Inside Cummins: Last Quarter's Progress

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Cyclical weakness in the North American truck market caused Cummins' revenues to fall 3% last quarter. However, due to higher sales volumes in both the power generation and aftermarket segments of Cummins' business as well as improved pricing and operations, Cummins was able to raise profits 17%, despite weaker overall sales.

Once again, the Power Systems segment shined the brightest, notching record results. Revenue increased 19%, with both the US and China experiencing strong demand for power generation equipment, which are mostly backup generators. Power Systems' profit margin grew to 24% from 17% last year. Cummins sees no signs of demand slowing in that segment.

Cummins' pulled its guidance for the rest of the year due to tariff uncertainty. As expected, Wall Street analysts tried to wring further details of the impact out of management during the earnings call. So far, there hasn't been a uniform or broad based reaction—instead, there are just pockets of weaker demand and orders. Some customers of Cummins have longer lead times and need to keep orders placed, while others are more flexible and can change their order activity based on short term economic changes. For example, the power generation business currently has orders for multiple years, not just 2025. So in that business, if some customers want to cancel orders temporarily, Cummins has enough backup demand to transfer those orders to other customers. Other business segments, like the on highway heavy duty truck business, has less of an order backlog, so when customers pause orders, Cummins' sales also pause. Because the various pockets of Cummins' business are behaving differently, and because so much uncertainty still surrounds final tariffs, management withdrew from providing expectations for the rest of the year.

Overall, Cummins performed well under tough circumstances. Increasing its gross margin by two percentage points during a cyclical downturn in the North American truck market, shows how well Cummins has done to improve operations and diversify its business.

Lower Sales, Higher Earnings (And Dividend!)