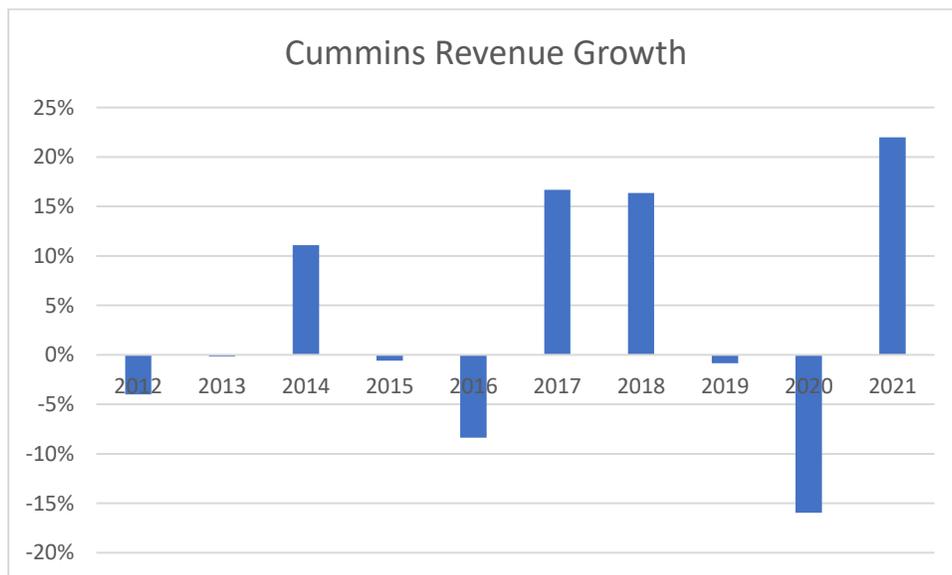


Inside Cummins: Last Quarter's Progress

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Not surprisingly, Cummins' story this quarter matches several of our other companies' stories: robust demand in nearly every business segment and every geographic location; impressive revenue growth from the first true Virus-impacted quarter a year ago (up nearly 60%); supply chain issues that make it hard to meet the robust demand; and higher costs for things like freight and steel. Like every good company, Cummins is working through the prior two hurdles. CEO Tom Linebarger compared it to "running up a down elevator, and doing a decent job of it", meaning that with rising costs plus supply chain issues, they are still managing to earn good money by finding ways to work around their problems. Cummins is on track to earn 20% to 24% higher revenues than 2020, which would make it the biggest annual revenue growth in over 10 years. While the supply chain and cost issues aren't likely to disappear in 2021, neither is the growing demand for products, and Linebarger points out that Cummins "gets better at operating under lousy conditions if they stay stable". Even the "stable lousy" of 2021 makes it easier to operate and gain profitability than the "unknown lousy" of 2020.



**2021 revenue growth is an estimate*

Cummins focused a lot this past earnings call on its New Power segment, which includes all of its green and alternative energy solutions—and has yet to make a profit. It announced multiple agreements signed for future development of alternative solutions including electrolyzers and hydrogen fuel cell electric powertrains. The biggest agreement is with Air Products, in which Cummins will begin to transition Air Products' heavy duty tractors to zero emissions by providing them with hydrogen fuel cell powertrains. It starts with just 5 trucks by the end of 2022 but could include the whole fleet of 2,000 trucks by 2025.

While continuing to make progress on green energy solutions is important for Cummins, it doesn't yet add to profitability. One analyst on the call questioned management about when they see the end of diesel happening. Linebarger's response:

"Our view is that the tail end of diesel will be a lot longer than people expect. That's not because we sit around and hope for the preservation of diesel. It's because the diesel market is so

complicated. There are so many applications, 100 years' worth of applications, and each one has unique demand and scale".

So Cummins' focus over the next decade or so is not to get out of diesel, but to be a player in the eventual transition to alternative fuels. This doesn't have to mean all electric or all hydrogen, but even solutions like renewable natural gas and hybrid engines, which have a lower carbon footprint than traditional diesel engines. Mr. Linebarger made it clear that Cummins has world-leading expertise to help companies in this transition and is setting itself up to be a winner in diesel, hybrid, and future alternative-energy engine solutions. The extraordinary operating strength Cummins is showing this year makes it look very likely that the company will be that long-term winner.

Theresa Kroll
Outlook Capital Management, LLC
(847) 347-7773