

April 26, 2018

Oshkosh Corporation (OSK)

George Brockmann

Sector: Machinery

Industry: Construction Machinery and Heavy Trucks

Current Price: \$74.41

Target Price: \$94.79

Company Description: Oshkosh Corporation is a leading manufacturer and marketer of access equipment, specialty vehicles and truck bodies for the primary markets of defense, concrete placement, refuse hauling, access equipment and fire & emergency.

BUY

Current Price: \$74.41

Target Price: \$94.79

Market Cap: 5.5B

Beta: 1.54

Avg. Volume: 1,053,237

Adj. ROE: 14.82%

Ke: 8.03%

Adj. EBITDA Margin: 9.22%

Adj. ROIC: 10.14%

WACC: 7.135%



Thesis:

OSK has seen a strong margin growth in the past year and has hit their highest stock price ever. Macro effects have recently been pushing the stock price down, but as a result of government contracts, projected growth in sales, and a notably lower tax rate, OSK is in a strong position to further growth

Catalysts:

- **Short Term:** Tax rate decreasing by 10%
Defense JLTV contract with Department of Defense set to ramp up production over the course of the year.

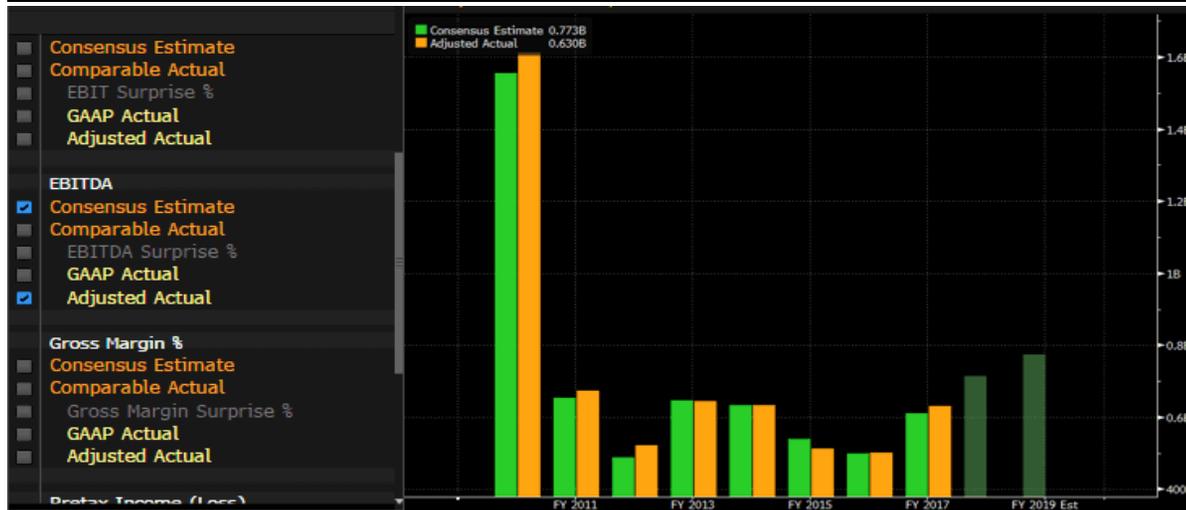
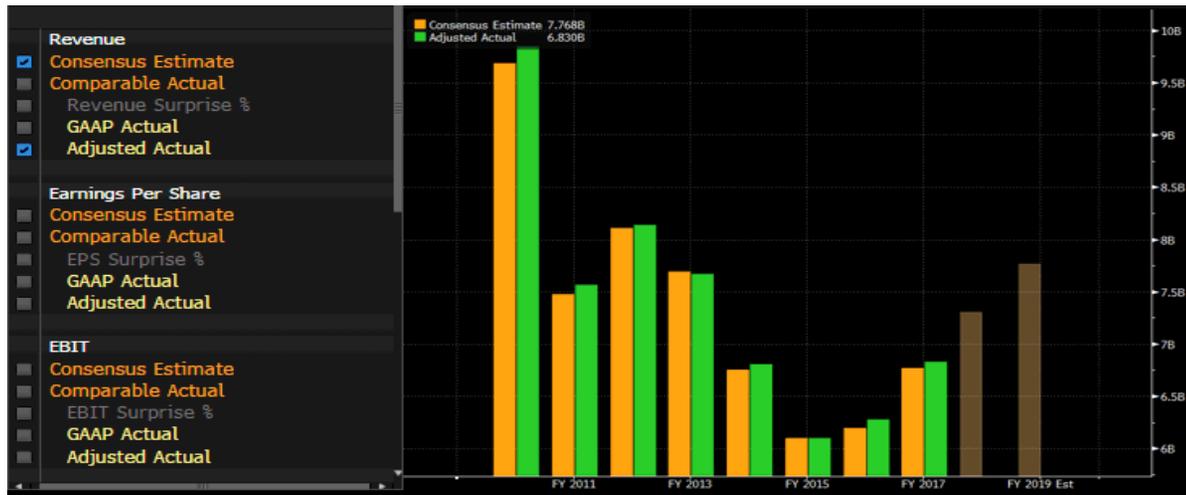
and begin to outperform the market, and continue to outperform their competitors.

- **Mid Term:** In the running for a large production contract from the Department of Defense
 - **Long Term:** Further growth of market share through deepening of product line
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Earnings Performance:

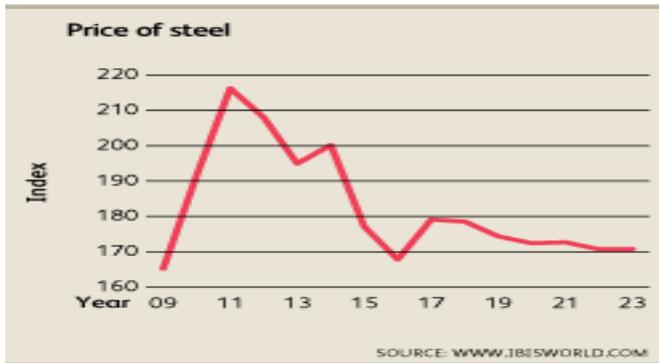
OSK ended Q1 of their fiscal year on 12/31/2017, and they saw high levels of performance in multiple areas. YoY Adj. Rev Growth was 30.9% in Q1 2018 up from -3.2% in 2017. Adj. Gross Profit Margin shrank from 16.5% in 2017 to 15.5% in 2018 as a result of higher costs of revenue while Adj. EBITDA Margin grew from 5.6% in 2017 to 7.8% in 2018. Adj. Net Income Margin increased from 1.7% in 2017 to 4% in 2018 and Adj. EPS grew from 0.28 in 2017 to 0.84 in 2018. Since Q1 of 2017 OSK has increased their short term debt position from 5M to 29.7M and decreased their long term position from 821.6M to 803.4M.

Revenue growth levels are expected to decrease into Q2, however Gross Profit, EBITDA, and Net Income margins are expected to increase. Adj. EPS is expected to increase as well but at a lower growth rate than Q1. Over the past year OSK's stock has seen a high level of growth and hitting its highest price ever before falling largely as a result of macro related issues. The macro issues have to do with the price of steel and whether or not the companies who use it can tolerate a price increase as a result of tariffs. However OSK has already seen material price growth over the past quarter and still posted very positive numbers, as well as having a larger backlog which gives them more time to prepare the supply chain for orders. Once the macro related worries have past, coupled with a large decrease in taxes, the strong financial performance OSK has shown will lead to them outperforming the market as they have over 2017.



Industry Outlook:

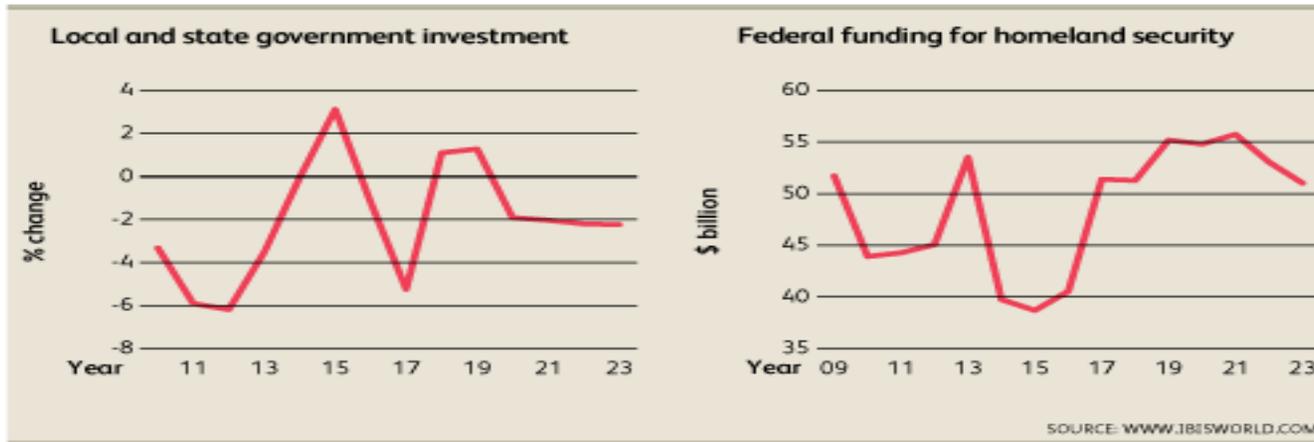
While OSK is considered to be in the truck manufacturing industry, the diversified products that they produce places them in a variety of industries. In particular OSK is in the Aerial Work Platform Manufacturing Industry, the Fire Truck Manufacturing Industry, and the Armored Vehicle Manufacturing Industry. One of the drivers that comes up in each of these industries is the world price of steel, as is a necessity to produce their products. Despite concerns over steel tariffs that have affected OSK stock price, the overall world price of steel is expected to decrease over the coming years which will positively effect OSK in all their segments.



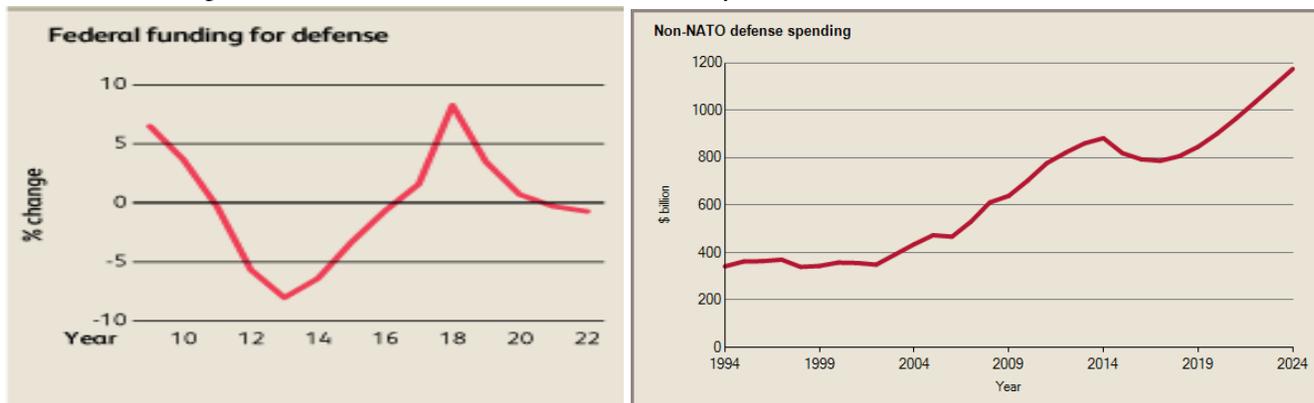
In the Aerial Work Platform Manufacturing Industry, the main drivers are the aggregate private investment and the overall value of construction. Aggregate private investment measures total private spending on capital, and it is likewise expected to increase over the coming years which will lead to increases in demand for construction and machinery like aerial work platform. The rate at which the value of construction increases will also determine the demand for aerial work platforms, and it is expected to increase consistently at a rate slightly less than that of GDP over the coming years.



The Fire Truck Manufacturing Industry is expected to increase over 2018 after a stagnant 2017, OSK stated in an earnings call that they were “bullish” on it as well. This industry is mainly dependent on the levels of local and state government investment as well as the federal funding for homeland security. Local and state government investment is expected to increase in 2018 which will lead to larger budgets and further funding for fire departments. Federal funding for homeland security is also expected to increase into 2019, money for this would benefit fire departments through the Assistance to Firefighters Grant program, and would allow more departments to update their fleet.



The Armored Vehicle Manufacturing Industry is highly sensitive to the Federal Funding for Defense. The amount the government sets aside to purchase these vehicles is what drives the profit in this industry as it increases the number of contracts the companies get. The Federal Funding for Defense is expected to increase over 2018 at a decreasing rate of change. Another important driver is Non-NATO Defense Spending, or the defense budgets of countries around the world excluding the countries included in NATO. This driver is expected to increase substantially over the coming years as a result of conflicts and political tensions around the world, namely the Middle East and China.



OSK also produces refuse collection vehicles in their Commercials product segment, a market in which OSK has seen breach pre-recession levels. Also in the Commercials segment, OSK produces concrete mixers. According to OSK this market is still below pre-recession levels, however if construction increases as it is expected to, then it will bring up the market for this product with it.

Business Model:

OSK is a leading designer, manufacturer, and marketer of a large range of specialty vehicles and vehicle bodies. OSK operates through 4 reportable product segments, respectively Access Equipment, Defense, Fire & Emergency, and Commercial. These segments all share common customers and distribution channels, leverage common components and suppliers, utilize common technologies and manufacturing processes as well as sharing employees and manufacturing and distribution facilities. OSK's strategy moving forward to increase shareholder value is known as MOVE. Its goals are to maximize the customer's experience, to optimize their cost and capital customer, to emphasis new product innovation through the introduction of new technologies, and to expand geographically into new markets where the opportunity presents itself. In regards to the distribution of their products OSK focuses on flexibility and will meet customers anywhere they need as well as offering same-day parts shipment and service technicians available 365 days a year. OSK produces their products out of 29 manufacturing facilities.

Segment Analysis:

OSK operates out of 4 reportable product segments, Access Equipment which makes up 44.3% of revenue overall, and is also their most profitable segment bringing in 45.9% of Adj. Operating Income. The Defense segment which brings in 26.6% of revenue and 31.6% of Adj. Operating Income. Fire & Emergency which is 14.9% of revenue and 15.8% of Adj. Operating Income and lastly Commercial which brought in 14.1% of revenue and 6.7% of Adj. Operating Income. OSK is an international company and they break up their geographic areas for revenue into 4 sections; the United States which makes up 74.6% of revenue, Europe & the Middle East which makes up 16.8% of revenue, the Rest of the World which makes up 5.8% of revenue, and Other North America which makes up 2.8% of revenue.

OSK operates their Access Equipment segment under the name JLG. JLG is a global manufacturer of aerial work platforms and telehandlers used in a wide variety of construction, industrial, institutional and general maintenance applications to position workers and materials at elevated heights, forms the base of OSK's access equipment segment. JLG's customer base includes equipment rental companies, construction contractors, manufacturing companies and home improvement centers. The access equipment segment also includes Jerr- Dan-branded tow trucks and roll-back vehicle carriers sold to towing companies in the U.S. and abroad. In addition, through a long-term license with Caterpillar Inc. that extends through 2025, JLG produces Caterpillar-branded telehandlers for distribution through the worldwide Caterpillar Inc. dealer network. JLG also offers a broad range of parts and accessories, including technical support and training, and reconditioning services. Access equipment customers include equipment rental companies, construction contractors, manufacturing companies and home improvement centers. JLG's products are marketed worldwide through independent rental companies and distributors that purchase these products and then rent or sell them and provide service support, as well as through other sales and service branches or organizations. JLG also arranges equipment financing and leasing solutions for its customers, primarily through third-party funding arrangements with independent financial companies, and occasionally provides credit support in connection with these financing

and leasing arrangements. Since Q1 of 2017 revenue has increased from 489M to 628M as well as the order backlog increasing by 2.5x. OSK stated that customers are placing larger annual orders this year and have since increased their full year sales expectations.

OSK's defense segment has manufactured and sold military tactical wheeled vehicles to the Department of Defense (DoD) for more than 90 years. In 1981 OSK became the DoD's leading supplier of severe-duty, heavy-payload tactical trucks. Since that time, OSK has broadened its product offerings to become the leading manufacturer of severe-duty, heavy- and medium-payload tactical trucks for the DoD, manufacturing vehicles that perform a variety of demanding tasks such as hauling tanks, missile systems, ammunition, fuel, troops and cargo for combat units. Most recently, OSK Defense solidified its position in the light-payload tactical wheeled vehicle category through the successful effort to capture the DoD's Joint Light Tactical Vehicle (JLTV) program. OSK is currently in the low rate initial production phase of this eight-year \$6.7 billion contract awarded in 2015 for approximately 18,000 vehicles and sustaining services. OSK Defense's proprietary product line of military heavy-payload tactical wheeled vehicles includes the HEMTT, the Heavy Equipment Transporter (HET), the Palletized Load System (PLS), and the Logistic Vehicle System Replacement (LVSr). OSK Defense's proprietary medium-payload military tactical wheeled vehicles include the Medium Tactical Vehicle Replacement (MTVR). OSK Defense's proprietary light-payload military tactical wheeled vehicles include the Mine Resistant Ambush Protected-All Terrain Vehicle (M-ATV). In June 2009, the DoD awarded OSK Defense a sole source contract for M-ATVs and associated aftermarket parts packages. Since receiving the initial contract award OSK Defense has delivered over 8,700 M-ATVs domestically and over 2,500 M-ATVs internationally. In June 2015, the DoD awarded OSK Defense a new Family of Heavy Tactical Vehicles (FHTV) contract for the recapitalization of HEMTT, HET and PLS vehicles as well as associated logistics and configuration management support. The contract is a five-year requirements contract for the continued remanufacturing of FHTV vehicles through fiscal 2020. The contract is fixed-price incentive firm where the price paid to OSK is subject to adjustment based on actual costs incurred. The impact of pricing adjustments under fixed-price incentive firm contracts are generally shared by OSK and the customer. In August 2015, the DoD awarded OSK Defense an eight-year, fixed price JLTV contract valued at \$6.7 billion for production and delivery of approximately 18,000 vehicles and sustaining services. The JLTV program is expected to be a 20-year, \$30 billion program for the production of up to 55,000 vehicles, support services and engineering. OSK delivered its first production JLTV vehicles to the U.S. Army in September 2016. The contract remained in the low rate initial production phase during fiscal 2017. A decision on moving to full rate production is expected in fiscal 2019. Along with retaining and growing their current contracts, OSK is also looking to expand into other areas of the U.S. and international defense industries. Compared to Q1 of 2017, the defense segment's revenue has increased from 294.2M to 493.2M. However over the coming year, overall revenue in this segment is expected to be stagnant or decrease as a result of slow ramping up of production in early stages of the JLTV contract. OSK still expects to see operating margin growth in this segment and recently increased their expectations on it for the year.

OSK's fire & emergency segment manufactures custom and commercial firefighting vehicles and equipment, aircraft rescue and firefighting (ARFF) vehicles, snow removal vehicles, simulators and other emergency vehicles primarily sold to fire departments, airports and other governmental units in the Americas and abroad and broadcast vehicles sold to broadcasters and television stations in the Americas and abroad. Through Pierce, OSK is the leading domestic manufacturer of fire apparatus assembled on custom chassis, designed and manufactured to meet the special needs of firefighters. Pierce also manufactures fire apparatus assembled on commercially available chassis, which are produced for multiple end-customer applications.

Pierce's engineering expertise allows it to design its vehicles to meet stringent industry guidelines and government regulations for safety and effectiveness. Pierce primarily serves domestic municipal customers, but also sells fire apparatus to the DoD, airports, universities and large industrial companies, and increasingly in international markets. Pierce offers a full line of custom and commercial fire apparatus and emergency vehicles, including pumpers, aerial platform, ladder and tiller trucks, tankers, light-, medium- and heavy-duty rescue vehicles, wildland rough terrain response vehicles, mobile command and control centers, bomb squad vehicles, hazardous materials control vehicles and other emergency response vehicles. OSK through Airport Products, is among the leaders in sales of ARFF vehicles to domestic and international airports. These highly-specialized vehicles are required to be in service at most airports worldwide to support commercial airlines in the event of an emergency. OSK, through Airport Products, is a global leader in airport snow removal vehicles. OSK's specially designed airport snow removal vehicles are used by some of the largest airports in the world. OSK, through its Frontline brand, is a leading manufacturer, system designer and integrator of broadcast and communication vehicles, including electronic field production trailers, satellite news gathering and electronic news gathering vehicles for broadcasters and command trucks for local and federal governments along with being a leading supplier of military simulator shelters and trailers. OSK offers three- to fifteen-year municipal lease financing programs to its fire & emergency segment customers in the U.S. through Oshkosh Equipment Finance, LLC, doing business as Pierce Financial Solutions. When compared to Q1 2017, this segment's revenue shrank from 229.1M to 224.9M, this was as a result of lower airport product deliveries. OSK has stated that they are expecting growth in this segment and have pushed their expectations for operating margin in this segment up recently.

OSK's commercial segment manufactures rear- and front-discharge concrete mixers, refuse collection vehicles, portable and stationary concrete batch plants and vehicle components sold to ready-mix companies and commercial and municipal waste haulers in North America and other international markets and field service vehicles and truck-mounted cranes sold to mining, construction and other companies in the Americas and abroad. Through OSK Commercial, McNeilus, London and CON-E-CO, OSK is a leading manufacturer of front- and rear-discharge concrete mixers and portable and stationary concrete batch plants for the concrete ready-mix industry throughout the Americas. Through McNeilus, OSK is a leading manufacturer of refuse collection vehicles for the waste services industry throughout the Americas. Through IMT, OSK is a leading North American manufacturer of field service vehicles and truck-mounted cranes for the construction, equipment dealer, building supply, utility, tire service, railroad and mining industries. Since Q1 of 2017, revenue has increased in this segment from 198.1M to 239.7M, and looking towards the future OSK has seen a higher than usual backlog for Refuse Collection and Concrete Mixer vehicles so far in the year.

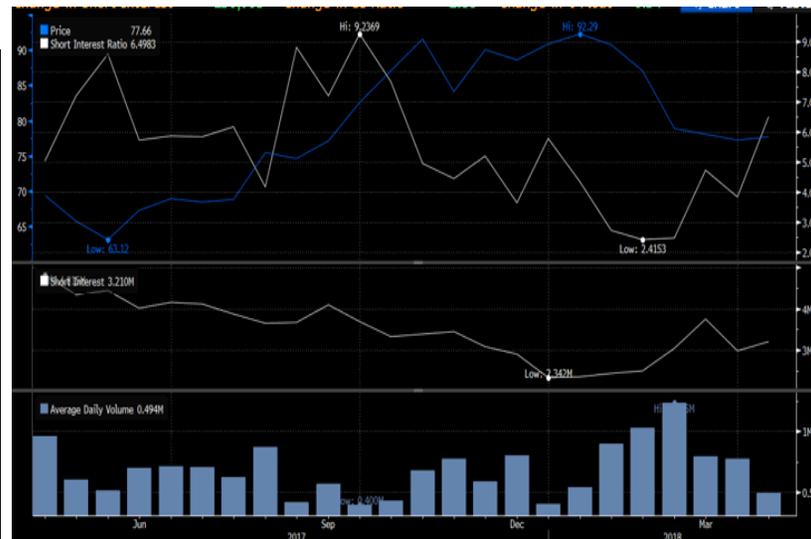
In Millions of USD except Per Share	2015 Q1		2016 Q1		2017 Q1		2018 Q1	
3 Months Ending	12/31/2014		12/31/2015		12/31/2016		12/31/2017	
 Revenue	1,353.3	100.0%	1,252.0	100.0%	1,211.4	100.0%	1,586.3	100.0%
 Access Equipment	716.7	53.0%	529.8	42.3%	489.2	40.4%	628.2	39.6%
 Defense	269.2	19.9%	316.9	25.3%	294.2	24.3%	493.2	31.1%
 Commercial	207.9	15.4%	199.9	16.0%	198.1	16.4%	239.7	15.1%
 Fire & Emergency	159.5	11.8%	205.4	16.4%	229.1	18.9%	224.9	14.2%
 Intersegment Eliminations	—		0.0		0.8		0.3	

Adjusted Operating Income	62.3	100.0%	30.3	100.0%	36.2	100.0%	92.4	100.0%
Defense	6.4	6.6%	23.2	37.1%	23.8	34.1%	65.2	49.8%
Access Equipment	77.2	79.2%	20.4	32.6%	24.4	35.0%	29.9	22.8%
Fire & Emergency	1.5	1.5%	10.1	16.1%	17.0	24.4%	25.1	19.2%
Commercial	12.4	12.7%	8.9	14.2%	4.6	6.6%	10.8	8.2%
Corporate and Other	-35.3		-32.3		-33.6		-38.6	
Intersegment Eliminations	0.1		0.0		0.0		-	

Management/Ownership:

OSK is primarily owned by Investment Advisors with 81.01% of ownership which is a decrease of 0.32% from last year. After this is Hedge Fund Managers with 9.23%, a decrease of 0.95% from last year. Insurance Companies own 3.10% of shares, which is an increase of 0.47% from last year. The majority holder is Vanguard Group with 9.73%, followed by Blackrock with 9.27% of ownership, and Aristotle Capital with 6.24% of ownership. OSK has 98.9% of shares listed as freely floated. When OSK's stock price was at their 52 week high in January, short interest dropped substantially to its 52 week days to cover low of 2.415. Since then as OSK's stock price has decreased days to cover has increased to a middle of the yearly range 6.498. This increase is likely due to macro worries as well as an earnings report for OSK that is set to come out soon.

Top Ownership Type (%)			
54) Ownership Type	04/23/17	Curr	Change
41) Investment Advisor	81.33	81.01	-0.32
42) Hedge Fund Manager	10.18	9.23	-0.95
43) Insurance Company	2.63	3.10	+0.47
44) Pension Fund	2.74	2.65	-0.09
45) Bank	0.67	1.17	+0.50
46) Sovereign Wealth Fund	0.63	1.15	+0.52
47) Individual	1.27	1.02	-0.25
48) Brokerage	0.24	0.30	+0.06
49) Government	0.17	0.25	+0.08



President and CEO Wilson R. Jones was appointed CEO in 2016 and when he began his tenure the stock price was hovering around \$35 and has seen substantial growth with him and recently hit the highest price it has ever been at. The price does see relatively large fluctuations in price however it has shown consistent growth. Jones was made an Executive VP/President of the Access Equipment segment of OSK in 2010, until 2012 where he was named President/COO, where he worked until he was named CEO.

Management	Position	Total Compensations Growth	Stock Price Growth During Tenure
Jones, Wilson	President, CEO & Director	18.09% per annum over 6y	9.87% per annum over 6y
Sagehorn, David	Executive VP & CFO	-1.59% per annum over 6y	9.87% per annum over 6y
Sims, Robert	Executive VP & Chief Administrative Officer		11.28% per annum over 1y
Kimmit, Joseph	Executive Vice President of Government Operatio	2.22% per annum over 2y	28.72% per annum over 2y
Nerenhausen, Frank	Executive VP & President of Access Equipment Se	-100% per annum over 3y	26.22% per annum over 3y
May, Marek	Senior Vice President of Operations		

Capital Allocation Comparison:

OSK has a Total Debt to Total Asset Ratio of 16.3%, which is equal to competitor median. Their debt is made up of 325M of a term loan due in 2018 and 2019, as well of 500M of bonds due in 2022 and 2025, the coupon on both these bonds is 5.375%. OSK also has a WACC of 7.135%, and Adj. ROIC of 10.14% which is above the competitor median of 8.53%. Other important numbers are Operating Margin, Net Income Margin, Adj. ROA and Adj. ROCE which all exceed the competitor median showing that OSK is performing well above their competitors.

Name	Ticker	Mkt Cap	EBITDA Mrgn Adj:Y	OPM:Y	NI Adj Mrgn Adj:Y	ROIC	AR	ROA Adj:Y	Rtrn on CE	Debt/Assets:Y
Median		2.85B	6.91%	5.18%	2.92%	8.53	5.92%	11.61%	16.30%	
100) OSHKOSH CORP	OSK US	5.54B	9.22%	7.32%	4.65%	10.14	6.61%	14.82%	16.30%	
101) TEREX CORP	TEX US	2.85B	6.91%	5.39%	2.92%	5.77	3.01%	9.41%	28.44%	
102) SPARTAN MOTORS INC	SPAR U	578.98	4.03%	2.63%	2.01%	7.99	5.23%	8.83%	5.97%	
103) MILLER INDUSTRIES INC	MLR US	292.01	6.09%	5.09%	3.68%	--	7.36%	11.67%	3.34%	
104) NAVISTAR INTERNATIONAL	NAV US	3.59B	7.78%	5.18%	0.76%	--	--	--	82.44%	
105) GENERAL DYNAMICS CO	GD US	63.89B	14.91%	13.49%	9.79%	--	8.89%	27.89%	11.36%	
106) REV GROUP INC	REVG U	1.16B	5.94%	4.27%	2.12%	9.06	4.49%	11.56%	18.32%	

Metric	OSK	Low	Comp Range	High
Est P/E Current Yr	14.03	10.65		27.34
EV/Est EBITDA Curr	8.43	7.59		14.02
Sales Growth Yoy	8.77	-1.79		19.69
EBITDA Margin (%)	9.22	4.03		14.91
Operating Margin (%)	7.32	2.63		13.49

● OSK US ● Median

Profitability Comparison:

Revenues over the first quarter for OSK typically run in negative growth levels, and over the past few years the growth percentage has been getting closer to 0. This most recent quarter OSK went from -3.2% growth in Q1 of 2017 to 30.9% growth in Q1 2018. Gross Profit fell by 1% as a result of higher costs of materials, however OSK saw positive margin growth as a result of the double digit growth in all of their segments besides Fire & Emergency. The fluctuations in revenue are largely related to macro effects as well as contracts that mandate levels of production for vehicles. For the Adj. 5 Year Revenue Growth CAGR, the competitor median is -1.9%, while OSK has seen -3.45%. However in the last year, OSK has seen 8.77% of annualized revenue growth compared to the competitor median of 5.66%, this coupled with their previously stated ROIC, ROA, and ROCE, is showing that as of recent OSK has begun to outperform their competitors.

In Millions of USD	2014 Q1	2015 Q1	2016 Q1	2017 Q1	2018 Q1	2019 Q1 Est	2020 Q1 Est
3 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Market Capitalization	4,244.4	3,801.2	2,853.7	4,817.9	6,782.6		
- Cash & Equivalents	558.7	111.0	33.7	369.6	379.1		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	938.8	890.0	985.2	826.6	833.1		
Enterprise Value	4,624.5	4,580.2	3,805.2	5,274.9	7,236.6		
Revenue, Adj	1,530.2	1,353.3	1,252.0	1,211.4	1,586.3	1,648.6	1,697.0
Growth %, YoY	-12.6	-11.6	-7.5	-3.2	30.9	3.9	2.9
Gross Profit, Adj	255.1	229.7	182.8	199.7	246.1	290.1	
Margin %	16.7	17.0	14.6	16.5	15.5	17.6	
EBITDA, Adj	127.3	92.8	55.6	68.4	123.8	137.0	139.0
Margin %	8.3	6.9	4.4	5.6	7.8	8.3	8.2
Net Income, Adj	54.9	32.6	10.9	21.0	64.0	67.9	72.5
Margin %	3.6	2.4	0.9	1.7	4.0	4.1	4.3
EPS, Adj	0.63	0.40	0.14	0.28	0.84	0.84	0.95
Growth %, YoY	28.8	-35.9	-65.2	101.4	196.8	0.0	13.1
Cash from Operations	4.7	-52.3	73.2	83.8	29.2		
Capital Expenditures	-14.3	-52.2	-36.3	-27.1	-19.9	-29.0	
Free Cash Flow	-9.6	-104.5	36.9	56.7	9.3		

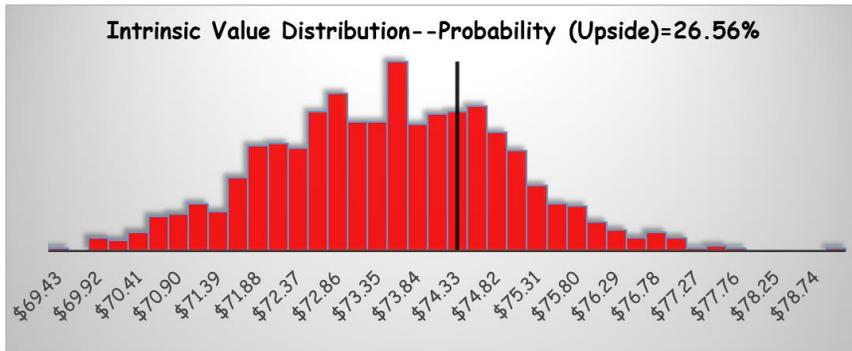
OSK's gross margin lies at the competitor median of 17.2%, while their profit margin of 4.65% is well ahead of the competitor median of 2.92%. OSK's asset turnover of 1.42 is slightly below the competitor median of 1.45, and inventory turnover is equivalent to the competitor median. The cash conversion cycle is in the range of competitors however it is higher with OSK's cash conversion cycle being 91.65 while the competitor median is 76.08. These numbers imply that OSK is using their working capital with a efficiency that is inline with their competitors, and it is resulting in positive margin growth.

Name	Ticker	Mkt Cap	GM:Y	PM:Y	Rev Gr Adj 5Y CAGR:Y	Ast T0:Y	A/P Turnover:Y	Cash Conversion Cycle:Y
Median		2.84B	17.20%	2.92%	-1.90%	1.45	8.69	76.08
100) OSHKOSH CORP	OSK US	5.52B	17.20%	4.65%	-3.45%	1.42	10.52	91.65
101) TEREX CORP	TEX US	2.84B	18.70%	2.92%	-8.97%	1.03	6.57	83.94
102) SPARTAN MOTORS INC	SPAR US	578.98M	12.65%	2.01%	8.49%	2.60	17.69	58.06
103) MILLER INDUSTRIES INC	MLR US	289.16M	10.91%	3.68%	12.41%	2.00	6.72	66.45
104) NAVISTAR INTERNATIONAL	NAV US	3.58B	17.89%	0.76%	-7.56%	1.45	5.78	62.11
105) GENERAL DYNAMICS CO	GD US	63.72B	19.98%	9.79%	-0.35%	0.91	8.69	76.08
106) REV GROUP INC	REVG US	1.16B	12.99%	2.12%	--	2.12	12.11	76.40

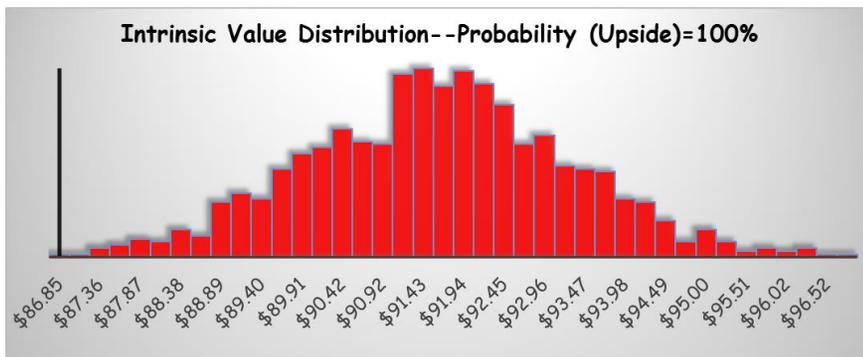
Sensitivity Analysis:

OSK's stock price value is very sensitive to the level of revenue and expenses. The base, bear, and bull case valuation are evaluated using a Monte Carlo simulation with different assumptions. Under the bear case there is a 26.5% intrinsic value probability upside. This creates an intrinsic value of \$73.39, a 1 year target price of \$79.48, this results in a 1 year target return of 7.55%. This is due to the assumption that EBITDA margin misses OSK's target by 10% as a result of macro effects causing an increase in production costs and lower revenue. This decrease is reflected in the projections until the continuing period as this unanticipated decline postpones further growth thus lowering the EBITDA margin OSK would have reached otherwise. Based on historical performance, it is highly unlikely that this scenario would take place. In the past OSK's EBITDA margin has fluctuated but not to extreme extents. Along with this OSK has historically come very close to estimated EBITDA during earnings reports and nothing points out at this quarter being anything different. Their strong level of sales and orders in Q1 2018 will also have a positive effect going further into the year. In the Bull case, it involves the assumptions that costs of operating decrease, and revenue increases more than anticipated resulting in a EBITDA margin that beats what OSK estimated by 10%. This creates an intrinsic value probability upside of 100%, an intrinsic value of \$91.56, a 1 year target price of \$98.79, and this results in a 1 year target return of 34.05%. Although very optimistic, this scenario is also unlikely to occur based on historical performance. If it was to happen it would be as a result of unforeseen beneficial macro occurrences that have a strong positive impact on OSK, most likely in the form of reducing costs of producing their products. The most likely case however is the base case, which has an intrinsic value probability upside of 100%. This creates an intrinsic value of \$87.75, a 1 year target price of \$94.79, and a 1 year target return of 28.68%. This is because of making the assumption that OSK's EBITDA margin would increase 5% more than their estimates, this growth, like the other cases, is factored into the forecast and allows OSK to reach a higher continuing period EBITDA margin than they would have otherwise. Based on historical performance, this scenario is the most likely as a result of a very positive first quarter with higher than expected sales and orders, along with a positive market in which costs are expected to decrease. Once macro fears have subsided, it is highly likely that OSK will reach the levels presented in this case.

Bear Case



Bull Case



Summary:

In conclusion, OSK is a buy at its current price. This is due to the fact that OSK has seen strong growth over the past two quarters having beat their Q1 and Q2 earnings expectations, long with this the stock price has dropped significantly as a result of macro conditions. A much reduced tax rate will free up a large amount of cash for OSK to expand as well. OSK has also been outperforming their competitors who are also down because of macro effects. As long as OSK continues their growth, their stock price will come back up and they will outperform the market in the coming year. Based on analysis, the upside of OSK is much greater than the downside as the upsides are much more likely. OSK's 1 year target price is \$94.79 with a return based on current stock price of 28.68% which is reasonable based on historical and recent financial performance. OSK appears to be in strong position to approach their 52-week high.

Oshkosh Corporation (OSK)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by George Brookmann

4/26/2018

Current Price: **\$74.41**

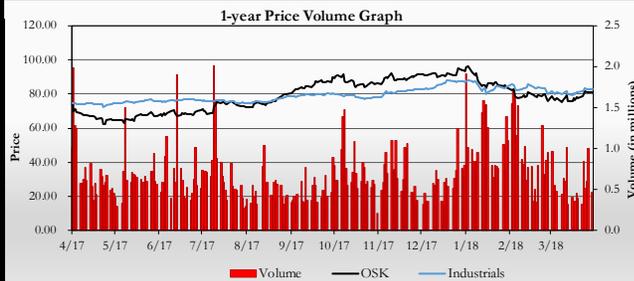
Divident Yield: **1.3%**

Intrinsic Value: **\$87.75**

Target Price: **\$94.79**

Target 1 year Return: 28.68%

Probability of Price Increase: 100%



Description	
Oshkosh Corporation designs, manufactures, and markets specialty vehicles and vehicle bodies worldwide.	
General Information	
Sector	Industrials
Industry	Machinery
Last Guidance	February 12, 2018
Next earnings date	April 26, 2018
Market Assumptions	
Estimated Equity Risk Premium	4.94%
Effective Tax rate	26%

Market Data	
Market Capitalization	\$5,517.37
Daily volume (mil)	1.04
Shares outstanding (mil)	74.15
Diluted shares outstanding (mil)	75.95
% shares held by institutions	109%
% shares held by investments Managers	80%
% shares held by hedge funds	8%
% shares held by insiders	1.10%
Short interest	4.33%
Days to cover short interest	3.76
52 week high	\$100.26
52-week low	\$61.74
Volatility	33.20%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
12/31/2016	3.10%	25.19%
3/31/2017	-0.53%	4.91%
6/30/2017	4.73%	45.74%
9/30/2017	3.89%	16.13%
12/31/2017	9.65%	9.66%
Mean	4.17%	20.33%
Standard error	1.0%	5.6%

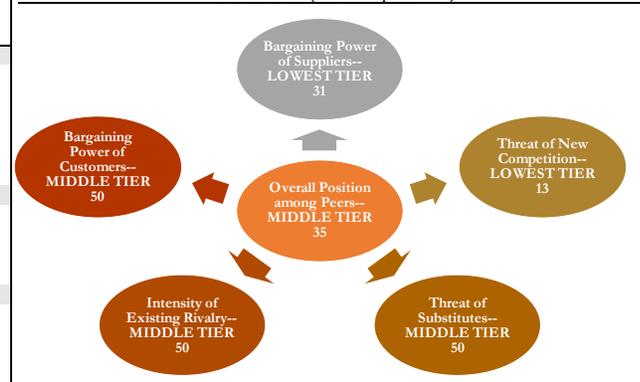
Market and Credit Scores	
Recommendation (STARS) Value	-4
Recommendation (STARS) Description	Buy
Quality Ranking Value	B
Quality Ranking Description	Below Average
Short Score	-0
Market Signal Probability of Default % (Non-Ratings)	-1.947%
CreditModel Score (Non-Ratings)	bbb

Industry and Segment Information	
LTM Revenues by Geographic Segments	LTM Revenues by Business Segments
United States--75%	Access Equipment--44%
--	Defense--27%
Rest of the World--6%	Fire & Emergency--15%
Other North America--3%	Commercial--14%
Europe, Africa and Middle East--17%	Corporate and Intersegment Eliminations--0%

Management		Position		Total Compensations Growth		Stock Price Growth During Tenure	
Jones, Wilson	President, CEO & Director	18.09% per annum over 6y	9.87% per annum over 6y				
Sagehorn, David	Executive VP & CFO	-1.59% per annum over 6y	9.87% per annum over 6y				
Sims, Robert	Executive VP & Chief Administrative Officer		11.28% per annum over 1y				
Kimmitt, Joseph	Executive Vice President of Government Operatio	2.22% per annum over 2y	28.72% per annum over 2y				
Nerenhausen, Frank	Executive VP & President of Access Equipment Se	-100% per annum over 3y	26.22% per annum over 3y				
May, Marek	Senior Vice President of Operations						

Peers	
Terex Corporation	REV Group, Inc.
Spartan Motors, Inc.	--
Miller Industries, Inc.	--
General Dynamics Corporation	--
Navistar International Corporation	--

Porter's 5 forces (Scores are percentiles)	
--	--



Profitability		OSK (LTM)		OSK Historical		Peers' Median (LTM)	
Return on Capital (GAAP)	8.1%	7.19%	18.65%				
Operating Margin	5%	4.40%	6.08%				
Revenue/Capital (GAAP)	1.67	1.63	3.07				
ROE (GAAP)	12.1%	9.9%	9.4%				
Net margin	4.1%	3.5%	3.0%				
Revenue/Book Value (GAAP)	2.93	2.81	3.13				

Invested Funds		OSK (LTM)		OSK Historical		Peers' Median (LTM)	
Cash/Capital	9.9%	11.3%	23.1%				
NWC/Capital	28.2%	19.5%	27.4%				
Operating Assets/Capital	34.3%	40.4%	31.2%				
Goodwill/Capital	27.6%	28.9%	18.3%				

Capital Structure		OSK (LTM)		OSK Historical		Peers' Median (LTM)	
Total Debt/Market Capitalization	0.27	0.30	0.71				
Cost of Debt	7.3%	7.3%	7.0%				
CGFS Rating (F-score, Z-score, and default Probability)	BBB						
WACC	9.1%	10.9%	12.1%				

Forecast Assumptions		Explicit Period (6 years)		Continuing Period	
Revenue Growth CAGR	4%	4%	2%		
Average Operating Margin	7%	7%	7%		
Average Net Margin	4%	4%	4%		
Growth in Capital CAGR	6%	6%	2%		
Growth in Claims CAGR	0%	0%	2%		
Average Return on Capital	7%	7%	5%		
Average Return on Equity	8%	8%	6%		
Average Cost of Capital	7%	7%	7%		
Average Cost of Equity/Ke	8%	8%	8%		

