

## Inside Cummins: Last Quarter's Progress

Nov. 10, 2021

Cummins' story this quarter is another great example of the what The Outlook discussed yesterday: "solid business performance in the teeth of supply chain chaos". Revenues climbed 17% on the back of strong user demand but profit only climbed 9% due to higher costs and supply chain inefficiencies. As the graphic below shows, demand continues to be strong in almost every market and every geography except in China, which experienced an expected slow down from record numbers a year ago. Since the supply chain is so troubled these days, companies everywhere are not able to make enough product to meet demand, and instead are trying to optimize how much of its product it can make at certain times given the widely variable supply problems. This is making customers' order activity lumpy. For example, a customer may have ordered a lot of Cummins' engines the last 3 months, but now has stopped ordering because it is waiting on semiconductors needed to finish the truck. For this reason, Cummins' expects slightly lower 2021 revenues than just a few months ago. At 20% expected growth, however, 2021 will still be the strongest year for Cummins in a decade.

### Key On-Highway Engine Markets - 2021

KEY MARKET	2021 Forecast	Market Size Vs. 2020
Heavy Duty Truck - North America <small>Class 8, Group 2 - Production</small>	228K units	Up 25%
Medium Duty Truck - North America <small>Class 6-7, and Class 8 Group 1 - Production</small>	118K units	Up 15%
Heavy & Medium Truck - China <small>Sales</small>	1,650K units	Down 7%
Heavy & Medium Truck - India <small>Sales</small>	270K units	Up 75%
Heavy & Medium Truck - Brazil <small>Production</small>	146K units	Up 60%

Cummins

Despite the chaos of 2021, Cummins gained market share in a number of key business segments. CEO Linebarger noted how "our products outpaced our competition as a result of strong performance in the field". In North America, Cummins' largest market, the industry's production of heavy-duty trucks rose 10%. Cummins' sales rose 30%. In the medium-duty truck market, industry production fell 5% while Cummins' sales grew 25%. The same situation occurred in various markets internationally as well.

As a company operating in a cyclical market, Cummins is well versed in dealing with a wide variety of business conditions. As one analyst on the call mentioned, "Cummins is great at structurally improving its business during every downturn. As you look at the challenges you are facing today, is there opportunity

to make some changes and come out of this a stronger company?” Linebarger’s response mirrored other CEO’s of Outlook companies: “right now, we are just trying to get production up to meet customer demand and keep the supply chain going the best we can. But you better believe we are looking long term at changing how we source things so we can come out of this as a more reliable and cost efficient company.” Linebarger and his team have the experience of doing this nearly every business cycle. It will be interesting to see what happens over the next couple of years, but in the meantime, gaining market share and increasing revenues is good news for us investors.