

Oshkosh Corporation(OSK)

\$71.00 (As of 07/08/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

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 and engages in share buyback programs to boost shareholders' value. However, amid the coronavirus outbreak, it withdrew its fiscal 2020 guidance, considering its subsequent negative impacts on customer demand. Also, rise in raw material costs, uncertain trade policies and tariffs are hurting the company's bottom line. As such, investors are recommended to wait for a better entry point.

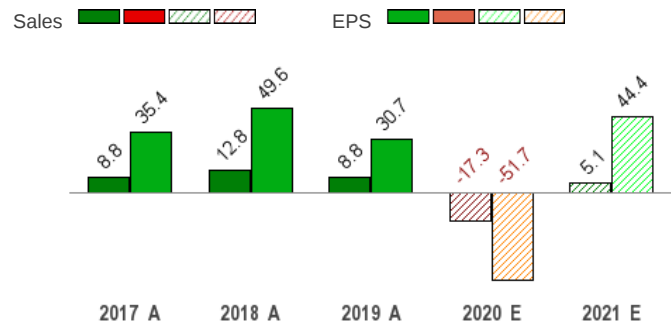
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.62 - \$46.72
20 Day Average Volume (sh)	432,682
Market Cap	\$4.8 B
YTD Price Change	-25.0%
Beta	1.54
Dividend / Div Yld	\$1.20 / 1.7%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Top 28% (70 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.9%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	2.1%
Expected Report Date	07/30/2020
Earnings ESP	0.8%
P/E TTM	9.8
P/E F1	17.7
PEG F1	1.5
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,489 E	1,828 E	1,808 E	1,912 E	7,285 E
2020	1,695 A	1,797 A	1,566 E	1,731 E	6,934 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	\$0.88 E	\$1.42 E	\$1.63 E	\$1.74 E	\$5.79 E
2020	\$1.10 A	\$1.25 A	\$0.47 E	\$1.09 E	\$4.01 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 07/08/2020. The reports text is as of 07/09/2020.

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.

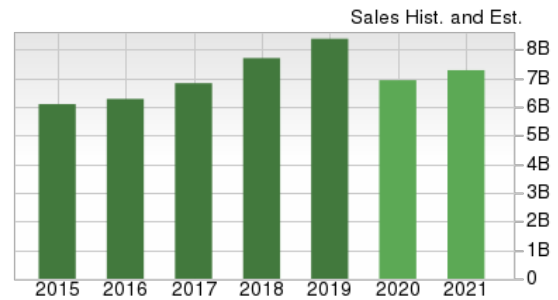
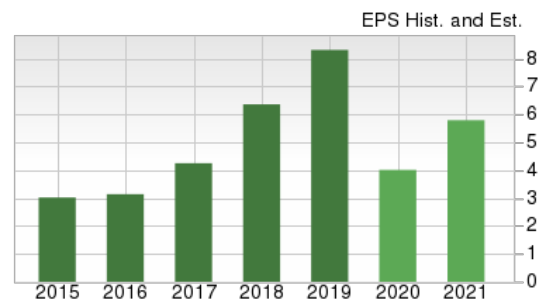
The four reportable segments of Oshkosh are-

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 and FHTV programs that not only positively impacted quarterly performance but also increased backlog. As of Mar 31, 2020, the company had the largest backlog for the Defense segment in the last eight years at \$3.4 billion, including nearly \$2 billion for 2021. 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.
- ▲ Strong cash flow aids Oshkosh to engage in share buybacks and regular dividend payouts in almost every quarter. During the March-end quarter, the company repurchased 421,984 shares of common stock for \$31.4 million. It also declared a quarterly cash dividend of 30 cents per share for its shareholders. Moreover, as of Mar 31, 2020, the company had long-term debt of \$817.4 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 11.29 is also favorable compared with the industry's 6.26.
- ▲ 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.

Solid backlogs across the Defense, and Fire & Emergency segments bode well. Further, strong cash flow aids Oshkosh to engage in share buybacks and regular dividend payouts in almost every quarter.

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 withdrew the fiscal 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 29.8%, 9.7% and 0.5% year over year to \$693 million, \$255.6 million and \$26.7 million, respectively, in second-quarter fiscal 2020. 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. Notably, all of the company's divisions are facing more volatility in consumer demand, given supply shortages and production interruptions.
- ▼ 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 Q2 Earnings & Sales Top, Down Y/Y

Oshkosh Corporation recorded earnings of \$1.25 per share in the second quarter of fiscal 2020 (Mar 31, 2020), surpassing the Zacks Consensus Estimate of \$1.18. This outperformance stemmed from stellar Defense segment revenues, which came in at \$615 million, beating the consensus mark of \$565 million. However, the bottom line declined from \$1.82 per share recorded in the year-ago quarter.

Net income came in at \$86.5 million, down from the year-ago quarter's \$128.5 million.

In the reported quarter, consolidated net sales declined 9.7% to \$1,797 million. However, the figure surpassed the Zacks Consensus Estimate of \$1,759 million.

In the fiscal second quarter, consolidated operating income slipped 23.9% year over to \$133.6 million (7.4% of sales).

Segmental Details

In the reported quarter, net sales in the Access equipment decreased 29.8% year over year to \$693 million. Operating income also plunged 40.9% to \$70.8 million (10.2% of sales). This downside was primarily due to the impact of a lower sales volume and adverse absorption amid a planned slowdown in production due to the COVID-19 crisis.

The Defense segment's net sales increased 26.4% to \$615 million in the fiscal second quarter on higher sales resulting from the continued ramp up of JLTV sales to the U.S. government. Operating income climbed 11.5% to \$58.2 million (9.5% of sales) on higher sales volume in the quarter.

Net sales in the Fire & Emergency segment dropped 9.7% to \$255.6 million in the fiscal second quarter due to delayed deliveries as a result of the pandemic-related setbacks. The impact of lower sales volume, unfavorable product mix and production inefficiencies caused the operating income to plummet 44% to \$20.5 million (8% of sales) during this period.

Net sales in the Commercial segment edged down 0.5% to \$26.7 million in the fiscal second quarter, aided by a higher mix of package sales, which include third-party chassis. The segment's operating income went up 3.8% to \$8.1 million (3.4% of sales) in the quarter, mainly owing to the absence of the weather-related production disruptions experienced in the prior-year quarter.

Financial Details

Oshkosh, whose peers include Allison Transmission Holdings, Inc. (ALSN), General Dynamics Corporation (GD) and Lockheed Martin Corporation (LMT), had cash and cash equivalents of \$403.9 million as of Mar 31, 2020. The company's long-term debt was \$817.4 million, representing a long-term debt-to-capital ratio of 23.3%.

Oshkosh's net cash provided by operating activities was \$64.8 million as of Mar 31, 2020, compared with the \$153 million reported at the end of the year-ago period.

Share Buyback & Dividend

During the March-end quarter, the company repurchased 421,984 shares of common stock for \$31.4 million.

Oshkosh's board has announced a quarterly cash dividend of 30 cents per share for its shareholders. The amount will be paid on May 29, to shareholders as of May 15, 2020.

Fiscal 2020 Outlook

Oshkosh scrapped its fiscal 2020 guidance as it anticipates that the impact of the pandemic will weigh on the company's operations and results.

The company has reduced production levels and implemented a company-wide cost reduction plan that targets \$80-\$100 million in savings for the second half of fiscal 2020 in response to the uncertainties caused by the coronavirus pandemic.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	2.14%
EPS Surprise	5.93%
Quarterly EPS	1.25
Annual EPS (TTM)	7.24

Valuation

Oshkosh's shares are down 25% in the year-to-date period and down 14.4% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 11.9% and up 12.1%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.6% and up 25.3%, respectively.

The S&P 500 index is down 2.2% in the year-to-date period and up 5.6% in the past year.

The stock is currently trading at 13.18X forward 12-month earnings, which compares to 23.74X for the Zacks sub-industry, 26.64X for the Zacks sector and 22.46X 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 12.43X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$75 price target reflects 13.91X 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	13.18	23.74	26.64	22.46
	5-Year High	21.86	25.87	26.64	22.46
	5-Year Low	6.38	8.35	8.19	15.27
	5-Year Median	12.43	11.34	9.91	17.59
EV/EBITDA TTM	Current	6.33	5.6	12.22	12
	5-Year High	11.45	8.21	12.28	12.45
	5-Year Low	4.51	3.96	7.1	8.04
	5-Year Median	7.61	6.23	9.34	10.76
P/S F12M	Current	0.67	0.66	0.83	3.5
	5-Year High	0.98	0.78	0.83	3.5
	5-Year Low	0.36	0.44	0.49	2.52
	5-Year Median	0.66	0.61	0.61	3.04

As of 07/08/2020

Industry Analysis Zacks Industry Rank: Top 28% (70 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Allison Transmission Holdings, Inc. (ALSN)	Neutral	3
BorgWarner Inc. (BWA)	Neutral	4
Daimler AG (DDAIF)	Neutral	3
General Dynamics Corporation (GD)	Neutral	4
Lockheed Martin Corporation (LMT)	Neutral	2
Navistar International Corporation (NAV)	Neutral	3
Terex Corporation (TEX)	Neutral	3
Textron Inc. (TXT)	Underperform	4

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)	2	-	-	3	4	3
VGM Score	A	-	-	D	C	D
Market Cap	4.83 B	990.36 M	21.57 B	45.36 B	41.28 B	2.77 B
# of Analysts	9	3	14	3	8	4
Dividend Yield	1.69%	0.00%	1.94%	0.00%	3.06%	0.00%
Value Score	A	-	-	B	C	B
Cash/Price	0.08	0.19	0.07	0.74	0.13	0.57
EV/EBITDA	5.70	5.36	12.68	8.84	8.91	7.66
PEG Ratio	1.53	2.12	2.88	NA	2.40	NA
Price/Book (P/B)	1.80	1.28	3.03	0.64	3.13	NA
Price/Cash Flow (P/CF)	6.92	4.27	11.62	2.54	9.66	4.35
P/E (F1)	17.71	25.47	21.12	NA	12.92	NA
Price/Sales (P/S)	0.60	0.38	2.27	0.24	1.06	0.29
Earnings Yield	5.65%	2.44%	4.44%	-0.87%	7.74%	-3.13%
Debt/Equity	0.30	0.42	0.76	1.58	0.98	-1.26
Cash Flow (\$/share)	10.26	2.94	6.94	16.67	14.89	6.40
Growth Score	B	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	30.52%	8.02%	10.90%	-4.10%	6.71%	93.61%
Proj. EPS Growth (F1/F0)	-51.74%	-54.27%	-9.99%	-104.32%	-7.05%	-120.35%
Curr. Cash Flow Growth	17.40%	-5.66%	5.51%	8.72%	3.16%	9.70%
Hist. Cash Flow Growth (3-5 yrs)	9.98%	4.57%	8.55%	4.06%	6.36%	81.17%
Current Ratio	1.96	1.65	1.30	1.21	1.34	1.69
Debt/Capital	23.31%	38.35%	44.46%	61.21%	49.52%	NA
Net Margin	6.02%	1.62%	10.62%	0.21%	8.87%	1.92%
Return on Equity	19.08%	12.25%	15.75%	7.91%	25.92%	-5.82%
Sales/Assets	1.44	1.26	0.55	0.56	0.78	1.42
Proj. Sales Growth (F1/F0)	-17.27%	-14.23%	-2.57%	-15.00%	-1.48%	-34.59%
Momentum Score	A	-	-	F	B	D
Daily Price Chg	1.21%	-0.13%	0.23%	0.71%	-0.88%	2.39%
1 Week Price Chg	3.61%	3.42%	3.66%	6.07%	0.86%	1.73%
4 Week Price Chg	-9.57%	-5.56%	-4.65%	-3.72%	-8.95%	0.04%
12 Week Price Chg	15.35%	30.38%	11.62%	40.26%	7.54%	44.37%
52 Week Price Chg	-14.36%	-13.02%	-7.46%	-20.08%	-21.17%	-16.36%
20 Day Average Volume	432,682	266,131	2,368,260	31,045	1,429,110	622,522
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-159.04%	0.00%	0.00%
(F1) EPS Est 4 week change	2.13%	0.00%	0.00%	-150.92%	-0.28%	-0.45%
(F1) EPS Est 12 week change	-14.63%	-41.77%	-7.67%	-123.87%	-9.53%	-134.21%
(Q1) EPS Est Mthly Chg	10.18%	0.00%	0.00%	NA	0.00%	-3.23%

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	A
Growth Score	B
Momentum Score	A
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.

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