

Oshkosh Corporation(OSK)

\$94.29 (As of 01/03/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

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 Defense, Fire & Emergency and Commercial 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 Access Equipment'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.

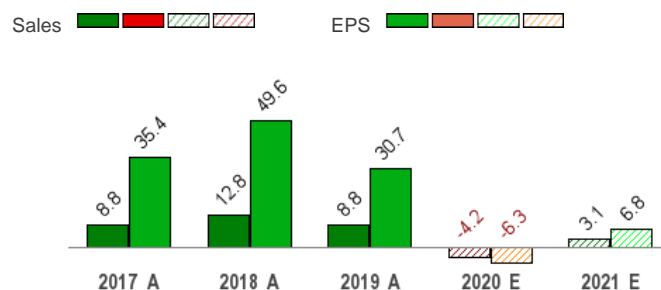
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.62 - \$62.18
20 Day Average Volume (sh)	491,173
Market Cap	\$6.4 B
YTD Price Change	-0.4%
Beta	2.01
Dividend / Div Yld	\$1.20 / 1.3%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 23% (193 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.4%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	01/29/2020
Earnings ESP	-11.9%
P/E TTM	11.3
P/E F1	12.1
PEG F1	1.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,709 E	1,958 E	2,338 E	2,191 E	8,280 E
2020	1,693 E	1,930 E	2,290 E	2,106 E	8,028 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	\$1.29 E	\$1.82 E	\$2.95 E	\$2.28 E	\$8.32 E
2020	\$1.19 E	\$1.70 E	\$2.72 E	\$2.09 E	\$7.79 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 01/03/2020. The reports text is as of 01/06/2020.

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.

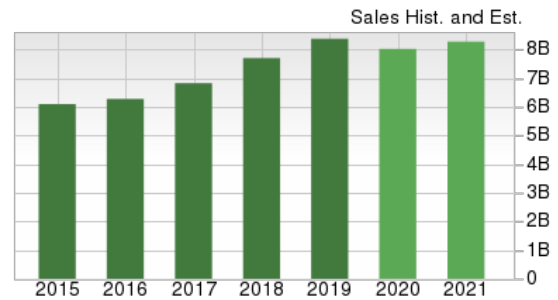
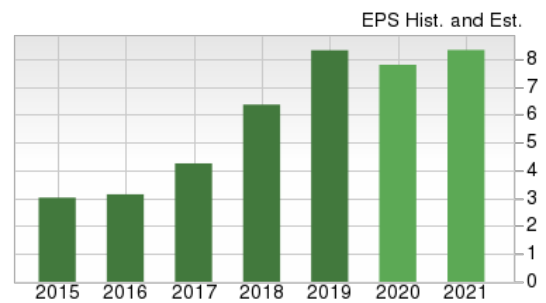
The four reportable segments of Oshkosh are-

Access Equipment (contributed 49% in consolidated net sales in fiscal 2018) - 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 (14%) 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 (14%) 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 Defense, Fire & Emergency and Commercial segments and generating robust revenues. During fourth-quarter fiscal 2019, the segments' revenues rose roughly 22.7%, 22.1% and 4.6%, 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 fourth-quarter fiscal 2019, the company repurchased 822,905 shares of common stock for \$66.2 million. Further, it raised the quarterly dividend payout by 11% to 30 cents 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 December 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 Access Equipment end markets, as well as securing incremental defense contracts. Net sales in the Access equipment decreased 4.2% year over year to \$1.02 billion in the fourth quarter of fiscal 2019, due to lower sales volume in the Europe, Middle East and Africa region. OSK is expected to continue its trend of executing in a decelerating demand environment for its Access Equipment division. Any further deceleration in order activity could pose increased downside to consolidated results given that Access is OSK's largest and 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. Rising tariffs in China remain concerns 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 Beats Q4 Earnings & Revenues Estimates

Oshkosh Corporation recorded earnings of \$2.17 per share in the fourth quarter of fiscal 2019 (Sep 30, 2019), beating the Zacks Consensus Estimate of \$1.88, mainly impacted by higher sales, improved pricing and application of the new revenue recognition standard. In the year-ago quarter, earnings were \$2.05 per share. Net income was \$150 million compared with the year-ago quarter's \$151.3 million.

In the reported quarter, consolidated net sales rose 6.7% to \$2.20 billion. The figure also surpassed the Zacks Consensus Estimate of \$2.11 billion. This upside resulted from higher sales in the company's Defense, Fire & Emergency and Commercial segments.

In fiscal fourth quarter, consolidated operating income inched up 0.6% year over to \$203.1 million (9.2% of sales).

Segmental Details

Net sales in the Access equipment decreased 4.2% year over year to \$1.02 billion, due to lower sales volume in the Europe, Middle East and Africa region. In the quarter under review, operating income edged down 0.3% to \$126.5 million (12.4% of sales), primarily due to lower sales volume and higher marketing spending.

The Defense segment's net sales increased 22.7% to \$570.2 million in the quarter, owing to higher sales resulting from the continued ramp up of JLTV sales to the U.S. government. Operating income fell 19.8% to \$50.5 million (8.9% of sales) due to the recognition of a pre-tax gain on a litigation settlement.

Net sales in the Fire & Emergency segment climbed 22.1% to \$346.4 million in the reported quarter. This upside aided by sales of higher content units, application of new revenue recognition standard and improved pricing. The impact of higher sales volume and improved price/cost dynamics boosted operating income by 23.9% to \$49.3 million (14.2% of sales).

Net sales in the Commercial segment went up 4.6% to \$266 million in the quarter, backed by higher refuse collection vehicle sales volumes. The segment's operating income increased to \$18.8 million (7.1% of sales) from the \$17.7 million (7% of sales) reported in the year-ago quarter, mainly aided by higher sales.

Financial Details

Oshkosh had cash and cash equivalents of \$448.4 million as of Sep 30, 2019 compared with \$454.6 million as of Sep 30, 2018. The company's long-term debt was \$819 million in the fiscal fourth quarter compared with \$818 million as of Sep 30, 2018. The debt-to-capital ratio stands at 23.95%.

Oshkosh's net cash provided by operating activities was \$589.1 million as of Sep 30, 2019 compared with \$436.3 million reported at the end of the year-ago period.

Share Buyback & Dividend

During the September-end quarter, the company repurchased 822,905 shares of common stock for \$66.2 million.

Oshkosh's board has announced a quarterly cash dividend of 30 cents per share for its shareholders. The amount will be paid on Dec 2, to shareholders as of Nov 18, 2019.

Chart

Fiscal 2020 Outlook

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.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	4.02%
EPS Surprise	15.43%
Quarterly EPS	2.17
Annual EPS (TTM)	8.32

Valuation

Oshkosh's shares are up 51.2% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are up 23.6% and 16.4%, respectively, over the past year.

The S&P 500 index is up 28.4% in the past year.

The stock is currently trading at 11.89X forward 12-month earnings, which compares to 13.14X for the Zacks sub-industry, 10.58X for the Zacks sector and 18.7X 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 12.26X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$100 price target reflects 12.61X 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	11.89	13.14	10.58	18.7
	5-Year High	21.86	13.46	11.75	19.34
	5-Year Low	7.9	8.52	8.23	15.17
	5-Year Median	12.26	11.6	9.91	17.44
EV/EBITDA TTM	Current	7.38	6.46	8.85	12.01
	5-Year High	11.28	8.66	11.33	12.86
	5-Year Low	5.35	4.63	7.05	8.49
	5-Year Median	7.69	6.63	9.27	10.66
P/S F12M	Current	0.79	0.64	0.66	3.47
	5-Year High	0.81	0.81	0.76	3.47
	5-Year Low	0.36	0.49	0.5	2.54
	5-Year Median	0.64	0.65	0.62	3

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (193 out of 252)



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
Terex Corporation (TEX)	Neutral
Textron Inc. (TXT)	Neutral
Navistar International Corporation (NAV)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	OSK Neutral	X Industry	S&P 500	DDAIF Neutral	GD Neutral	NAV Underperform
VGM Score	A	-	-	A	B	A
Market Cap	6.42 B	834.22 M	23.66 B	58.30 B	52.13 B	2.80 B
# of Analysts	8	3	13	3	9	4
Dividend Yield	1.27%	0.00%	1.79%	0.00%	2.26%	0.00%
Value Score	A	-	-	A	B	B
Cash/Price	0.07	0.10	0.04	0.54	0.02	0.52
EV/EBITDA	7.38	5.31	13.88	6.57	11.56	7.15
PEG Ratio	1.03	1.32	1.99	1.48	1.62	0.73
Price/Book (P/B)	2.48	1.61	3.36	0.83	3.86	NA
Price/Cash Flow (P/CF)	9.19	5.18	13.62	3.56	12.42	4.41
P/E (F1)	11.96	11.37	18.74	8.42	13.95	11.26
Price/Sales (P/S)	0.77	0.49	2.67	0.30	1.34	0.25
Earnings Yield	8.26%	8.23%	5.32%	11.87%	7.17%	8.89%
Debt/Equity	0.32	0.41	0.72	1.58	0.67	-1.16
Cash Flow (\$/share)	10.26	3.65	6.94	15.32	14.51	6.40
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	26.73%	9.38%	10.56%	0.39%	7.41%	NA
Proj. EPS Growth (F1/F0)	-6.27%	8.32%	7.41%	42.93%	8.38%	-40.99%
Curr. Cash Flow Growth	17.40%	7.34%	14.83%	-10.36%	20.42%	9.70%
Hist. Cash Flow Growth (3-5 yrs)	9.98%	10.36%	9.00%	1.70%	6.79%	81.17%
Current Ratio	1.96	1.56	1.23	1.22	1.11	1.39
Debt/Capital	23.96%	35.95%	42.92%	61.31%	39.95%	NA
Net Margin	6.91%	3.02%	11.08%	2.40%	8.66%	1.96%
Return on Equity	23.21%	14.34%	17.10%	11.42%	26.79%	-10.02%
Sales/Assets	1.56	1.30	0.55	0.58	0.82	1.59
Proj. Sales Growth (F1/F0)	-4.22%	1.17%	4.20%	1.19%	4.54%	-15.23%
Momentum Score	C	-	-	C	B	B
Daily Price Chg	-0.41%	-0.75%	-0.61%	-2.83%	0.98%	-1.05%
1 Week Price Chg	0.42%	0.00%	0.13%	0.42%	-0.47%	-1.74%
4 Week Price Chg	5.14%	1.21%	2.60%	-0.69%	-1.20%	-10.06%
12 Week Price Chg	32.21%	10.39%	8.87%	9.09%	1.98%	6.89%
52 Week Price Chg	57.86%	19.77%	29.34%	6.63%	17.48%	7.70%
20 Day Average Volume	491,173	161,325	1,603,615	33,473	994,325	385,948
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.37%	0.00%	0.00%	0.21%	-0.07%	-19.67%
(F1) EPS Est 12 week change	-2.43%	-5.04%	-0.57%	-13.77%	-1.48%	-25.49%
(Q1) EPS Est Mthly Chg	-0.75%	0.00%	0.00%	NA	0.00%	-146.30%

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	A
Momentum Score	C
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.