

Oshkosh Corporation (NYSE: OSK)

Sector: Automotive, Defense



Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$96.05	\$89.71	\$90.48	\$88.85	10.9	\$6.14B	1.34%	1.3

Business Description:

Oshkosh Corporation is the leader of designing, manufacturing and distributing high quality capital equipment with product lines ranging from lifts to tactical vehicles. They have four main segments for reporting revenue: Access Equipment, Defense, Fire & Emergency, and Commercial. The faster growing segments are Defense and F & E. The defense segment is highly contingent on US government contracts that are highly unpredictable, and often materialize in bulk. This makes revenues and capital expenditure highly fluctuant, especially in times of high military spending. Oshkosh sole sources its inputs from large American suppliers such as Cummins, Allison, and Dana in the surrounding area, but is increasingly sourcing its components globally. In every segment they are in Oshkosh is the number one, or in some cases sole, manufacturer in the segment.

Industry Trends:

With many brands under one roof, Oshkosh is exposed to trends in many industries. With increasing defense spending as well as growing, albeit decelerating construction spending, Oshkosh will continue to grow its operating income over a ten-year period. Additionally, global demand for specialized military trucks has grown dramatically with conflicts in the Middle East, and inventory build-up in Europe.

Investment Thesis:

OSK is currently mispriced by the market due to their complex revenue recognition, especially with defense contracts. With growing global demand for powerful and lightweight military transportation, Oshkosh is a business with a lot of growth potential not priced in. Proprietary technology and synergistic capital expenditures have benefit to customers who demand more effective and specialized vehicles.

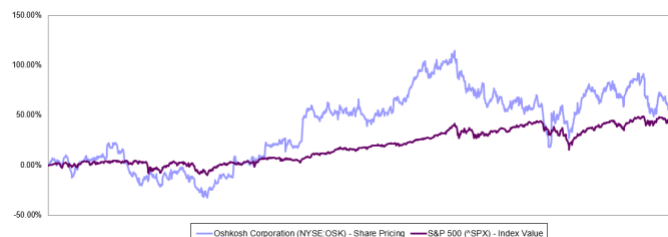
Valuation Assumptions:

WACC: 9.0%

Perpetuity Growth Rate: 2.0%

Margin of Safety: 10%

5-Year Share Price Performance:



Competitive Advantage and Analysis:

Oshkosh offers best in class products across four operating segments. Its highly specialized products have been recognized globally and remain in high demand. Additionally, the firm has strong intangible assets in the form of its patented drive stabilization system. Finally, Oshkosh manages its inventory well through third parties and can easily increase and scale back demand.

Risks:

We have identified the following risks which may pose a significant risk to the future success of Oshkosh.

- Dependence on Suppliers: Oshkosh sources a large portion of materials from third party suppliers.
- Revenue Concentration: The firm derives a significant amount of revenue (25%) from government contracts exposing it to political risk.

Corporate Social Responsibility Highlights:

- Oshkosh has consistently ranked as Barrons #1 most sustainable industrials company.
- Oshkosh was added to the Just Capital ETF, a global ESG index in early 2019.
- Oshkosh is one of the few industrial firms to retain a global VP of Environmental Affairs.
- Oshkosh to date has donated \$1.9M and 12,140 hours to local community organizations.

Report Prepared By:

Francis Stino and Sean Brown on 11/5/2019