

Oshkosh Corp.

2024 earnings outlook well supported – we see more risk in 2025

Reiterate Rating: UNDERPERFORM | PO: 108.00 USD | Price: 113.97 USD

Strong finish: positive 2024 outlook in line with consensus

Oshkosh (OSK) reported a solid Q423: adj EPS of \$2.56 increased 57% on a 12% revenue gain. Operating income of \$240mn came in 6% ahead of our forecast driven by Defense & Vocational. Bright spots include record backlog (\$16.8bn – provides cover for '24), strong orders in Access (book to bill >1x), dividend raised +12%. Encouragingly, OSK delivered in 2023 following a challenged 2022 and setting an appropriate bar for 2024: EPS of \$10.25, up 3% YoY, in line with expectations (source: Bloomberg).

'24: certain areas conservative, Vocational good story....

The key inputs to the 2024 EPS outlook appear conservative to us: i) Q1 EPS guide of \$2.25, up 40% YoY, implies down earnings Q2-Q4 – setting a low bar, ii) Margin guidance includes \$35mn of higher, one-time costs (product development, production start up), iii) Vocational: FY24 sales guidance of \$3.1bn includes Aerotech contribution and only 3-4% growth ex M&A. An elevated (and repriced) backlog in F&E suggests strong FY24-25 runway that is less vulnerable to the macro headwinds concerns facing other segments.

...yet we are a bit more cautious as Access cycle matures

In our view, Vocational is a positive story that carries a level of earnings power into 2025. We are less confident on the trajectory of the more cyclical Access segment (~80% of OSK operating profit). 2024 is shaping up to be a positive year: robust \$4.5bn backlog should secure a low to mid-single digit growth year. The risk is when the ordering window opens up for 2025 (September) at a time when non-res spending is slowing, industry capacity is rising, and (some) customer fleet ages are normalized. We are a bit skeptical to underwrite a fifth year of growth for the Access equipment cycle.

U/P: risk of falling short of '25 target on air pocket

We update our estimates following a strong Q4 and we forecast 2024E EPS of \$10.30 (guidance ~\$10.25). We raise our PO to \$108 (from \$102.5) based on 10.5x 2024E EPS, as we think a slightly higher multiple is warranted given the record backlog (10x). While we do not see a risk to 2024 guidance and OSK is a quality company with market leadership positions, our Underperform rating reflects our more cautious cyclical view on Access into next year: we see risk of OSK falling short of its long-term EPS target of \$11-13 by 2025.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.46	9.98	10.30	10.15	11.25
GAAP EPS	2.63	9.08	9.50	10.15	11.25
EPS Change (YoY)	-36.9%	188.4%	3.2%	-1.5%	10.8%
Consensus EPS (Bloomberg)			10.24	10.79	10.10
DPS	1.48	1.64	1.84	2.02	2.23
Valuation (Dec)					
P/E	32.9x	11.4x	11.1x	11.2x	10.1x
GAAP P/E	43.3x	12.6x	12.0x	11.2x	10.1x
Dividend Yield	1.3%	1.4%	1.6%	1.8%	2.0%
EV / EBITDA*	20.9x	9.2x	8.2x	8.2x	7.6x
Free Cash Flow Yield*	4.4%	3.6%	5.8%	5.8%	7.4%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 30 January 2024 08:57PM EST

30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	102.50	108.00
2024E Rev (m)	10,386.3	10,391.8
2025E Rev (m)	10,271.9	10,267.2
2026E Rev (m)	NA	10,477.5
2024E EPS	10.25	10.30
2026E EPS	NA	11.25
2024E DPS	1.80	1.84

Michael Feniger
Research Analyst
BoFA
+1 646 855 1923
michael.feniger@bofa.com

Sherif El-Sabbahy
Research Analyst
BoFA
sherif.el-sabbahy@bofa.com

Nandita Nayar
Research Analyst
BoFA
nandita.nayar@bofa.com

Blake Greenhalgh
Research Analyst
BoFA
blake.greenhalgh@bofa.com

Stock Data

Price	113.97 USD
Price Objective	108.00 USD
Date Established	30-Jan-2024
Investment Opinion	B-3-7
52-Week Range	72.09 USD - 115.63 USD
Mrkt Val (mn) / Shares Out (mn)	7,524 USD / 66.0
Free Float	99.2%
Average Daily Value (mn)	50.39 USD
BoFA Ticker / Exchange	OSK / NYS
Bloomberg / Reuters	OSK US / OSKN
ROE (2024E)	17.1%
Net Dbt to Eqty (Dec-2023A)	17.5%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

iQprofileSM Oshkosh Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.3%	12.1%	12.3%	11.9%	11.9%
Return on Equity	7.2%	19.1%	17.1%	14.9%	14.6%
Operating Margin	4.4%	9.5%	9.5%	9.6%	10.3%
Free Cash Flow	332	274	435	439	555

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.6x	0.9x	1.1x	1.2x	1.2x
Asset Replacement Ratio	2.6x	2.6x	1.8x	2.0x	2.0x
Tax Rate	27.9%	23.8%	24.5%	25.0%	25.0%
Net Debt-to-Equity Ratio	-6.3%	17.5%	7.9%	1.1%	-6.1%
Interest Cover	8.3x	17.1x	11.6x	11.5x	12.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,282	9,658	10,392	10,267	10,478
% Change	4.1%	16.6%	7.6%	-1.2%	2.0%
Gross Profit	1,054	1,747	1,895	1,852	1,936
% Change	-13.4%	65.7%	8.5%	-2.3%	4.5%
EBITDA	473	1,078	1,208	1,201	1,299
% Change	-25.7%	127.9%	12.1%	-0.6%	8.2%
Net Interest & Other Income	(44)	(54)	(85)	(85)	(85)
Net Income (Adjusted)	229	657	682	672	746
% Change	-39.5%	187.4%	3.7%	-1.5%	11.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	229	657	682	672	746
Depreciation & Amortization	108	160	220	220	220
Change in Working Capital	317	(39)	(149)	(149)	(100)
Deferred Taxation Charge	(54)	(160)	0	0	0
Other Adjustments, Net	2	(18)	(18)	35	35
Capital Expenditure	(270)	(325)	(300)	(339)	(346)
Free Cash Flow	332	274	435	439	555
% Change	-41.6%	-17.3%	58.6%	1.0%	26.4%
Share / Issue Repurchase	(152)	(23)	NA	NA	NA
Cost of Dividends Paid	(97)	(107)	(122)	(134)	(148)
Change in Debt	(215)	150	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	806	125	439	719	1,101
Trade Receivables	1,748	2,088	2,221	2,194	2,239
Other Current Assets	1,978	2,267	2,412	2,549	2,659
Property, Plant & Equipment	826	1,070	1,205	1,373	1,544
Other Non-Current Assets	2,371	3,579	2,711	2,655	2,620
Total Assets	7,729	9,129	8,987	9,490	10,164
Short-Term Debt	10	175	175	175	175
Other Current Liabilities	2,419	2,915	3,057	3,022	3,071
Long-Term Debt	595	598	598	598	598
Other Non-Current Liabilities	1,520	1,737	910	900	917
Total Liabilities	4,543	5,424	4,739	4,694	4,761
Total Equity	3,186	3,705	4,247	4,795	5,403
Total Equity & Liabilities	7,729	9,129	8,987	9,490	10,164

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Construction Machinery

Company Description

Oshkosh Corporation is a leading global producer of specialty vehicles including Access Equipment, fire and emergency equipment, concrete mixing, refuse collection, and defense vehicles. In FY21, sales were derived as follows: 42% Access Equipment, 15% Fire & Emergency, 12% Commercial, and 31% Defense. By geography, sales breakdown as roughly 87% NA, 7% EMEA, and 6% ROW.

Investment Rationale

Oshkosh is a globally balanced capital goods company with leading positions in Access Equipment, Commercial Vehicles, and Defense. Our concern is the 2022 outlook is fairly 2H weighted and long-term target to double EPS by 2025 potentially leaves shares vulnerable should the cycle disappoint. While the company's prospects for extending its JLTV contract with the Department of Defense are strong, we see cyclical risks in its non-Defense business segments.

Stock Data

Average Daily Volume 442,145

Quarterly Earnings Estimates

	2023	2024
Q1	1.59A	2.30E
Q2	2.69A	2.80E
Q3	3.04A	3.04E
Q4	2.56A	2.17E

Price objective basis & risk

Oshkosh Corp. (OSK)

Our PO of \$108 is based on 10.5x 2024E EPS. The historical multiple ranges from 7x to 20x with the 10-year average near 15-16x. We believe the low to mid-range is appropriate given higher rates, loss of JLTV recompile contract, and profitability below prior cycles in certain business segments. We do not believe the very low end of the valuation range is appropriate given infrastructure spending, USPS deal, and vocational backlog re-pricing in recent quarters.

Upside risks are 1) stronger-than-expected Defense wins over the next 1-2 years including international sales, 2) stronger than expected resurgence in non-residential construction activity, 3) a material pick-up in capex spending by independent rental companies, 4) upside to our margin assumptions for the USPS next generation vehicle contract that OSK was awarded, 5) higher than expected synergy opportunities with AeroTech.

Downside risks to our PO are 1) challenging price-cost in an inflationary environment, 2) acute supply chain constraints, 3) slowdown in construction spending- 4) lower-than-expected margins for recent Defense contract wins, and 5) execution issues as USPS ramps in coming years.

Analyst Certification

I, Michael Feniger, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger
RSTR	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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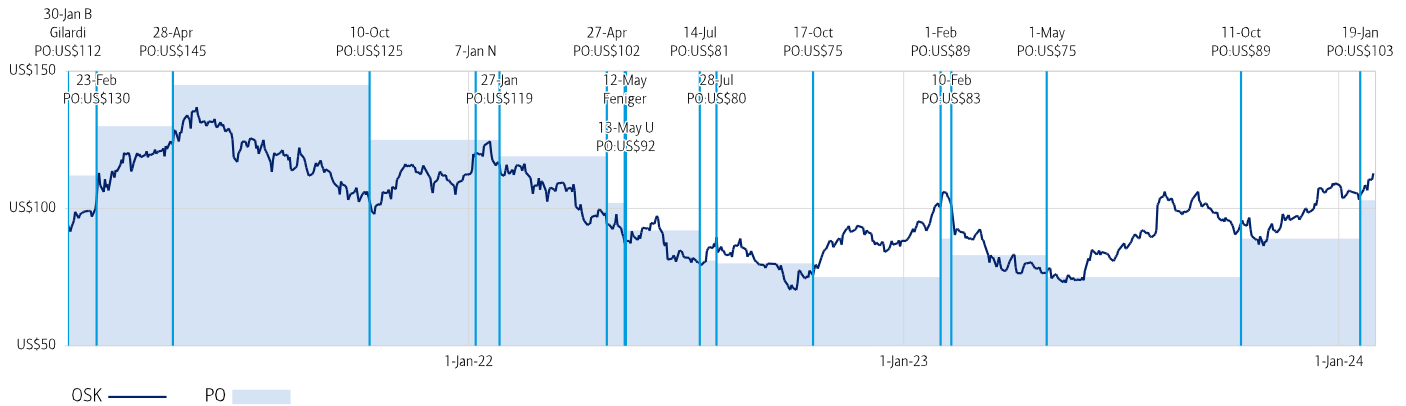
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Important Disclosures

Oshkosh (OSK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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