

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

**Oct. 30, 2020**

Cummins followed up its largest sales decline in company history (second quarter 2020) with the largest sales increase in company history this time around. This increase was based on very low numbers hit last quarter, so sales still ended 11% lower than a year ago, but unlike cyclical cousin Caterpillar, Cummins' business did see some "green shoots" recently.

The truck market in China was the biggest green shoot. Truck production was the highest for any third quarter on record, fueling Cummins' Chinese revenues almost 50% higher than a year ago (pre-COVID!). This demand is driven in part by economic recovery but also by new emissions standards forcing the scrapping of old trucks and by massive government stimulus and subsidies for infrastructure spending.

Cummins' saw more pedestrian levels of improvement in the rest of its markets. North American and non-China international revenues were below 2019 levels, but much improved from 3 months ago. Cummins remains cautiously optimistic that the improvement will continue.

Similar to Caterpillar, Cummins showed better profitability this quarter. The standout item of this earnings call was "Cummins' hits record operating cash flow". The \$1.2 billion generated from operations is even higher than previous cyclical peaks due to cost cutting measures taken this year. This is by far the most profitable downturn in company history. While some of those cost cutting measures are temporary from COVID related actions, the majority are long term and will help the company during its next upswing as well.

Pandemic or not, countries all around the world still have new emissions deadlines on the calendar. Cummins is the world's leader, by far, in helping them meet those standards and deadlines. China has a new regulation coming out next July, India had one this past April, and North America has new EPA standards to meet starting in 2021. In the past 6 months, Cummins has introduced a full range of new products in India, a few early products in China, and has been working on its full lineup of North American products for next year. Among other improvements, the engine below will extend time between oil changes by 10,000 miles.



Cummins remains focused on providing the leading emissions standard products in the market, has strengthened its company operations and balance sheet, and has increased its dividend for the 11<sup>th</sup> year in a row during a very trying year. Looking at these facts, we begin to understand why the stock has hit all time highs. As we've said a few times at Outlook, sometimes the market is blind toward the future; but other times it sees quite clearly. We think this is just the beginning of a long upturn for Cummins.