

Inside Cummins: Last Quarter's Progress

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A 32% revenue increase in the fourth quarter helped Cummins achieve record revenue and earnings per share in 2022. Demand stayed strong across all regions and markets except for China, yet again, and North American markets were even better than expected at the beginning of the quarter. Inflationary pressures seem to be easing, with some commodity prices dropping and other material costs simply not rising as quickly as they did throughout the first half of 2022. Cummins has even more confidence than three months ago that 2023 will continue to be a strong year, as it doesn't see any signs of slowdown in demand and it predicts activity in China will gradually start to ramp up again.

Cummins | 24

Cummins Inc.



2022 turned out to be a rather significant year full of changes for Cummins. It had three large acquisitions, including one of the biggest multibillion dollar mergers in the trucking industry in years with its purchase of Meritor (a leader in electric power technology for trucks.) It's preparing to separate its filtration business into a new publicly-owned company. Jen Rumsey became its new CEO after holding prior positions of Chief Technical Officer and Chief Operating Officer. Given 2022's supply chain problems and inflation, Cummins' record year is even more impressive.

There was some Wall Street analyst chatter after the earnings call about Cummins' expectations of slightly pressured profitability in its engine business next year. This is mostly coming from a delay in the timing of price increases for Cummins' products (lagging behind the price increases for materials it buys to make its products) and from an increase in research and development cost. Cummins has been the "diesel king" for a century. Throughout this time, it's had to constantly innovate to keep making the most fuel efficient and cleanest engines in the market. Today is no exception. The US has even tougher new emissions regulations coming out in 2027, on which Cummins is spending money now. It plans to bring products to market in late 2025, 2026 and 2027 that meet those regulations.

Cummins knows most of its competitors will not be able to keep up with that kind of speed, in bringing new products to market which meet the 2027 laws. Spending now means a bigger lead with higher profitability later. That has been this company's formula for a long time. We think it's going to keep working.