

## *Inside Cummins: Last Quarter's Progress*

*Jul. 30, 2020*

Cummins' did not beat around the bush as it opened its quarterly earnings call: "lowest quarterly sales in a decade" and "largest annual decline in revenue in company history" were in its opening statement. Cummins entered 2020 already in the beginning of its cyclical downturn in the trucking industry, then COVID hit and car factories shut down for the entire month of April. Unsurprisingly, this led to the steepest downturn in company history. Total revenue declined 38% from a year ago, with North American revenue down 48% and international revenue down 22%.

The good thing about the quarter was that Cummins remained decently profitable during this extreme environment, with all 4 business segments remaining in the black. Heavy duty truck production in North America fell 71% this past quarter. Given that number, Cummins' 48% drop doesn't look so bad, and it gained market share in this sector. Its profitability in the Distribution segment actually improved, due to the that division's cost-cutting and streamlining project, launched in late 2019.

The other positive surprise in the quarter came from China, where total revenues increased by 30% and sales in its Components segment increased 68%, setting a new company record. Cummins' market share increased in the heavy and medium duty truck markets and in the excavator market. This is partly due to China's shutdown being mostly in the first quarter of the year rather than the second, so orders have naturally ramped up a bit, but mostly due to the Chinese government throwing money at investments in infrastructure and housing again. Like most things regarding China, Cummins could not have predicted this increase in sales, and therefore also does not expect it to continue at today's level, but it certainly offered a slight reprieve from the dismal activity of the rest of the world.

This quarter hopefully was the worst of what Cummins will encounter this down cycle. Although it will undoubtedly still face challenges over the next year or two, management has shown its ability to remain profitable and work on growing its market share through the tough times. As Outlook noted yesterday, the innovation at Cummins' continues, and the market seems to have taken note. The following image shows Cummins' cyclical nature the past 20 years. Despite the shorter term ups and downs, the overall upward trend in revenues remains intact. We're happy to be along for the ride.

# History of embracing cycles

