

Inside Cummins: Last Quarter's Progress

Mar. 7, 2022

Cummins hit record sales in 2021 with 21% revenue growth as the world emerged from the worst of the pandemic lockdown phase and economies began to recover. However, supply chain issues and rising materials and freight costs that plagued the company for most of 2021 only got worse last quarter, leading to falling profitability despite strong sales. It's taking action to try to alleviate those issues for 2022, including increasing prices for its products by almost 2%, and expects profitability to improve throughout the next year. Demand is expected to stay strong in almost every business segment (highway trucks, construction, rail and mining, power generation) in every geography except for China, so 2022 should be another record revenue year.

In February, Cummins announced its acquisition of Meritor, a leading supplier of axle, brake and suspension systems to the commercial sector and a leader in electric drivetrains. Meritor sells 70% of the rear axles in the North American truck market and recently started production of its electric powertrain, expected to add another \$1.5B in revenue by 2030. This will be the first time Cummins becomes a player in the axle and brake sectors and expands its involvement in the transition to zero-emission vehicles. Tom Linebarger, CEO of Cummins, says of the transaction "we can be at the table now for pretty much every negotiation for who's going to supply what".

Taking a step back from the immediate benefit to Cummins, the "big picture" spotlighted by the Meritor acquisition is Cummins' position as the global powerhouse in the "zero-emission heavy vehicles" industry. Many years ago Cummins decided that zero-emission vehicles would eventually dominate the industry, and it began acting with remarkable speed and determination to make itself the dominant worldwide supplier of engines and powertrains for heavy vehicles fueled by all types of energy. It was far-sighted leadership, and we think it will pay off extremely well for Cummins' investors.

Even though the fourth quarter disappointed due to rising costs and supply chain problems, Cummins expects those issues to gradually resolve over the next year. It made a record \$24 billion in revenue last year and expects about \$25.5 billion next year. Its goal for 2030 is laid out below. Despite the short term ups and downs, we think Cummins has a good shot at reaching these goals over the next decade.

OUR FINANCIAL TARGETS

BASE BUSINESS*

\$33-\$35B in revenue in 2030

>\$30B cash from operations from 2022-2030

>20% incremental EBITDA growth

NEW POWER

\$6-\$13B in revenue in 2030

~\$1.3B cash outflow from operations from 2022-2027

Breakeven in 2027

CUMMINS

\$41-\$46B in revenue in 2030

**Base business excludes Filtration
Targets include impact of Mentor acquisition*