

Inside Cummins: Last Quarter's Progress

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We continue our “stronger than expected demand” story from Exxon with the same story from Cummins, which reported a strong 21% revenue growth and demand that far exceeded expectations, causing it to double revenue growth guidance for 2021. The below image shows Cummins’ new expectations for the year, with all categories showing great numbers, and China down 15% when compared to its staggeringly strong 2020. During the first quarter, all business segments experienced growth in almost every geographic area, but the MVP of the quarter was the company’s Components business, up 43%. Management credits this success to the benefits of more content (and therefore components) in engines needed to meet stringent emissions regulations that are rolling out in China and India.

Key On-Highway Engine Markets - 2021

KEY MARKET	2021 Forecast	Market Size Vs. 2020
Heavy Duty Truck - NAFTA Class 8, Group 2 - Production	264K units	Up 45%
Medium Duty Truck - NAFTA Class 6-7, and Class 8 Group 1 - Production	140K units	Up 35%
Heavy & Medium Truck - China Sales	1,500K units	Down 15%
Heavy & Medium Truck - India Sales	295K units	Up 90%
Heavy & Medium Truck - Brazil Production	113K units	Up 25%

The unexpectedly high demand caused Cummins’ supply chain to become constrained, meaning it became difficult for Cummins to get all the parts it needed to build its engines on time and in the quantity needed. This was partly due to the lagging effects of COVID protocols causing factories to operate understaffed or transportation to be limited. The biggest kink in the supply chain was the global semiconductor shortage that is affecting all car manufacturers. The problems with getting all the materials needed to fully meet its customers’ demands meant that Cummins spent more money trying to fix those problems. One analyst questioned CEO Tom Linebarger, “With the increase in cost you had to take on, are you guys going to increase price? After all, with record demand, it’s a pretty good environment for Cummins.” Linebarger responded, “Our customers had a pretty tough first half and they are finally seeing higher demand and want to ship trucks to their customers. We really want to help them do that. So frankly, we took it on the chin. We are going to get these costs under control in the next couple of quarters, but we feel good about what we did for customers.”

What Mr. Linebarger meant is that Cummins passed up the chance to hike prices in order to help its truck-manufacturing customers recover from a very rough year. A company that puts its customers first? That's how you win more business in the long term.

One of Cummins' major goals over the past year or so has been to create symbiotic partnerships with other truck and engine makers. It announced two more partnerships this quarter, one with Daimler, where Cummins will supply engines for its medium duty trucks and buses in North America first before expanding globally, and the second with Hino, which will now sell medium- and heavy-duty trucks with Cummins engines. Previously, Hino made its own engines for those trucks, but now it wants to spend its limited cash on long-term development of battery electric vehicles. These types of deals are exactly what Cummins was looking for: forming a stronger relationship with customers, providing its diesel expertise while allowing those customers to direct their limited capital elsewhere, and hopefully working with these companies during the eventual transition to clean energy transportation over the next couple of decades.

This past quarter shone a spotlight on the actions Cummins has been taking over the last several years in anticipation of global trends in the truck engine business. Those actions are looking very far-sighted and effective today. At Outlook we've been confident about Cummins for a long time, and if possible we've become even more confident with each passing quarter.

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