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

***Feb. 26, 2020***

Similar to Caterpillar's end of 2019, Cummins also went through its second quarter of a downturn, with revenue falling more than the prior quarter (down 8% vs down 3%). Lower truck demand in India and Europe and lower construction activity in North America and Europe mostly caused the revenue loss, resulting in a 1% revenue loss for the whole year. What's impressive about the year is highlighted by the arrowed lines in the graphic below:

**Cummins Inc.**
**Selected Financial Data - Full Year**

| $ MILLIONS | 2019 | 2018 |
|---|---|---|
| Sales | 23,571 | 23,771 |
| Gross Margin (% of Sales) | 25.4% | 24.1% |
| SAR (% of Sales) | 14.7% | 14.0% |
| EBITDA[1] | 3,731 | 3,476 |
| EBITDA (% of Sales)[1] | 15.8% | 14.6% |
| Net Income attributable to Cummins Inc.[2] | 2,350 | 2,141 |
| Net Income (% of Sales)[2] | 10.0% | 9.0% |
| Diluted EPS[2] | $15.05 | $13.15 |
| Dividend Per Share | $4.90 | $4.44 |
| ROANA[3] | 35% | 33% |
| ROIC[3] | 21% | 20% |

[1] 2019 EBITDA excludes $119 million of restructuring charges.
[2] 2019 Net Income and Diluted EPS exclude $90 million (after-tax) of restructuring charges.
[3] 2019 ROANA and ROIC exclude $119 million of restructuring charges.

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The first arrow shows the increase in Cummins' EBITDA margin (a rough measure of operating cash flow as a percentage of sales) by over a percentage point despite lower overall sales. Cummins' achieved this because its management has been through *many* downcycles, and acted quickly in the latter half of 2019 to cut costs in anticipation of this downcycle. The cost cutting measures included reducing headcount and ending some underperforming product lines. Because it acted so soon, Cummins expects to realize savings from these measures throughout this year.

While these measures won't negate still-declining revenues for 2020, it will help boost earnings and cash flow from what it would have been without the actions. The second blue line in the graphic shows the increase in dividend for 2019: a 10% increase. We expect another dividend increase this year.

During the earnings call, one analyst asked CEO Linebarger to summarize where Cummins stood on its "new program" status, which essentially means carbon-free engines (non-diesel or natural gas.) Linebarger's response: "We're focusing on those products where electric and hydrogen fuel cell is more economically viable in the short-term…where we think the most activity is and also where the most real-life tests are." So far, "New Power" has been notoriously unprofitable for many companies, so Cummins is focusing on the small parts of those industries where profitability may come sooner. For example, they are focusing on electrifying the terminal tractor, which is a truck used in cargo yards or warehouses, because they have the ability to charge more frequently and more easily. On the hydrogen fuel cell side, Cummins is focusing on trains, because trains only have to refuel at consecutive stations.

While the beginning of 2020 is likely to bring more pain to Cummins' sales, especially with the addition of coronavirus-related delays, we see our company's management reacting like veterans, as usual, in ways that will more strongly boost Cummins' performance when the upcycle arrives. Mr. Linebarger and his team have done this many times before.

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