

Inside Cummins: Last Quarter's Progress

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This past quarter was a prime example of how a smart, well-run company operates in a cyclical industry. As the diesel engine king, Cummins primary market is heavy duty and medium duty trucks. However, it also has a meaningful position in making engines for backup generators, and it has a large parts and distribution business. Despite weak North American truck sales, Cummins had record profits in its Power Systems and Distribution segments, limiting its revenue decline to just 2%.

The truck market is a cyclical business, where the replenishing of a freight company's fleet often coincides with the strength of the economy, in addition to the age of the fleet. With this year's tariff uncertainties, which have disrupted supply chains and altered freight usage, the North American truck market has really taken a tumble, on top of its already normal cyclical downturn. Truck sales this quarter were 25-35% lower than a year ago, and Cummins expects next quarter to be another 25-30% lower than this quarter! Freight companies are even calling for shorter work weeks in the next quarter due to lack of demand. Management said that the past 3-4 months have been the weakest it's seen in the past 20 years for truck orders. The length of this downturn will depend mostly on what happens in the broader economy, how tariff policies solidify, and how some future emissions regulations play out. That seems pretty bad at first glance! So why does the stock performance over the past 4 months look like this?



Cummins' performance throughout the first half of this year shows that the underlying business is getting stronger and setting itself up for even better returns in the future. It's diversification into the power generation market has helped offset the weak truck cycle. This past quarter, North American power

generation revenues were up 25%, China revenues were up 32%, and India revenues were up 31%. Heading into the normal cyclical downturn in the truck market last year, Cummins also worked on operating more efficiently and focusing investments on the right products. This has led to profits increasing in all segments except the Engine segment, and the total company profits increasing 22% despite the 2% revenue decline.

Management was very clear that it's tough times for the company right now. However, when demand does come back, which it always does in a cyclical business, Cummins has set itself up to hit new peaks. Outstanding management really does make a huge difference for us investors, and Cummins is a great example.