
Cash Flow (\$/share)	10.26	3.69	7.01	15.32	14.89	6.40
Growth Score	F	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	29.20%	8.01%	10.85%	-1.19%	7.05%	NA
Proj. EPS Growth (F1/F0)	-6.68%	5.83%	6.36%	-34.31%	6.38%	-44.88%
Curr. Cash Flow Growth	17.40%	-2.66%	6.07%	-10.36%	3.16%	9.70%
Hist. Cash Flow Growth (3-5 yrs)	9.98%	6.21%	8.52%	1.70%	6.36%	81.17%
Current Ratio	2.14	1.56	1.23	1.22	1.18	1.39
Debt/Capital	23.40%	38.59%	42.57%	61.31%	39.89%	NA
Net Margin	6.60%	3.15%	11.57%	1.38%	8.85%	1.96%
Return on Equity	21.05%	13.35%	16.66%	10.82%	26.70%	-10.02%
Sales/Assets	1.50	1.30	0.54	0.58	0.81	1.59
Proj. Sales Growth (F1/F0)	-3.62%	0.32%	4.01%	-2.36%	3.66%	-15.23%
Momentum Score	B	-	-	F	C	C
Daily Price Chg	-2.31%	-1.40%	-2.60%	-3.71%	-2.41%	-1.69%
1 Week Price Chg	-14.81%	-11.07%	-12.06%	-10.96%	-14.88%	-2.81%
4 Week Price Chg	-17.26%	-11.35%	-10.01%	-13.46%	-10.29%	-1.83%
12 Week Price Chg	-18.51%	-14.44%	-7.46%	-24.96%	-10.77%	11.22%
52 Week Price Chg	-5.99%	-22.50%	2.54%	-32.14%	-4.15%	-5.56%
20 Day Average Volume	764,741	182,559	2,406,738	82,055	1,757,652	768,004
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.05%	0.00%	-0.06%	-6.59%	0.61%	0.00%
(F1) EPS Est 12 week change	-0.80%	-2.28%	-0.39%	-13.09%	-1.50%	-24.97%
(Q1) EPS Est Mthly Chg	-0.46%	-1.33%	-0.45%	NA	-0.50%	0.00%

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	F
Momentum Score	B
VGM Score	D

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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