

Oshkosh Corporation(OSK)

\$78.62 (As of 08/04/20)

Price Target (6-12 Months): **\$83.00**

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:C

Value: B

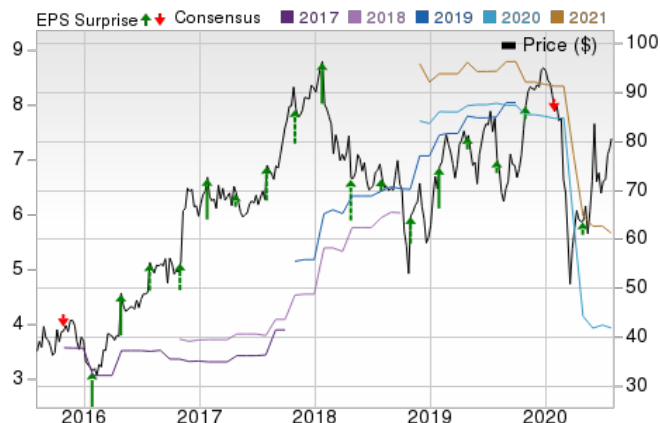
Growth: F

Momentum: B

Summary

Solid backlogs across the Defense, and Fire & Emergency segments are expected to drive Oshkosh's financials in fiscal 2020. Further, in response to the uncertainties caused by the coronavirus pandemic, the company initiated a series of meaningful cost savings throughout the enterprise, including substantial staffing adjustments and reducing production levels to help mitigate the business disruption. Moreover, the company pays out regular dividends to boost shareholders' value. However, amid the coronavirus-led uncertainty, it refrained from providing 2020 guidance. Revenues from the firm's Access Equipment and Commercial segments are under much pressure. Also, rise in raw material costs, uncertain trade policies and tariffs are hurting the firm's bottom line. As such, investors are recommended to wait for a better entry point.

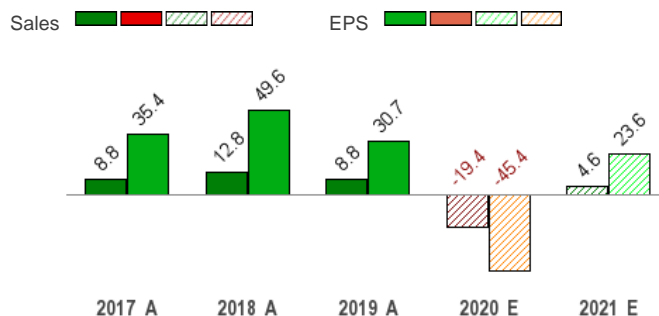
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.62 - \$46.72
20 Day Average Volume (sh)	411,954
Market Cap	\$5.4 B
YTD Price Change	-16.9%
Beta	1.56
Dividend / Div Yld	\$1.20 / 1.5%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Top 41% (105 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	174.5%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	13.2%
Expected Report Date	11/04/2020
Earnings ESP	4.9%
P/E TTM	13.5
P/E F1	17.3
PEG F1	1.5
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,500 E	1,794 E	1,816 E	1,813 E	7,071 E
2020	1,695 A	1,797 A	1,581 A	1,638 E	6,760 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	\$0.87 E	\$1.45 E	\$1.68 E	\$1.45 E	\$5.61 E
2020	\$1.10 A	\$1.25 A	\$1.29 A	\$0.98 E	\$4.54 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 08/04/2020. The reports text is as of 08/05/2020.

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.

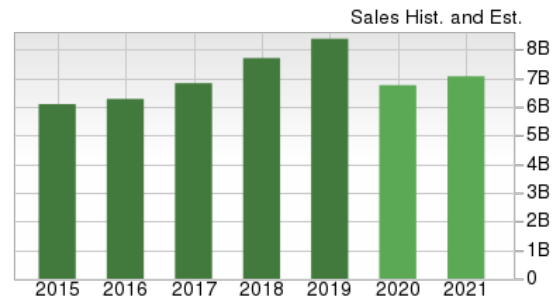
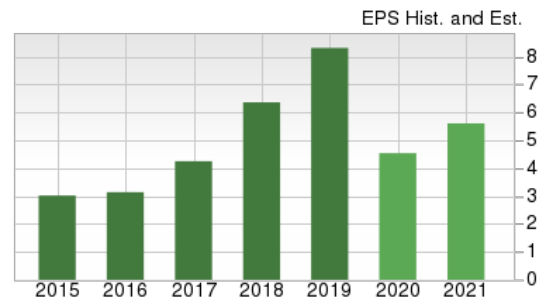
The four reportable segments of Oshkosh are-

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:

▲ Solid backlogs across the Defense, and Fire & Emergency segments bode well. During second-quarter fiscal 2020, the company received large orders for both the JLTV programs that not only positively impacted quarterly performance but also increased backlog. At the end of the second quarter, backlog for the Defense segment stood at more than \$3.3 billion, providing enough visibility into 2021 and 2022. The company is actively ramping up production of its new front discharge concrete mixer, S-Series 2.0, which was launched in March 2020. The vehicle is integrated with connectivity and productivity technology not previously seen in the concrete placement industry.

Solid backlogs across the Defense, and Fire & Emergency segments bode well. Further, healthy balance sheet increases financial flexibility.

▲ Oshkosh engages in regular dividend payouts in almost every quarter, making it a safe stock for income investors. While many companies have tapped brakes on payouts amid coronavirus, Oshkosh maintained its dividend, thus preserving shareholders' value. Moreover, as of Jun 30, 2020, the company had long-term debt of \$817.6 million, down from \$819 million recorded as of Sep 30, 2019. Its total debt-to-capital ratio stands at 0.23, lower than its industry's 0.45. This favorable reading indicates that the firm is not a very leveraged company. Moreover, the company's times interest earned ratio of 9.27 is also favorable compared with the industry's 6.28.

▲ In response to the uncertainty caused by coronavirus pandemic, Oshkosh initiated a series of meaningful cost savings throughout the enterprise, including substantial staffing adjustments and reducing production levels to help mitigate the business disruptions. The focus on cost discipline is likely to result in potential savings of more than \$80-\$100 million for the second half of fiscal 2020.

Reasons To Sell:

- ▼ The coronavirus pandemic has crippled the auto industry, and will lead to a decline in sales and production, hurting this automotive manufacturer. The pandemic has affected Oshkosh's customers in the United States and abroad, leading to temporary plant closures, changes in processes and cut in production levels, in line with the nationwide campaign addressing the crisis. Notably, the company has refrained from providing 2020 guidance in response to the uncertainties caused by the deadly virus. Weak consumer sentiment amid the COVID-19 outbreak is likely to hurt the firm's sales and earnings in the near future.
- ▼ The biggest risk that could impede Oshkosh from achieving estimates would be deterioration in the Access Equipment, Fire & Emergency, and Commercial segments. Net sales in the segments decreased 61%, 8.9% and 16.3% year over year in third-quarter fiscal 2020. Notably, these divisions are facing more volatility in consumer demand, given supply shortages and production interruptions. Any further deceleration in order activity could pose increased downside to consolidated results, given that the above mentioned segments are among the most profitable business segments.
- ▼ Oshkosh is facing a 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 the situation, the company implemented steel and aluminum surcharges on its non-defense segments.

Increasing raw material costs, freight rates and unstable foreign currency are threats to Oshkosh's financial performance.

Last Earnings Report

Oshkosh's Q3 Earnings & Sales Top, Down Y/Y

Oshkosh Corporation recorded third-quarter fiscal 2020 (ended Jun 30, 2020) earnings of \$1.29 per share, down from \$2.72 recorded in the year-ago period amid coronavirus-led low demand.

However, fiscal third-quarter earnings handily surpassed the Zacks Consensus Estimate of 47 cents per share. This outperformance stemmed from stellar Defense segment revenues, which came in at \$548 million, beating the consensus mark of \$516 million. Notably, the Defense segment generated higher revenues and income than the year-ago period.

For the reported quarter, consolidated net sales declined 33.9% from the prior-year period to \$1,581 million. Nonetheless, revenues surpassed the Zacks Consensus Estimate of \$1,541 million.

For the fiscal second quarter, consolidated operating income slipped 54% year over to \$118.6 million (accounting for 7.5% of sales).

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	2.58%
EPS Surprise	174.47%
Quarterly EPS	1.29
Annual EPS (TTM)	5.81

Segmental Details

For the reported quarter, net sales in Access equipment decreased 61% year over year to \$488 million. Operating income also plunged 82.4% from the prior-year quarter to \$33.5 million (6.9% of sales). This downside was primarily due to the impact of lower sales volume and adverse absorption amid slowdown in production due to the COVID-19 crisis.

The Defense segment's net sales increased 7.1% year over year to \$547.5 million for the fiscal third quarter on higher sales resulting from persistent ramp up of JLTV sales to the U.S. government. Operating income climbed 35.6% from the year-ago quarter to \$40 million (5.8% of sales) on higher sales volume and cost-cut efforts during the quarter.

Net sales in the Fire & Emergency segment dropped 8.9% from a year ago to \$310.7 million for the fiscal third quarter due to low production rates and supplier parts shortage as a result of the pandemic-related setbacks. Operating income also decreased 6.1% from the prior-year figure to \$47.6 million (15.3% of sales) due to the impact of lower sales volume, unfavorable product mix and product inefficiencies.

Net sales in the Commercial segment edged down 16.3% from the year-ago figure to \$247.7 million for the fiscal third quarter amid coronavirus woes. The segment's operating income was up 10.7% from the prior-year period to \$23.8 million (9.6% of sales), mainly owing to the absence of weather-related production disruptions that were experienced in the prior-year quarter.

Financials & Dividend

Oshkosh had cash and cash equivalents of \$331.6 million as of Jun 30, 2020. The company's long-term debt was \$817.6 million. Net cash provided by operating activities during the quarter was \$36.4 million.

Oshkosh's board announced a quarterly cash dividend of 30 cents per share for shareholders. The amount will be paid on Aug 31 to shareholders of record as of Aug 17, 2020.

Valuation

Oshkosh's shares are down 17% in the year-to-date period and up 4.2% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 6.2% and up 17.4%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 3.1% and 35.8%, respectively.

The S&P 500 index is up 2.3% in the year-to-date period and 14.7% in the past year.

The stock is currently trading at 14.62X forward 12-month earnings, which compares to 23.17X for the Zacks sub-industry, 24.86X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.86X and as low as 6.38X, with a 5-year median of 12.77X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$83 price target reflects 15.45X 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	14.62	23.17	24.86	22.58
	5-Year High	21.86	25.87	25.33	22.58
	5-Year Low	6.38	8.36	8.2	15.25
	5-Year Median	12.77	11.41	9.87	17.55
EV/EBITDA TTM	Current	8.43	5.74	11.5	12.67
	5-Year High	11.45	8.44	11.75	12.85
	5-Year Low	4.51	3.94	6.8	8.24
	5-Year Median	7.69	6.32	9.27	10.89
P/S F12M	Current	0.75	0.68	0.87	3.6
	5-Year High	0.98	0.78	0.87	3.6
	5-Year Low	0.36	0.44	0.49	3.53
	5-Year Median	0.67	0.61	0.61	3.04

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Allison Transmission Holdings, Inc. (ALSN)	Neutral	3
BorgWarner Inc. (BWA)	Neutral	3
Daimler AG (DDAIF)	Neutral	3
General Dynamics Corporation (GD)	Neutral	3
Lockheed Martin Corporation (LMT)	Neutral	3
Navistar International Corporation (NAV)	Neutral	4
Terex Corporation (TEX)	Neutral	3
Textron Inc. (TXT)	Neutral	3

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	OSK	X Industry	S&P 500	DDAIF	GD	NAV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	C	-	-	C	B	C
Market Cap	5.35 B	1.13 B	22.75 B	50.65 B	42.25 B	3.21 B
# of Analysts	10	2	14	3	8	3
Dividend Yield	1.53%	0.00%	1.76%	0.00%	2.99%	0.00%
Value Score	B	-	-	B	A	C
Cash/Price	0.06	0.19	0.07	0.70	0.05	0.50
EV/EBITDA	6.35	5.54	13.09	9.22	9.18	8.23
PEG Ratio	1.51	2.38	2.95	NA	2.56	NA
Price/Book (P/B)	1.93	1.30	3.16	0.72	3.04	NA
Price/Cash Flow (P/CF)	7.66	4.83	12.32	2.84	9.89	5.04
P/E (F1)	17.56	28.86	21.81	112.73	13.28	NA
Price/Sales (P/S)	0.74	0.41	2.46	0.29	1.10	0.34
Earnings Yield	5.77%	1.88%	4.40%	0.89%	7.53%	-2.26%
Debt/Equity	0.30	0.49	0.76	1.58	0.75	-1.26
Cash Flow (\$/share)	10.26	3.33	6.94	16.67	14.89	6.40
Growth Score	F	-	-	D	B	F
Hist. EPS Growth (3-5 yrs)	29.37%	8.02%	10.46%	-15.08%	6.15%	93.61%
Proj. EPS Growth (F1/F0)	-45.38%	-61.03%	-7.16%	-95.09%	-7.45%	-117.25%
Curr. Cash Flow Growth	17.40%	-4.55%	5.47%	8.72%	3.16%	9.70%
Hist. Cash Flow Growth (3-5 yrs)	9.98%	6.79%	8.55%	4.06%	6.36%	81.17%
Current Ratio	2.12	1.67	1.32	1.21	1.27	1.69
Debt/Capital	22.80%	40.23%	44.36%	61.21%	42.98%	NA
Net Margin	5.15%	0.75%	10.25%	-0.18%	8.47%	1.92%
Return on Equity	14.93%	8.10%	14.67%	1.55%	24.10%	-5.82%
Sales/Assets	1.28	1.10	0.51	0.51	0.76	1.42
Proj. Sales Growth (F1/F0)	-19.35%	-17.64%	-1.71%	-12.05%	-2.49%	-33.01%
Momentum Score	B	-	-	C	D	A
Daily Price Chg	-1.52%	0.25%	0.42%	3.51%	-0.32%	0.03%
1 Week Price Chg	0.09%	-0.83%	0.14%	-5.10%	-2.27%	3.99%
4 Week Price Chg	12.07%	4.05%	4.97%	12.46%	1.42%	18.77%
12 Week Price Chg	29.25%	24.80%	15.30%	45.36%	11.51%	38.62%
52 Week Price Chg	4.23%	-0.82%	2.34%	-3.02%	-18.50%	19.52%
20 Day Average Volume	411,954	207,844	2,082,836	36,026	1,261,351	507,961
(F1) EPS Est 1 week change	15.47%	0.00%	0.00%	0.00%	-0.58%	0.00%
(F1) EPS Est 4 week change	13.19%	0.00%	0.93%	213.51%	-0.58%	23.72%
(F1) EPS Est 12 week change	15.61%	-5.95%	0.78%	-68.10%	-1.22%	60.92%
(Q1) EPS Est Mthly Chg	-9.58%	0.00%	0.17%	NA	-1.37%	69.23%

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	F
Momentum Score	B
VGM Score	C

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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