

Inside Cummins: Last Quarter's Progress

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Cummins had a strong quarter overall with revenue up 8% despite continual supply chain issues limiting production, and inflation causing higher manufacturing costs. In all end markets except for China, customer demand continues to outpace Cummins' ability to produce enough engines to satisfy that demand. With supply chain constraints still causing production delays at Cummins and its suppliers, the aftermarket business has really taken off as truck owners all over the world try to keep old vehicles running. Cummins aftermarket division replaces and repairs vehicle components, either to fix existing problems or to retrofit old vehicles in an effort to reduce carbon emissions. Cummins now expects its aftermarket sales to increase 15-20% for the year.

This past quarter Cummins closed on its acquisition of Jacobs Vehicle Systems, a supplier of engine braking and cylinder deactivation and thermal management technologies. These are all new areas for Cummins to expand into, offering new growth opportunities. Both engine braking and cylinder deactivation are key components in meeting stricter emissions standards and having those systems under one roof should only help Cummins be the leader in meeting those standards.

During the earnings call, Cummins was asked several times about its outlook for the future given today's general uncertainty about the economic health of the world. Does it see a cyclical downturn coming? Is it affecting its investments back into its own business or into buying other businesses? Cummins acknowledged that market conditions everyone is dealing with right now are highly unusual given the atypical government actions of the past couple of years, but that its conversations with all customers except for China are centered on trying to meet the customers' continuing strong demand. And in terms of whenever the next cycle might come or whenever the US might enter a true recession again, CFO Mark Smith said it best:

"We're not just waiting around for changing economic conditions. An important part of how we've grown earnings over time is by continually focusing on driving efficiencies in everything we do. Doesn't always make headlines, but we're constantly looking for better ways to do almost every aspect of our work."

This quarter marked the end of CEO Tom Linebarger's time at the helm and the beginning of new CEO Jennifer Rumsey's. An analyst pointed out that earnings per share has increased seven fold during Linebarger's era. We have no doubt that Cummins is setting themselves up for more growth ahead.