

Inside Cummins: Last Quarter's Progress

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The big picture for Cummins this past quarter is very similar to Caterpillar's, who we reported on last week: the Virus Shutdown negatively impacting already expected weaker sales; management taking immediate actions to reduce costs as much as possible; and no clear idea of the depth or length of this downturn. Cummins entered 2020 expecting lower sales as it began another down swing in its industry (especially North American truck production). Because of this, management took restructuring actions in late 2019 aimed at reducing costs for the year. This move proved very helpful to its first quarter earnings, as it was ahead of the "reduce costs as quickly as possible" curve once the Shutdown hit.

First quarter revenue fell 17% from a year ago, with all four business segments and both North American and international sales falling. One of the bright spots is that profitability actually increased in three of the four business segments despite lower sales. This was due to lower costs from those restructuring actions taken in 2019 and higher income from joint ventures in China and India. An overview of Cummins' Components business segment is shown in the slide below: sales down 19% but earnings down only 14%, resulting in improved profitability. On another positive note for the quarter, Cummins gained market share in China in both the heavy-duty truck market and in excavators, fulfilling one of its long-term priorities of gaining customers in China.

Components Segment Selected Financial Data

- Sales in North America declined 24%, driven by lower truck build rates, while revenues in international markets declined by 12% as a result of lower truck demand in Europe and India.
- EBITDA margin increased as lower warranty costs, higher joint venture income, and the benefits from restructuring offset the impact of lower volumes.

\$ MILLIONS	Q1 2020	Q1 2019	CHANGE
Sales	1,502	1,861	(19)%
EBITDA	279	325	(14)%
EBITDA (% of Sales)	18.6%	17.5%	

In North America, nearly all of its end markets experienced declining demand, including trucks, construction, and power generation. Overall truck production in North America declined 10% from the last quarter of 2019, however, Cummins' engines shipments did not decline, showing robust demand for its products. It introduced a new engine which meets 2021 greenhouse gas emissions standards and has better fuel efficiency than older models. It is launching another new product for Freightliner trucks in the fall and will start supplying engines to Mack's medium-duty trucks for the first time ever later this year.

Essentially, Cummins is doing what Cummins does best: leading the market on the newest technology for fuel efficiency and low emissions standards. It has the financial strength to get through this downturn and will be ready to meet its customers' needs on the other side.