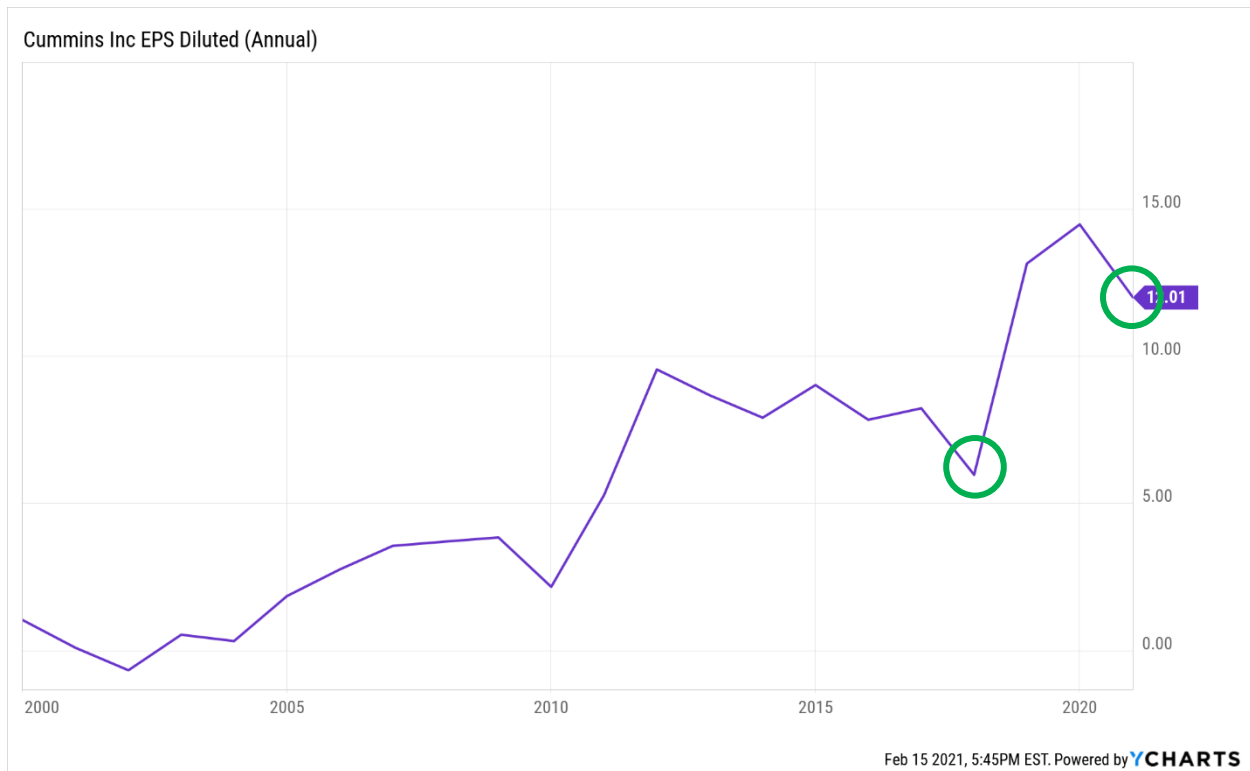


Inside Cummins: Last Quarter's Progress

Feb. 16, 2021

Fourth quarter revenues for Cummins came in 5% higher than a year ago, marking the first quarter in the past six to show revenue growth. Each cyclical downturn that Cummins faced the past 20 years has had negative sales growth for between 4 to 6 quarters, so this downturn proved no different despite the extra hardships brought on by the pandemic. For the full year, 2020's earnings of \$12.01 per share continues Cummins' streak of improving performance through the cycles, with earnings 46% higher than the last downturn in 2016 (shown by the 2 green circles in the following graph).



The surprise performer of the year was China, where robust demand in the truck and construction markets brought an all-time high in revenue. The high demand was mostly caused by government stimulus, which is why Cummins expects a moderation in sales to China throughout 2021, as it believes purchases can't possibly continue at as frantic a pace as last year. On the flip side, the rest of the world had a pretty awful year. Sales in North America, Cummins' primary market, dropped 21%, sales in India dropped 26%, and sales in Brazil dropped 11%. Cummins expects every geographic region except for China to have an improved 2021. The fourth quarter began that improvement in the rest of the world. Management remarked that they have never before seen demand increase as quickly as it did last quarter. While the pace of recovery brings its own challenges with supply issues and higher freight costs, the fact that industries are returning to normal is only a good thing for Cummins in the near term.

In 2019, Cummins announced a partnership with Isuzu, the Japan-based truck and engine manufacturing giant. This past quarter, as the first major action to come out of the partnership, Cummins' diesel engines

were placed in Isuzu's medium-size trucks. This is being rolled out in North America throughout the rest of 2021 and should reach Japan and Southeast Asia by 2023. This partnership and engine/truck combination is a prime example of Cummins' business strategy for the future. As truck manufacturers face more decisions about what technologies to invest in (electric, hydrogen, fuel cell, natural gas, diesel, etc), they can't possibly spend money on all of them. By forming these strategic partnerships, Isuzu can still benefit from best-in-class diesel engines from Cummins while spending its resources on advancing the electric engine for trucks, as an example. Another of the partnerships goals is to work on these new technologies together, so both companies' can benefit from each other's expertise. Cummins' plan is to work on making new technologies profitable while maintaining a lead in diesel engines. If bottom-of-the-cycle 2020 earnings are any indicator, this next peak will bring another record for Cummins.