# Second Quarter 2014 Earnings Teleconference

**July 28, 2014**

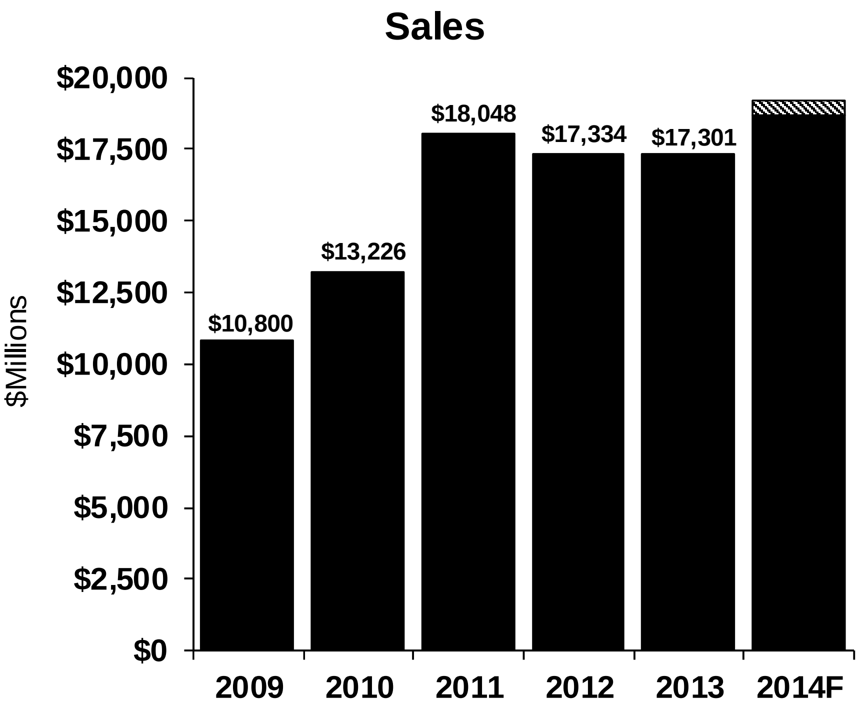

# Participants

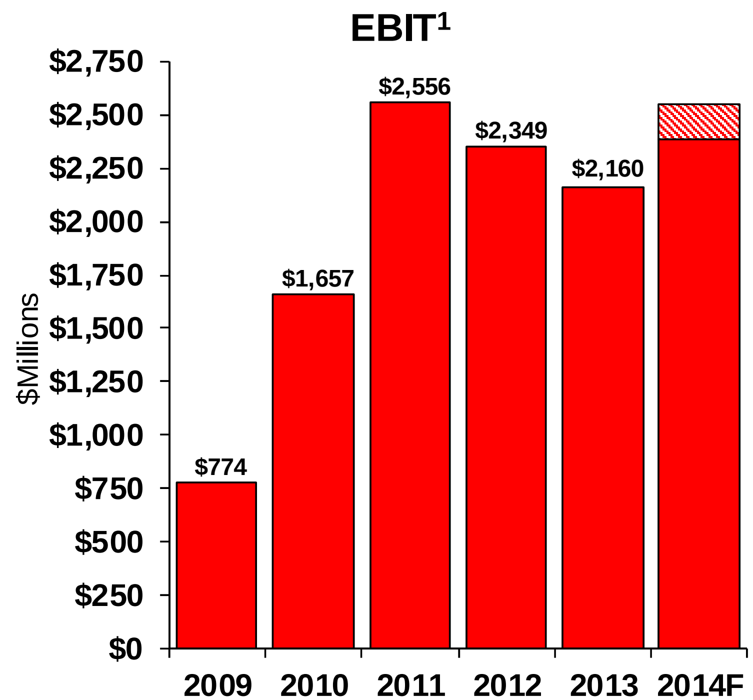
| | |
|---|---|
| Tom Linebarger | Chairman and Chief Executive Officer |
| Pat Ward | Vice President - Chief Financial Officer |
| Rich Freeland | President and Chief Operating Officer |
| Mark Smith | Vice President – Investor Relations |

# Disclosure Regarding Forward-Looking Statements

Information provided in this presentation that is not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our forecasts, expectations, hopes, beliefs and intentions on strategies regarding the future. Our actual future results could differ materially from those projected in such forward-looking statements because of a number of factors, including, but not limited to: the adoption and implementation of global emission standards; the price and availability of energy; the pace of infrastructure development; increasing global competition among our customers; general economic, business and financing conditions; governmental action; changes in our customers' business strategies; competitor pricing activity; expense volatility; labor relations; and other risks detailed from time to time in our Securities and Exchange Commission filings, particularly in the Risk Factors section of our 2013 Annual Report on Form 10-K. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this presentation and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, which are available at http://www.sec.gov or at http://www.cummins.com in the Investor Relations section of our website.

# Cummins Inc.




| EBIT % | 7.2% | 12.5% | 14.2% | 13.6% | 12.5% | 13.0% |
|---|---|---|---|---|---|---|

| 2014 Guidance | |
|---|---|
| Sales Up 8 - 11% | EBIT 12.75 - 13.25% |

[1] EBIT excludes restructuring charges in 2009, the gains from the divestiture of two businesses, and flood insurance recovery are excluded from 2011. Also, 2012 EBIT excludes $6 million pre-tax additional gain from the divestiture of two businesses in 2011, and excludes $52 million in restructuring charges.

# Cummins Inc.
# Selected Financial Data

| $M | Q2-14 | Q2-13 | Change | Q1-14 | Change |
|---|---|---|---|---|---|
| Sales | 4,835 | 4,525 | +7% | 4,406 | +10% |
| EBIT | 657 | 621 | +6% | 528 | +24% |
| % of Sales | 13.6% | 13.7% | | 12.0% | |
| ROANA (LTM) | 25% | 25% | | 25% | |
| ROE (LTM) | 20% | 20% | | 20% | |

- Compared to the prior year, the increase in revenue was driven primarily by increased demand in North American on-highway markets and the impact of acquisitions in the distribution business.
- Quarter-over-quarter increases were driven by North American on-highway markets, as well as seasonal increases in power generation markets and the impact of acquisitions in the distribution business.

# Joint Venture Income

| $M | Q2-14 | Q2-13 | Q1-14 |
|---|---|---|---|
| Engine | **45** | **52** | **32** |
| *On-highway* | *29* | 32 | *21* |
| *Off-highway* | *16* | 20 | *11* |
| Power Generation | **9** | **10** | **8** |
| Distribution | **42** | **37** | **41** |
| Components | **9** | **9** | **9** |
| Total JV Income | **105** | **108** | **90** |

# Cummins Inc.
# Selected Income Statement Data

| $M | Q2-14 | Q2-13 | Q1-14 |
|---|---|---|---|
| Net Income Attributable to CMI | 446 | 414 | 338 |
| Diluted EPS | 2.43 | 2.20 | 1.83 |
| Gross Margin (% of Sales) | 25.4% | 25.5% | 25.3% |
| SAR (% of Sales) | 14.8% | 14.6% | 15.7% |

- Gross margin was flat, compared to the prior year, with stronger volumes, lower material costs, and positive mix being offset by higher warranty costs and unfavorable foreign currency movements.
- Compared to the previous quarter, stronger volumes and positive mix were offset by higher warranty costs.

# Engine Segment
# Selected Financial Data

| $M | Q2-14 | Q2-13 | Change | Q1-14 | Change |
|---|---|---|---|---|---|
| Sales | 2,744 | 2,656 | +3% | 2,563 | +7% |
| EBIT | 311 | 339 | -8% | 269 | +16% |
| % of Sales | 11.3% | 12.8% | | 10.5% | |

- Year-over-year, strong demand in North American on-highway markets was partially offset by weakness in global mining markets.
- EBIT margins decreased, compared to prior year, as a result of increased warranty costs and lower joint venture income. This was partially offset by higher volumes, lower material costs, and positive mix.

# Engine Segment
# Sales by Market – On-highway

| $M | Q2-14 | Q2-13 | Change | Q1-14 | Change |
|---|---|---|---|---|---|
| Heavy-Duty Truck | 796 | 723 | +10% | 722 | +10% |
| Medium-Duty Truck & Bus | 646 | 595 | +9% | 601 | +7% |
| Light-Duty Auto & RV | 336 | 345 | -3% | 361 | -7% |

- **Heavy Duty Truck:** Shipments up 9% Y-o-Y and up 4% sequentially.
- **Medium-Duty Truck & Bus:** Shipments up 1% Y-o-Y and down 1% sequentially.
- **Light-Duty & RV:** Shipments down 2% Y-o-Y and down 1% sequentially.

# Engine Segment
# Sales by Market – Off-highway

| $M | Q2-14 | Q2-13 | Change | Q1-14 | Change |
|---|---|---|---|---|---|
| Industrial | 757 | 762 | -1% | 700 | +8% |
| Stationary Power | 209 | 231 | -10% | 179 | +17% |

- **Industrial:** Shipments down 10% Y-o-Y and up 4% sequentially.
- **Stationary Power**: Shipments up 1% Y-o-Y and up 14% sequentially.

# Guidance for 2014 Engine Markets

## Revenue by market (including aftermarket):

- Heavy-duty truck revenue up 14% and shipments up 12%.  NAFTA Class 8 heavy-duty truck build expected to be 250K units.
- Medium-duty truck and bus revenues up 16%.  North America truck shipments up 26%.  Brazil truck build expected to be down 25%.
- Light duty auto & RV revenue up 5%.
- Industrial revenue down 2%, driven by weakness in mining and international construction markets partially offset by increased demand in commercial marine markets.

# Key On-Highway Engine Markets - 2014

| Key Market | 2013 Actual | 2014 Forecast | Change Market Size |
|---|---|---|---|
| Heavy Duty Truck – NAFTA<br>*Class 8, Group 2 - Production* | 218K units | 250K units | Up 15% |
| Medium Duty Truck – NAFTA<br>*Class 6 – 7, and Class 8 Group 1 - Production* | 112K units | 122K units | Up 9% |
| Heavy & Medium Truck – China<br>*Sales* | 1,061K units | 1,010K units | Down 5% |
| Heavy & Medium Truck – India<br>*Production* | 226K units | 226K units | Flat |
| Heavy & Medium Truck – Brazil<br>*Production* | 190K units | 142K units | Down 25% |

# Components Segment
# Selected Financial Data

| $M | Q2-14 | Q2-13 | Change | Q1-14 | Change |
|---|---|---|---|---|---|
| Sales | 1,280 | 1,117 | +15% | 1,230 | +4% |
| EBIT | 185 | 136 | +36% | 167 | +11% |
| % of Sales | 14.5% | 12.2% | | 13.6% | |

- Compared to the prior year, higher revenues were primarily driven by increased demand in on-highway markets in North America and China and higher content in Europe related to the implementation of Euro VI emission standards.
- EBIT margins increased, compared to the prior year, as a result of stronger volumes, lower material costs, and lower warranty expense.

# Power Generation Segment
# Selected Financial Data

| $M | Q2-14 | Q2-13 | Change | Q1-14 | Change |
|---|---|---|---|---|---|
| Sales | 743 | 814 | -9% | 639 | +16% |
| EBIT | 61 | 76 | -20% | 25 | +144% |
| % of Sales | 8.2% | 9.3% | | 3.9% | |

- Year-over-year, both international and North American demand was down. The reduction in North American sales was primarily related to lower military revenues.
- EBIT margins decreased, compared to the prior year, due to lower volumes and the negative impact of currency movements.

# Distribution Segment
# Selected Financial Data

| $M | Q2-14 | Q2-13 | Change | Q1-14 | Change |
|---|---|---|---|---|---|
| Sales | 1,238 | 954 | +30% | 950 | +30% |
| EBIT | 126 | 100 | +26% | 76 | +66% |
| % of Sales | 10.2% | 10.5% | | 8.0% | |

- Year-over-year growth was driven by acquisitions, primarily in North America, and by increased parts and service demand in North America.
- EBIT margin decreased as a percent of sales, compared to a year ago, primarily due to the dilutive impact of joint venture acquisitions on the EBIT percent. EBIT dollars increased by 26 percent.

# Guidance for 2014 Consolidated Results

| Item | Full Year Guidance |
|---|---|
| Consolidated Revenue | Up 8 - 11% |
| Earnings from JVs | Flat |
| EBIT Margin | 12.75 - 13.25% |
| Effective Tax Rate[1] | 28.0% |
| Capital Expenditures | $700 - $800M |
| Global Pension Funding | $205M |
| Interest Expense | $70M |

[1] Excludes discrete income tax items

# Guidance for 2014 Segment Results

| Item | Engine | Components | Power Generation | Distribution |
|---|---|---|---|---|
| Consolidated Revenue Growth | Up 6 - 8% | Up 12 - 17% | Down 3% - Up 3% | Up 30 - 35% |
| EBIT Margins (% of Revenue) | 10.5 - 11.5% | 13 - 14% | 7 - 8% | 9 - 10% |

# Cash Flow

| $M | Q2-14 | Q2-13 | Q1-14 |
|---|---|---|---|
| Operating Cash Inflow | 438 | 532 | 263 |
| Capital Expenditures | 138 | 161 | 107 |
| Working Capital Measure | 4,028 | 3,551 | 3,642 |
| Working Capital Measure *(% of Annualized Net Sales)* | 20.8% | 19.6% | 20.7% |
| Debt to Capital % | 17.2% | 10.6% | 18.0% |

- Working capital increased, compared to prior quarter, to support higher sales.

# Thank You for Your Interest in

**For additional information contact:**
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**Mark.A.Smith@Cummins.com**
**www.Cummins.com**

# Appendix



Power Generation

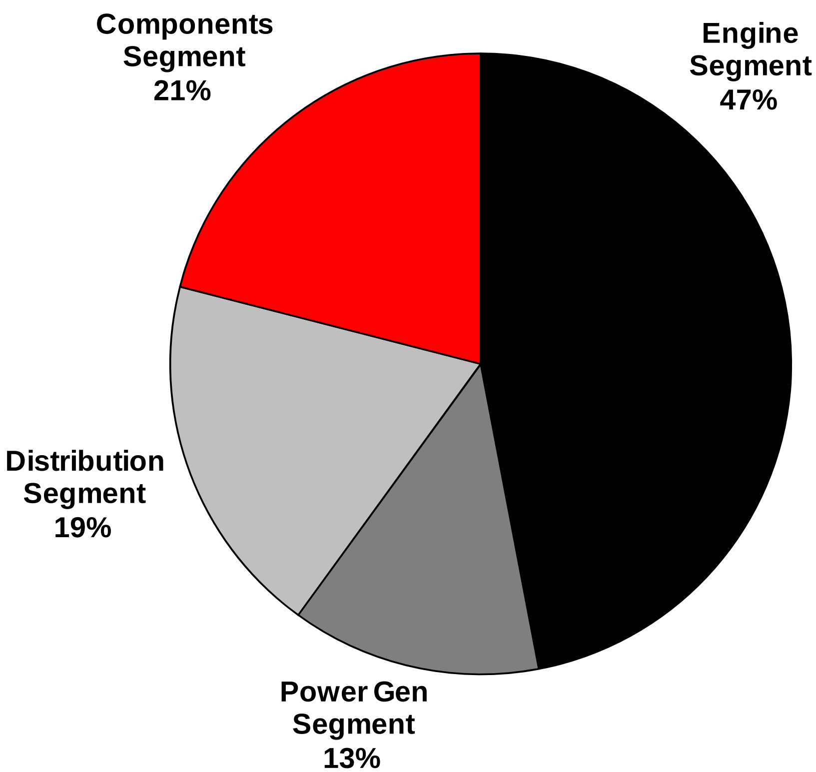

Cummins
Service Entrance
Parts Entrance

# Cummins Inc.

- Strong product portfolio and global partners
- Macro growth trends play to Cummins' strengths
- Disciplined investment for growth
- Demonstrated technology leadership

**Q2'14 LTM Data**
**Sales: $18.1 billion**
**EBIT: $2.3 billion**
**EBIT%: 12.6%**

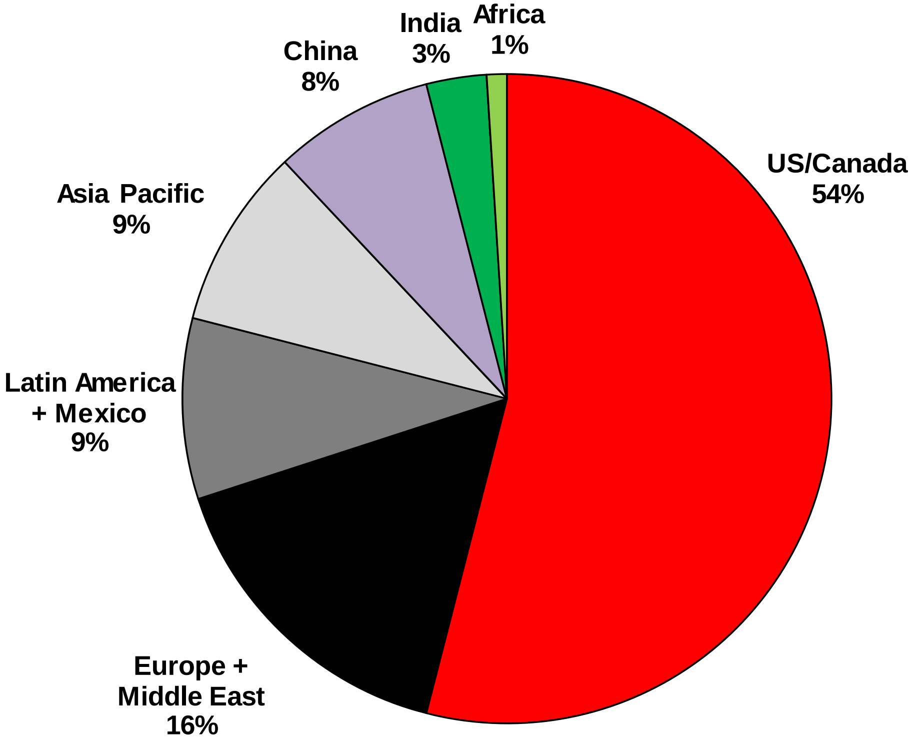
**Q2'14 LTM Revenue by Segment**



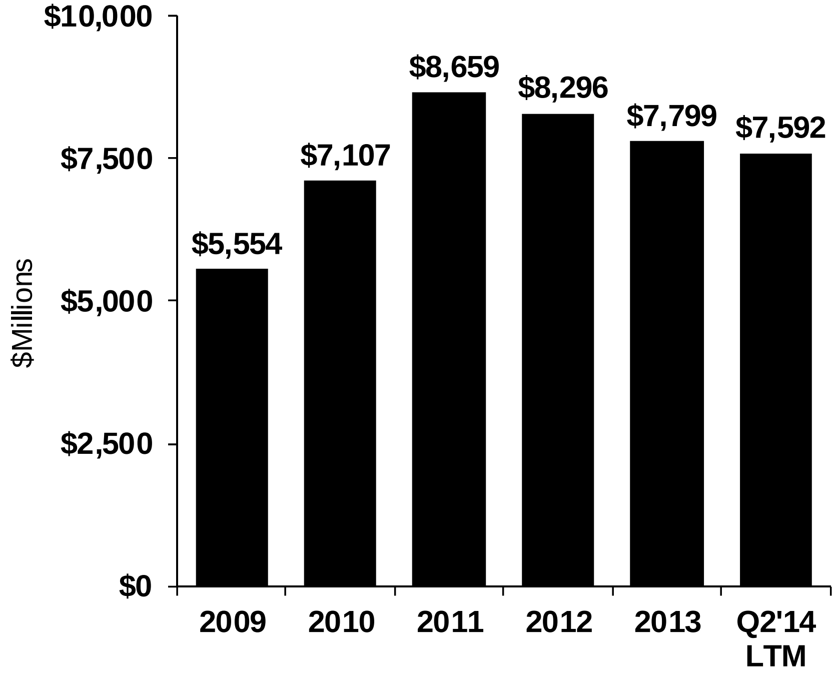
# Cummins Inc.

- Capitalizing on global emission regulations
- Strong geographic diversification and leadership across multiple end-markets
- Global distribution with network presence in more than 190 countries and territories.

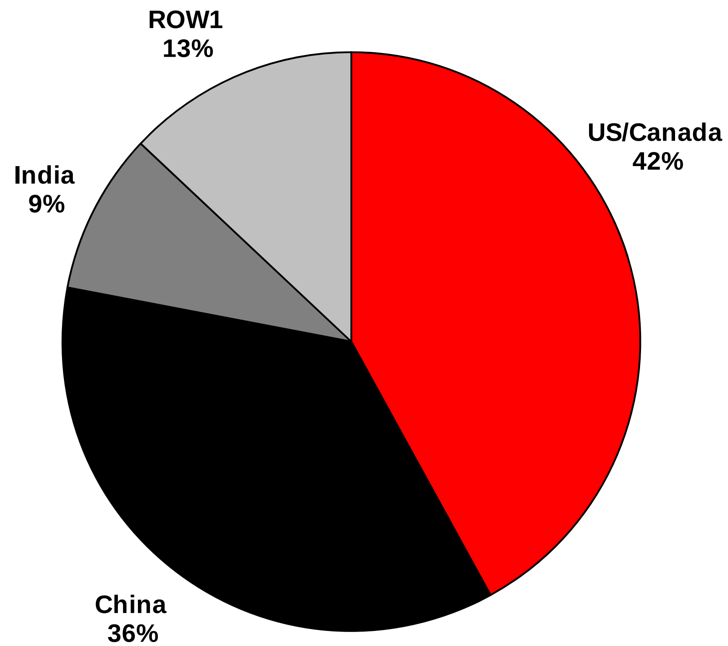
## Q2'14 LTM Revenue by Marketing Territory



# Cummins – Joint Venture Sales Unconsolidated




## Q2'14 LTM Revenue



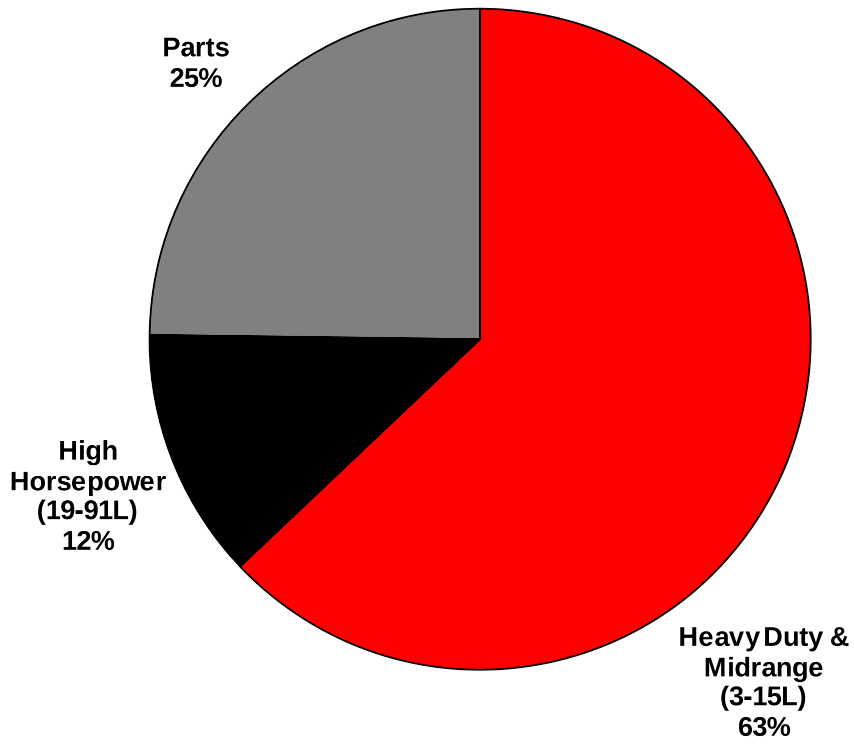

[1] ROW = Rest of World

# Engine Segment – Overview

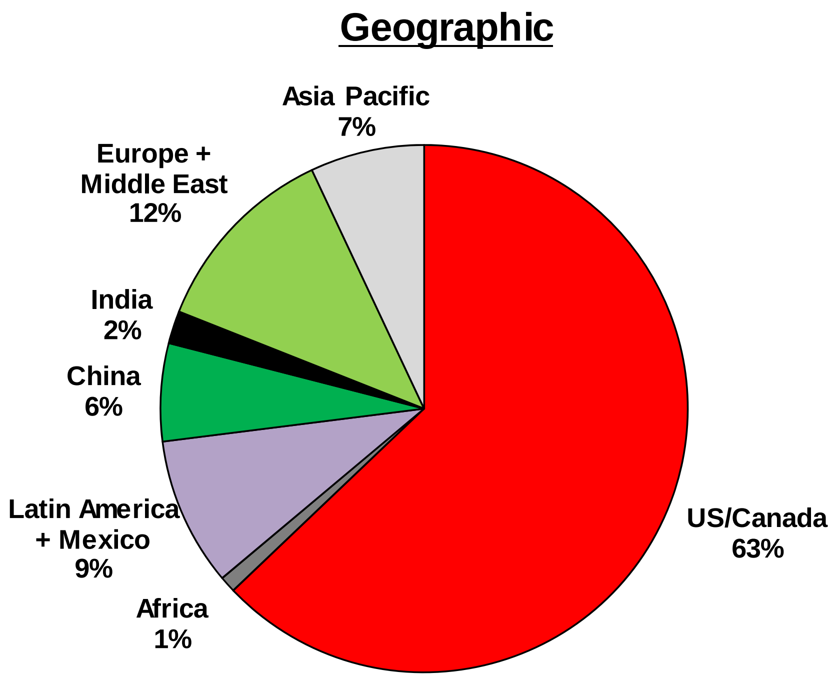
- Diesel and Natural gas engines from 2.8L to 91L and 49 hp to 4,200 hp
- Long-term engine supply agreements with key customers to stabilize pricing and to jointly engineer better integrated vehicles to market
- Leading market share in multiple end-markets and geographies

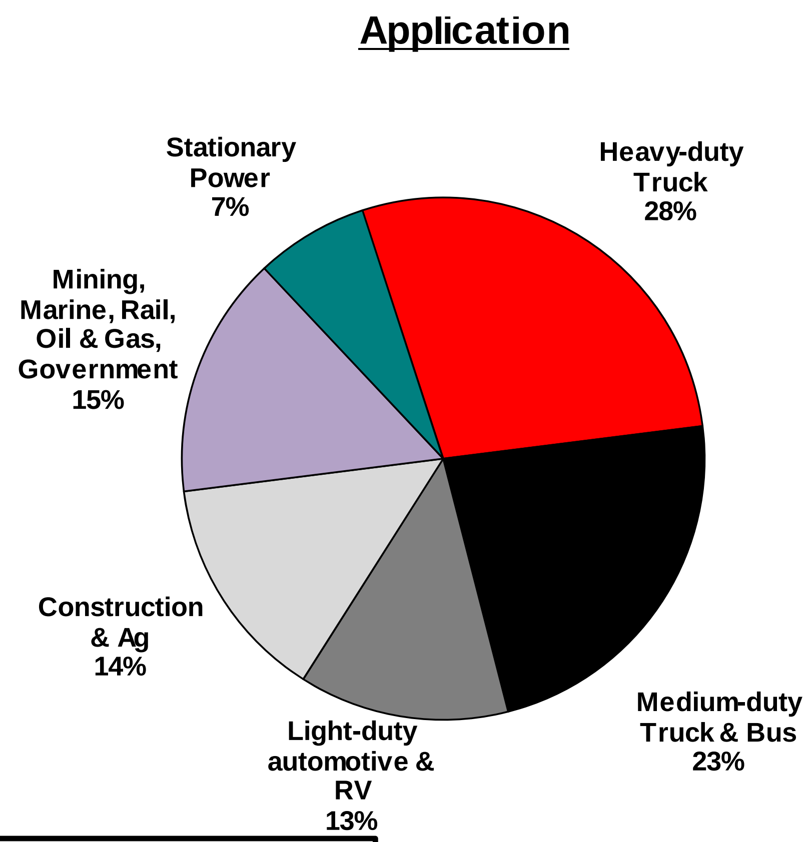
**Q2'14 LTM Data**
**Sales: $10.4 billion**
**EBIT: $1.1 billion**
**EBIT% : 10.5%**

**Q2'14 LTM Revenue by Product**



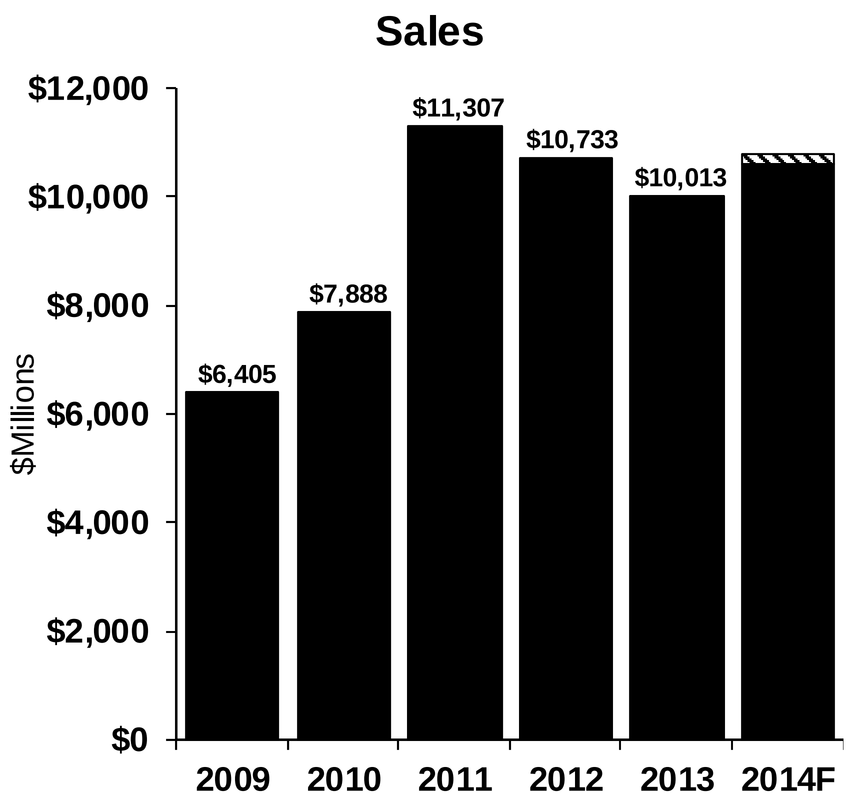
# Engine Segment – Sales Mix

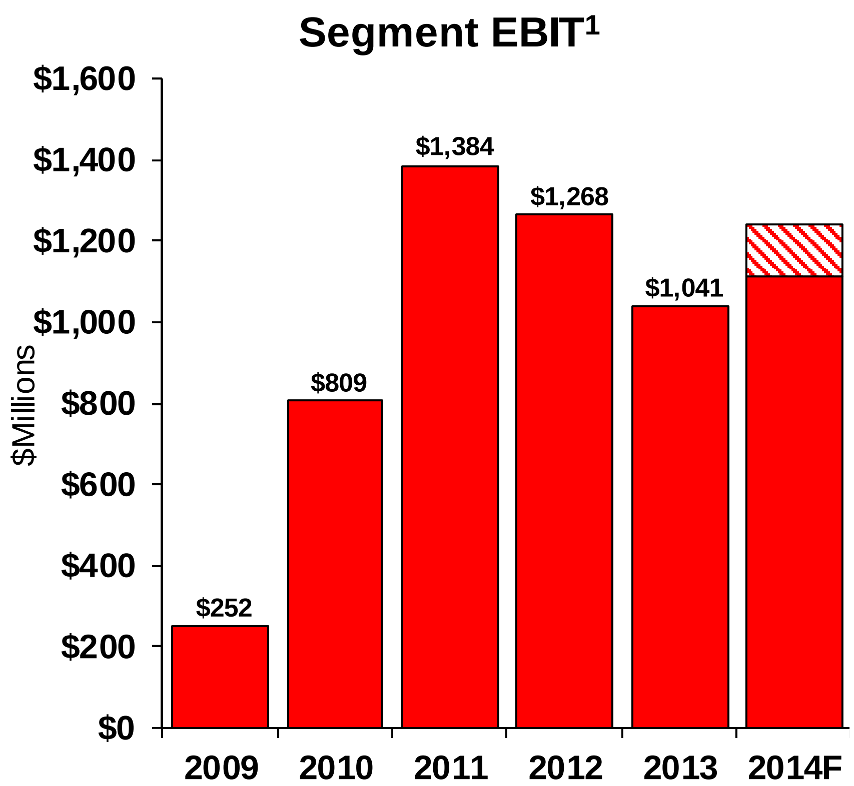



**Q2'14 LTM Revenue: $10.4 B**

# Engine Segment – Historical Performance

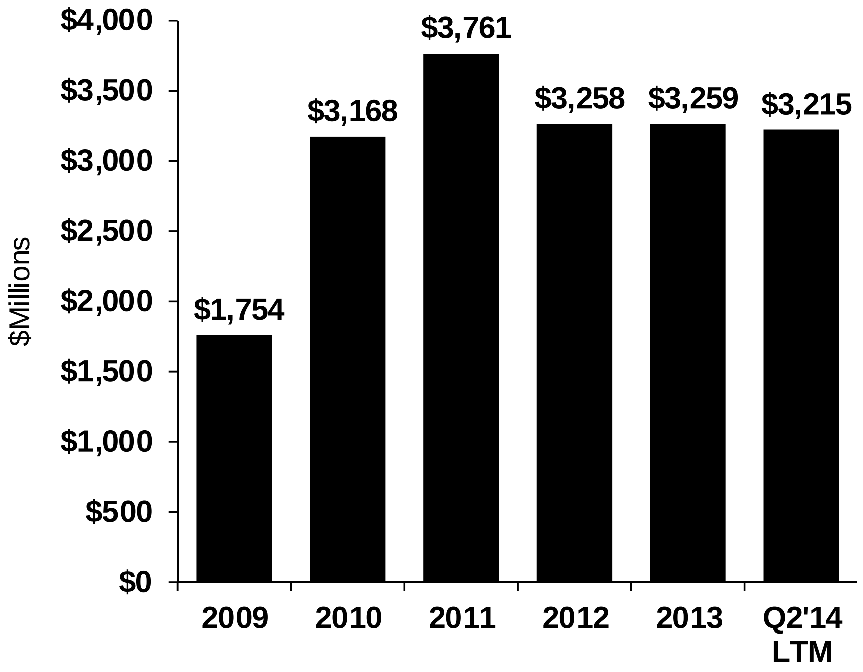


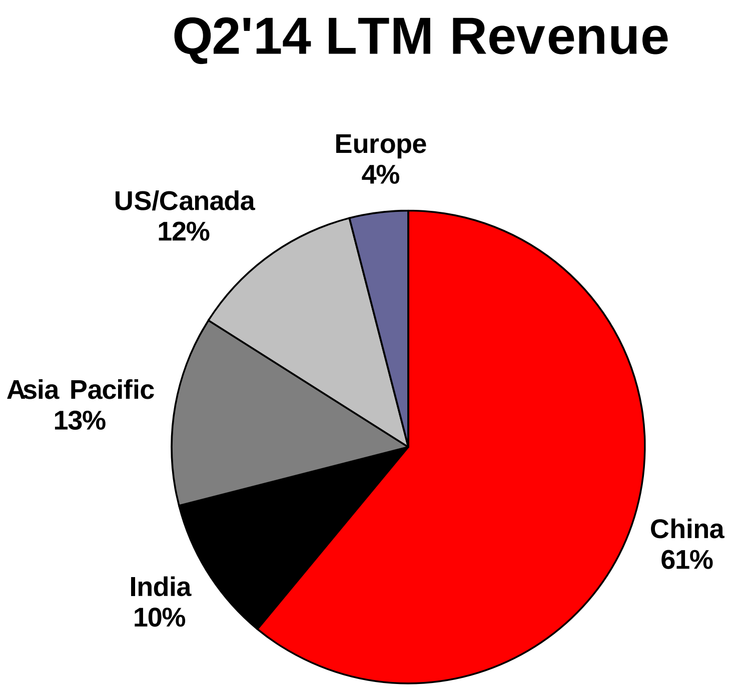




| 2014 Guidance | |
|---|---|
| Sales Up 6 - 8% | EBIT 10.5 - 11.5% |

[1] 2012 EBIT excludes $20 million in restructuring charges.

# Engine Segment – Joint Venture Sales Unconsolidated



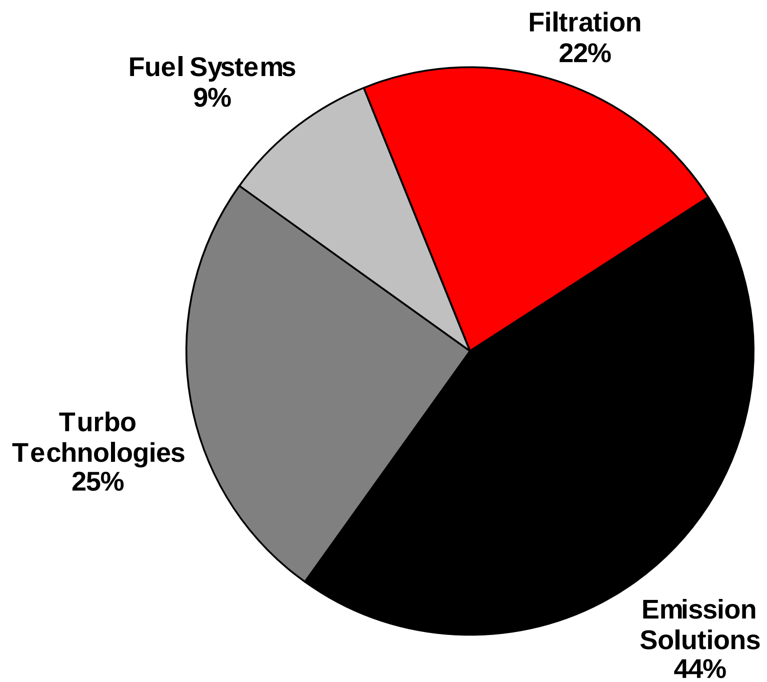



# Components Segment – Overview

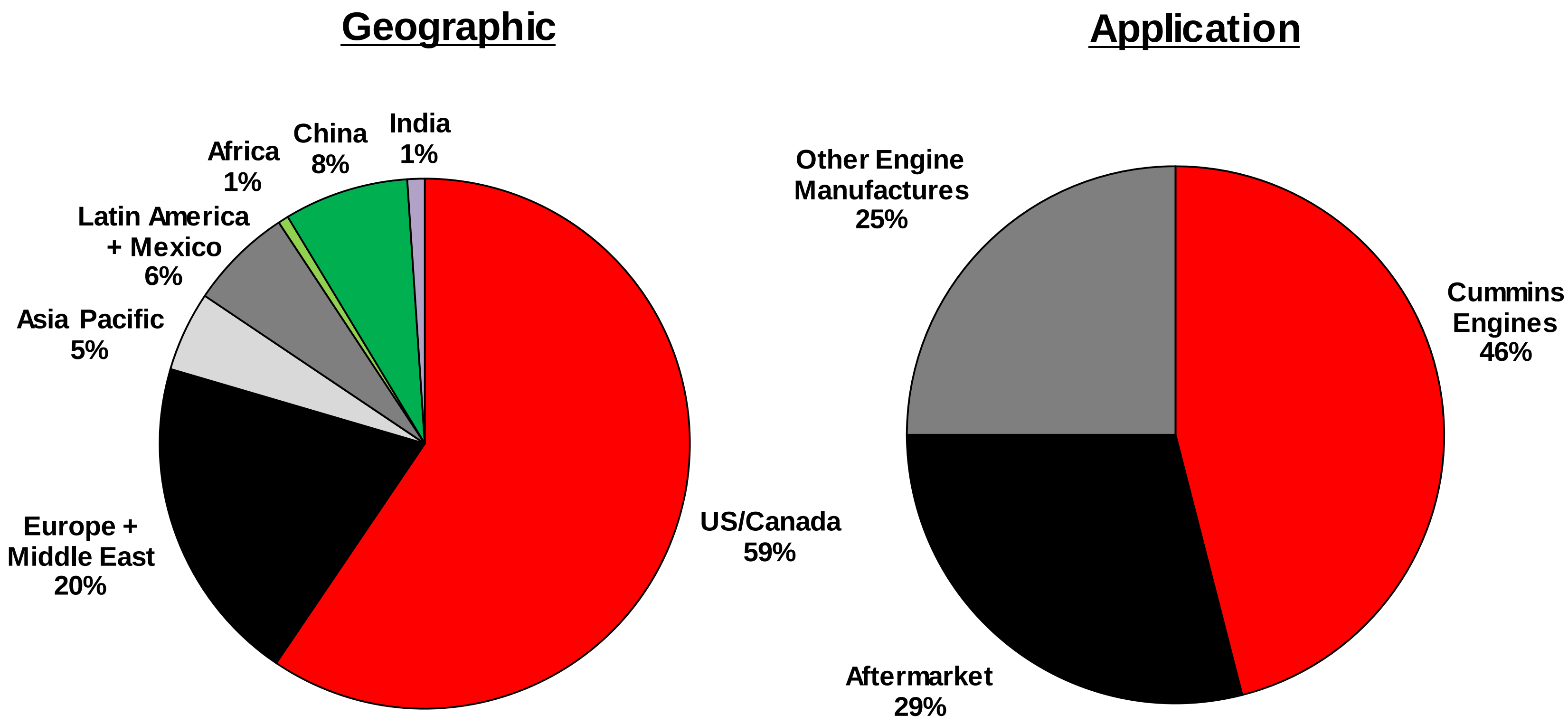
- Leading supplier of aftertreatment products for commercial vehicle applications
- Largest worldwide supplier of turbochargers from 3.8L to 25L for commercial applications
- World's leading supplier of filtration, coolant and chemical products

**Q2'14 LTM Data**
**Sales: $4.7 billion**
**EBIT: $624 million**
**EBIT%: 13.2%**

**Q2'14 LTM Revenue by Business**

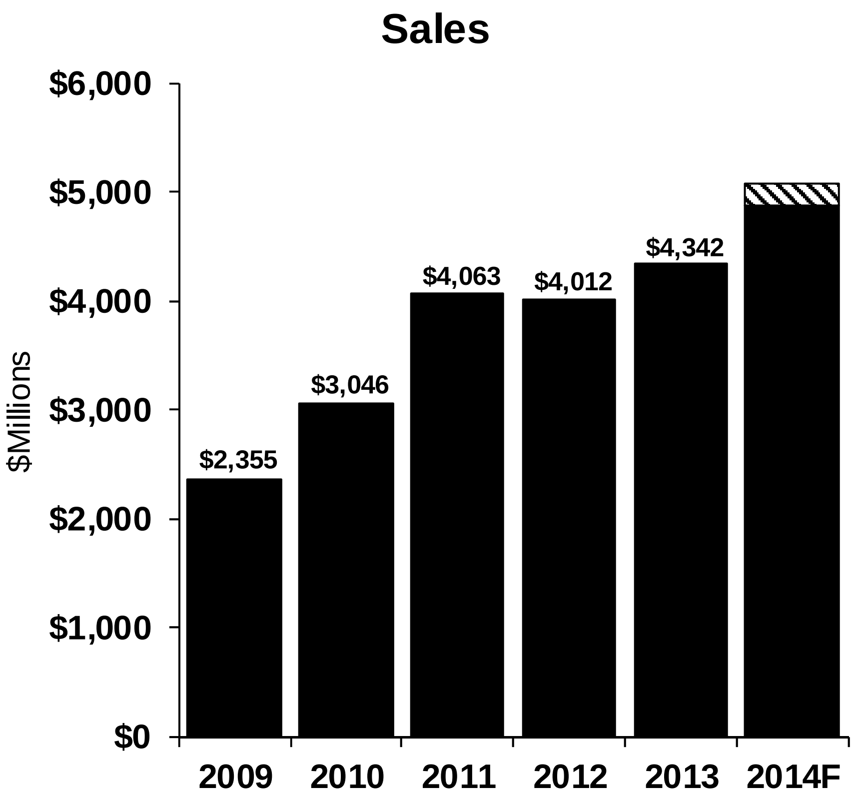


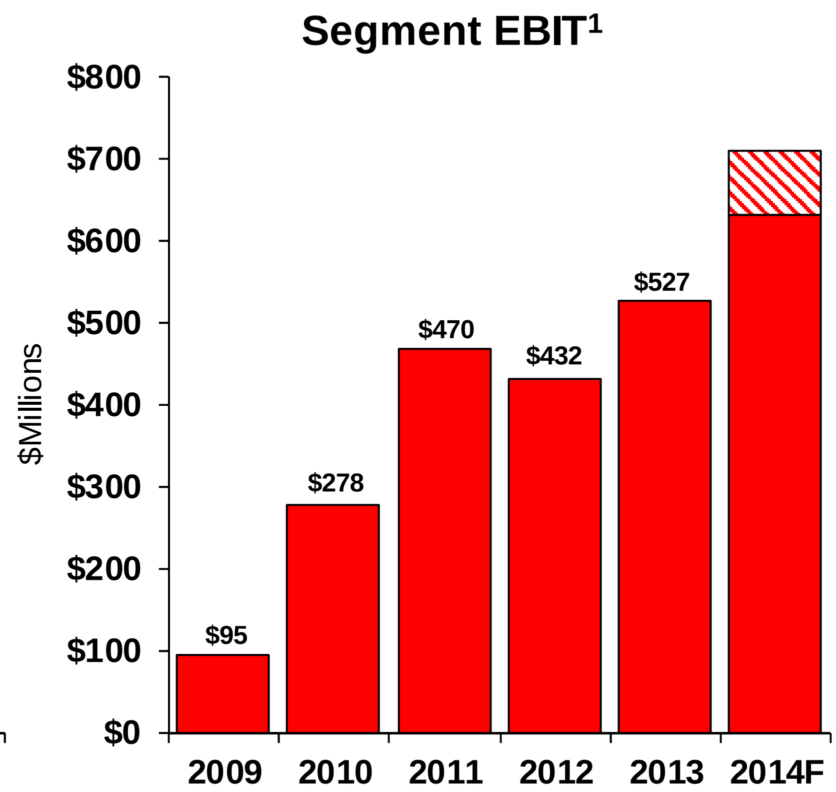
# Components Segment – Sales Mix




**Q2'14 LTM Revenue: $4.7 B**

# Components – Historical Performance

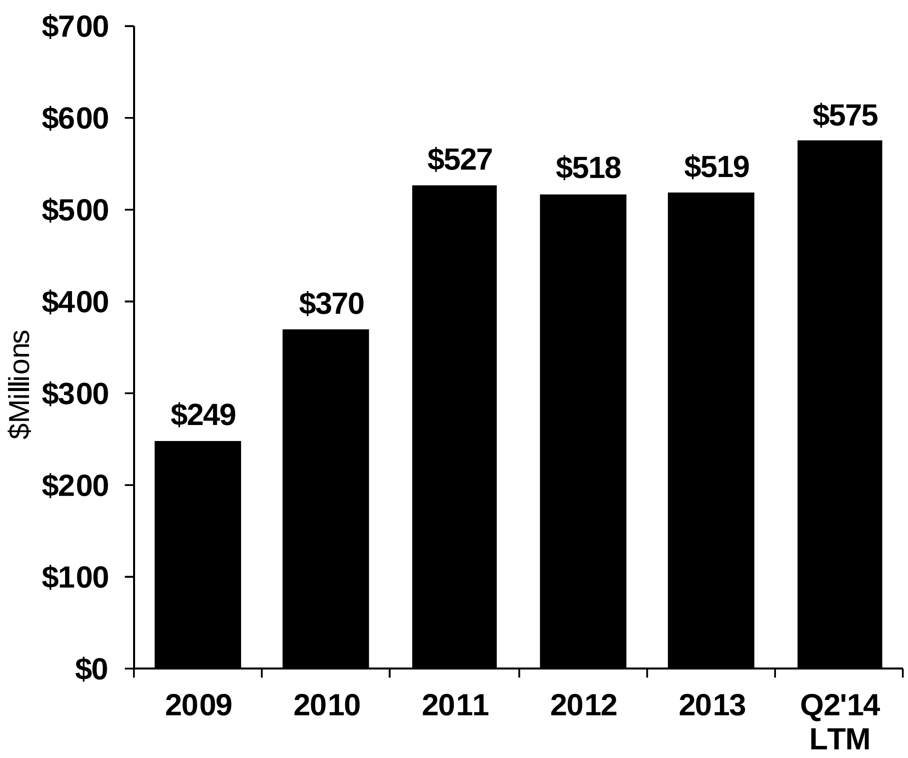


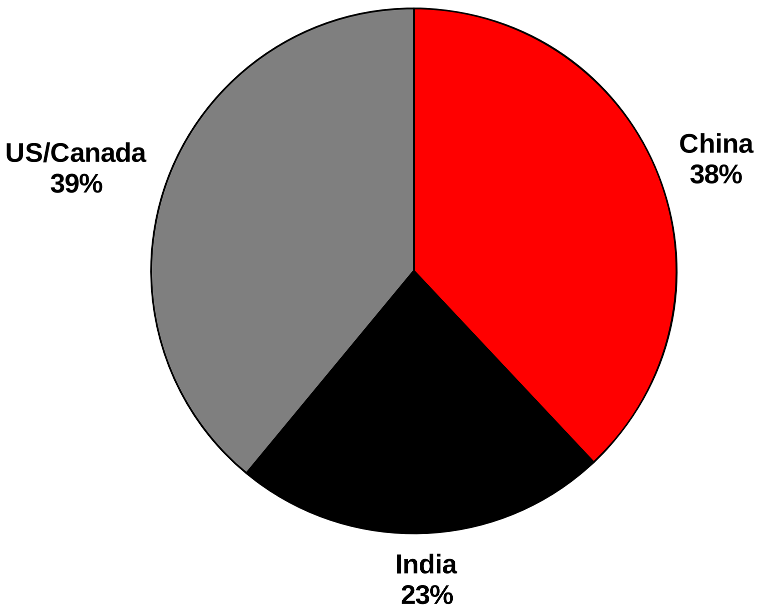

| 2014 Guidance | |
|---|---|
| Sales Up 12 - 17% | EBIT 13 - 14% |

[1] 2012 EBIT excludes $6 million in restructuring charges.

# Components Segment – Joint Venture Sales Unconsolidated




Q2'14 LTM Revenue



# Global Emissions Regulations - Driving Growth

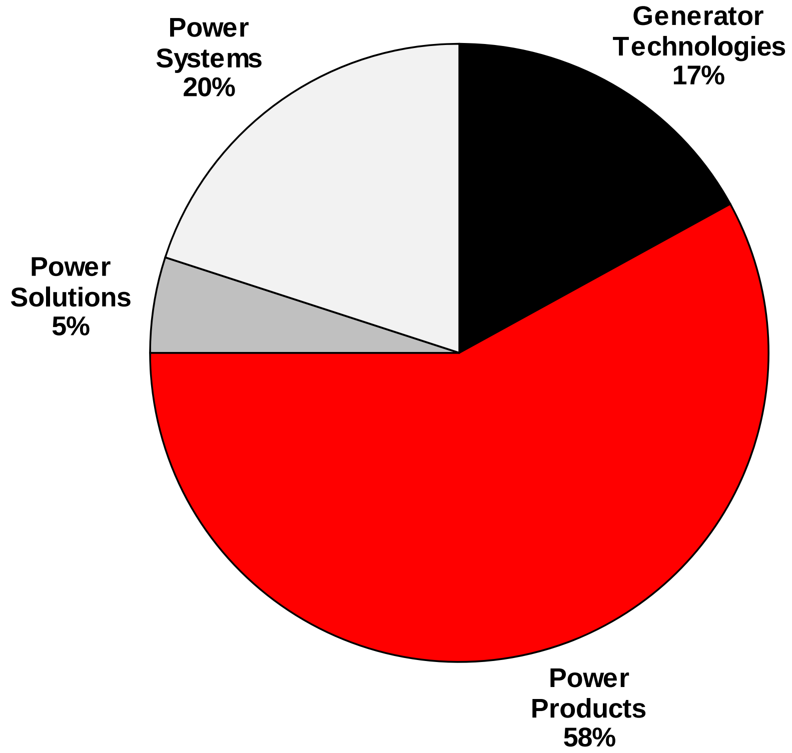
| Market | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| US On-Hwy | EPA 2013 | EPA 2014 (GHG) | | EPA 2016 | EPA 2017 (GHG) | | |
| Europe On-Hwy | | Euro VI | | | GHG | | |
| Brazil On-Hwy | | | | | | | |
| China On-Hwy | NS IV | | | NS V | | | |
| India On-Hwy | | | | BS IV | | | |
| US Off-Hwy | | Tier 4F | | | | | Tier 5 |
| Europe Off-Hwy | | Stage 4 | | | | | Stage 5 |

# Power Generation Segment – Overview

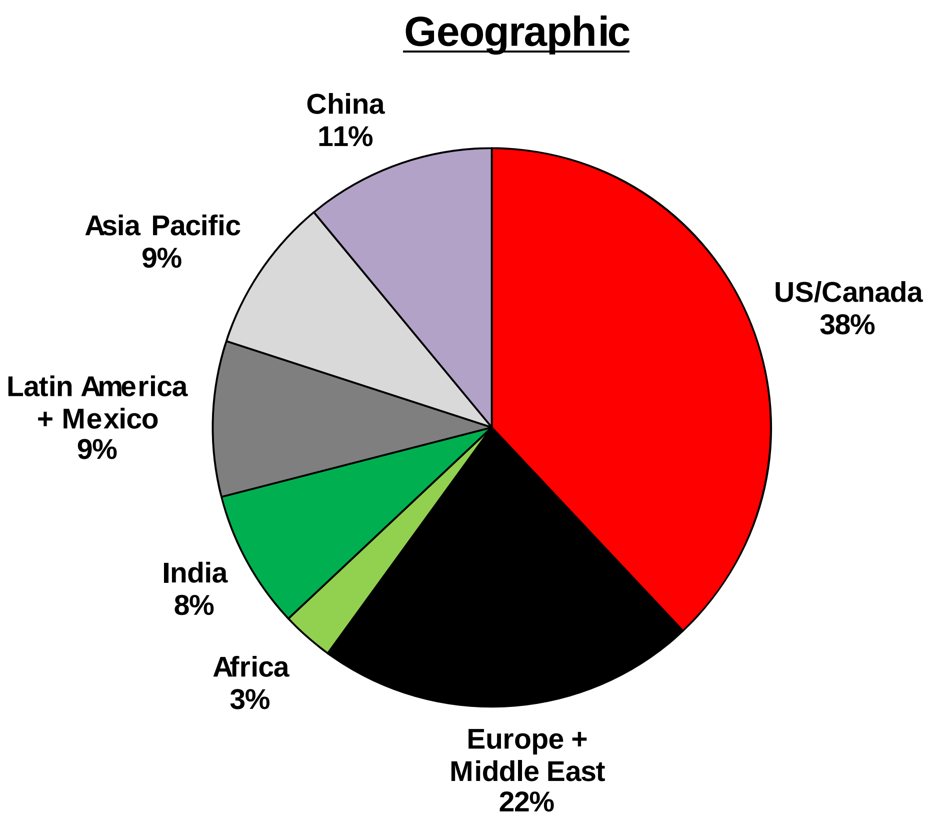
- Global provider of power generation systems, components and services from 2kW to 2.75 Megawatts (MW)
- Leading supplier of alternators from 0.6kVA to 30,000kVA
- Leading market share in multiple geographies

**Q2'14 LTM Data**
**Sales: $2.9 billion**
**EBIT: $177 million**
**EBIT%: 6.2%**

**Q2'14 LTM Revenue by Product**



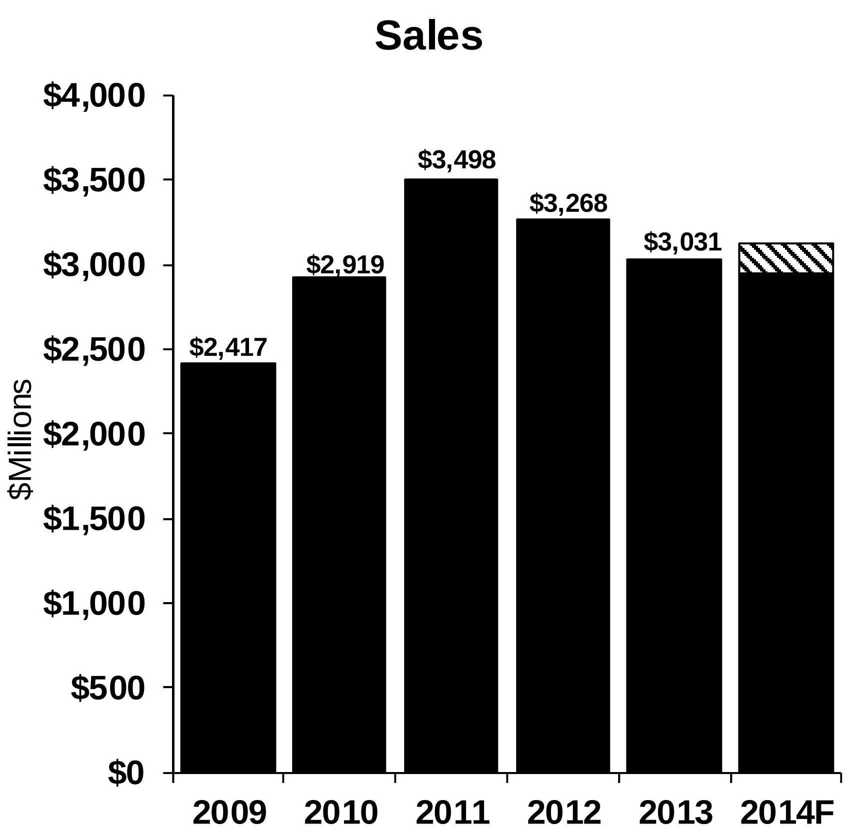
# Power Generation Segment – Sales Mix

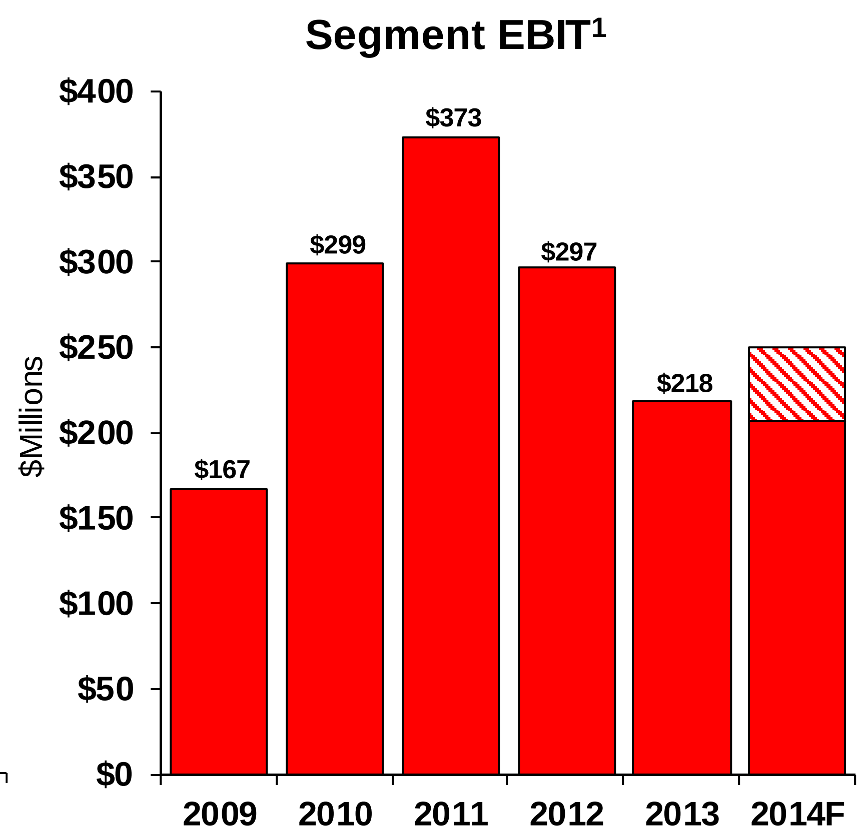



- Market Leadership in China, India, Russia and Latin America
- Energy shortfalls will continue in emerging markets

**Q2'14 LTM Revenue: $2.9B**

# Power Generation – Historical Performance

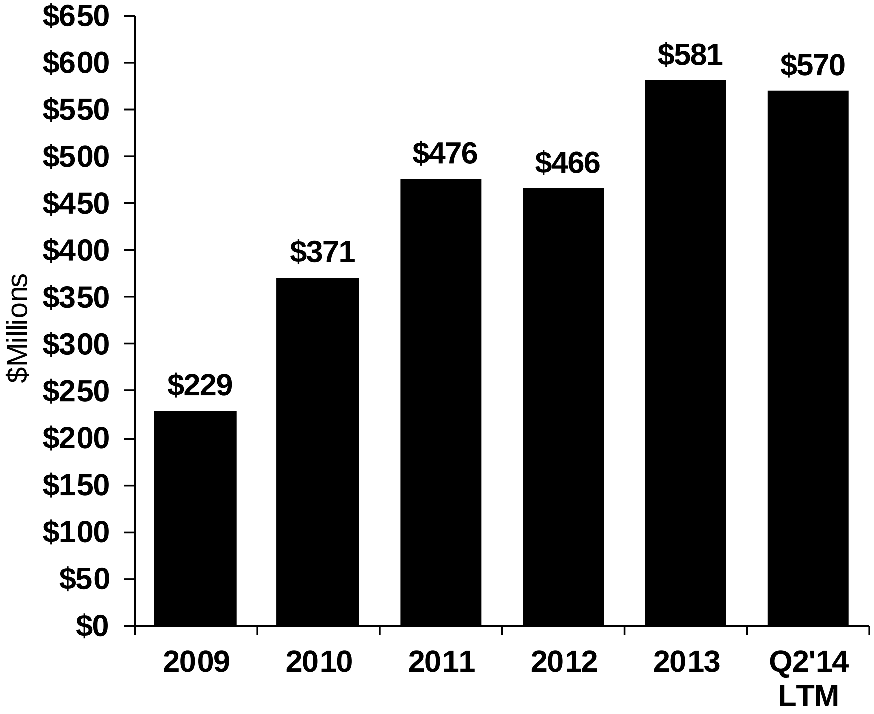


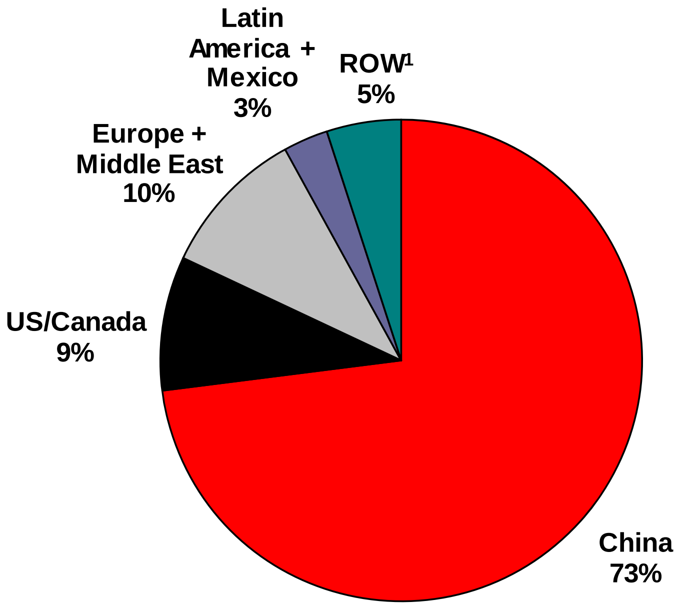

| 2014 Guidance | |
|---|---|
| Sales Down 3% - Up 3% | EBIT 7 - 8% |

[1] 2012 EBIT excludes $12 million in restructuring charges.

# Power Generation Segment – Joint Venture Sales Unconsolidated




## Q2'14 LTM Revenue



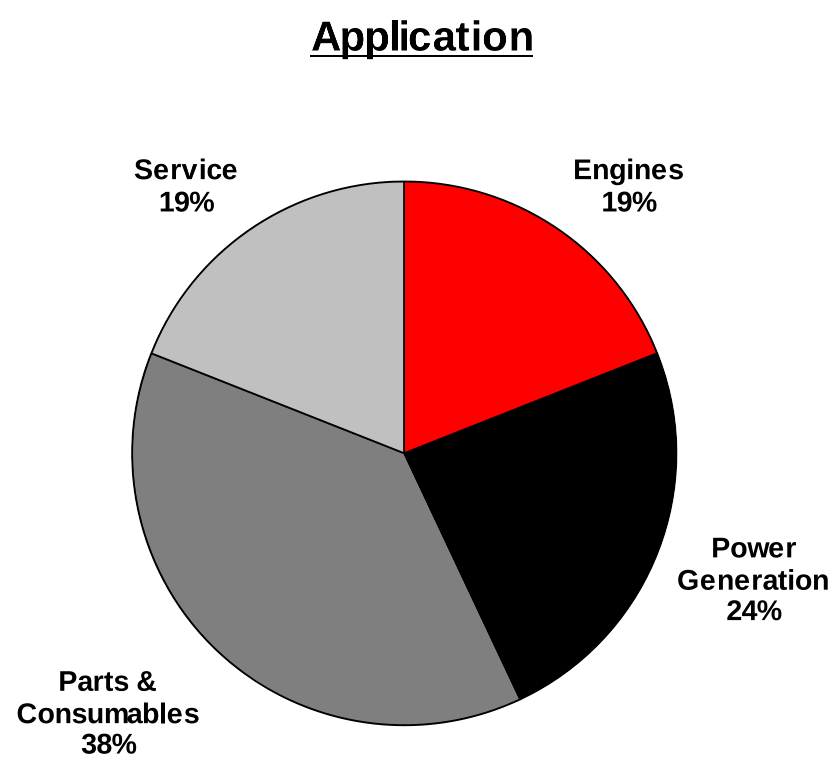

[1] ROW = Rest of World

# Distribution Segment – Overview

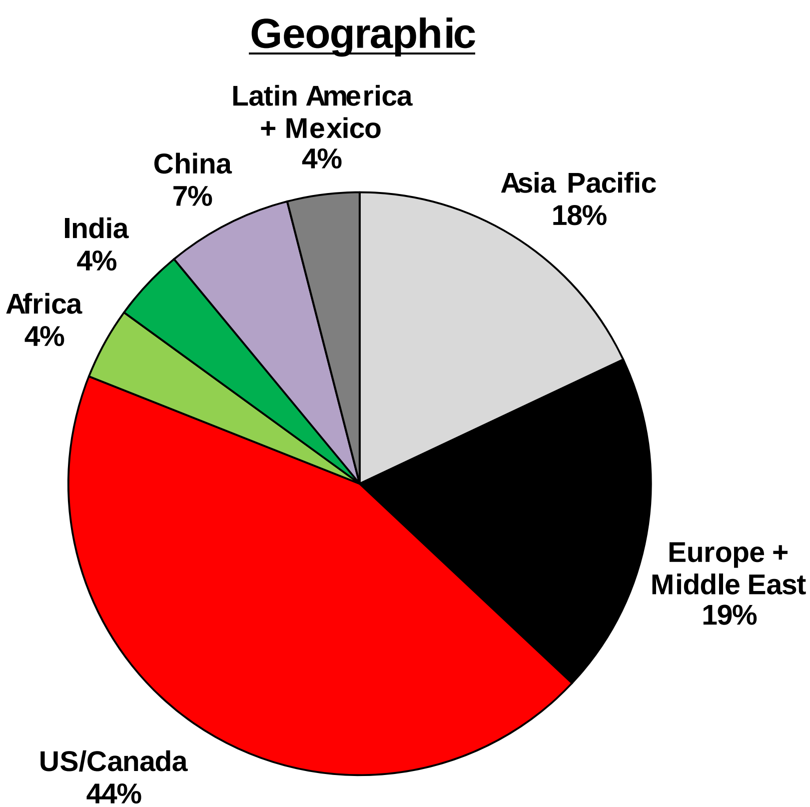
- Provide legendary aftermarket support and increase solution-based revenue
- Move towards a market-based model that drives customer focus
- Increase emerging market growth

**Q2'14 LTM Data**
**Sales: $4.2 billion**
**EBIT: $395 million**
**EBIT%: 9.4%**

## Q2'14 LTM Revenue



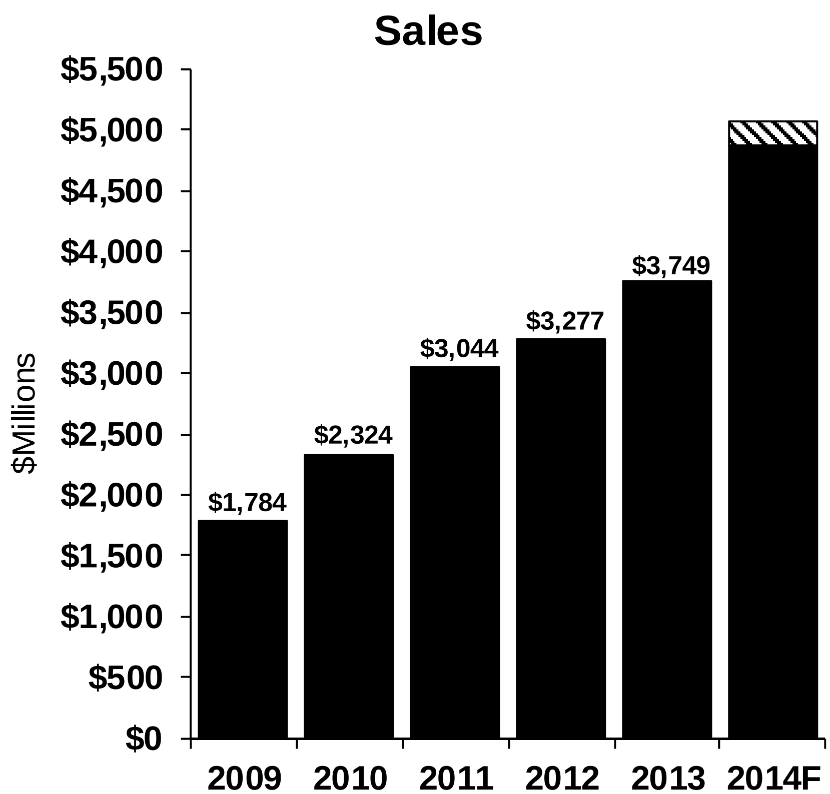
# Distribution Segment – Sales Mix

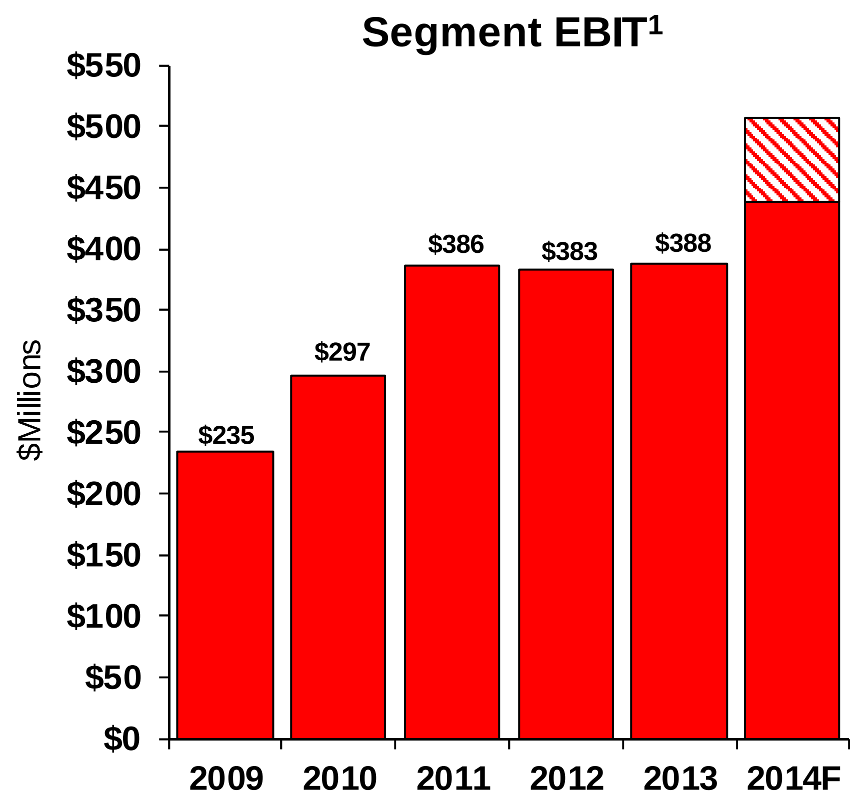



- Key enabler for Cummins growth
- Benefitting from increased population of product in the field
- Acquiring full ownership of North American distributors

**Q2'14 LTM Revenue: $4.2 B**

# Distribution – Historical Performance

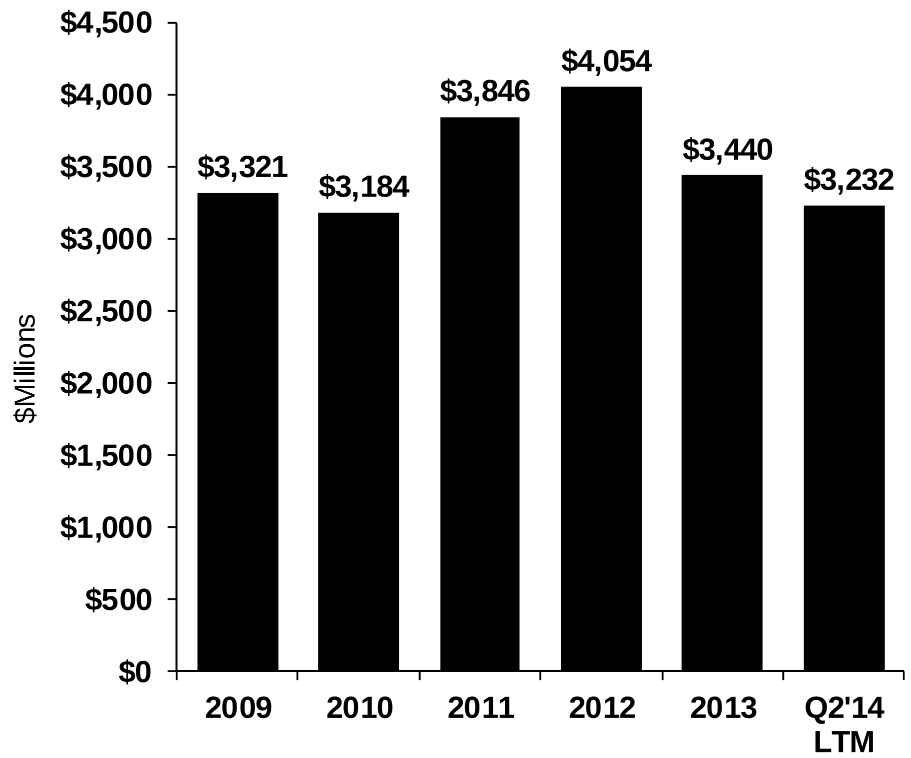


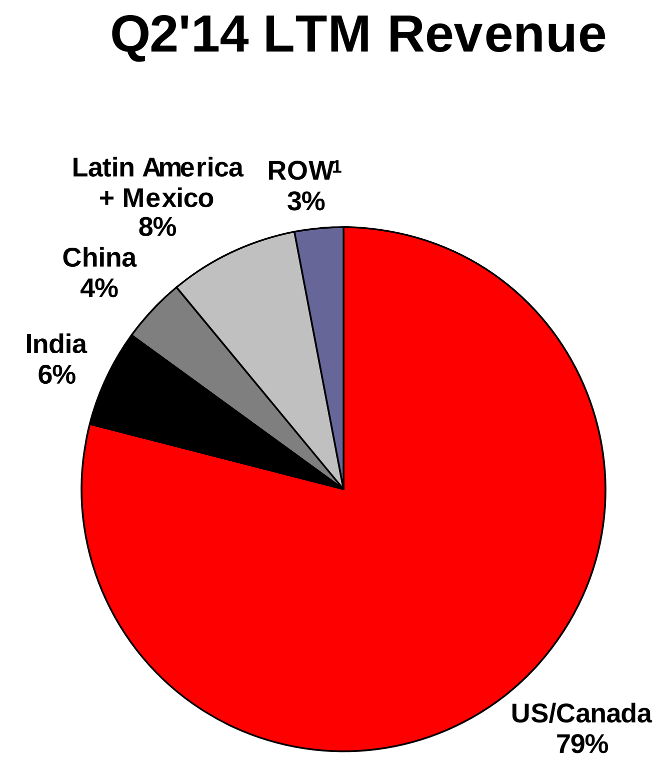




| 2014 Guidance | |
|---|---|
| Sales Up 30 - 35% | EBIT 9 - 10% |

[1] 2012 EBIT excludes $14 million in restructuring charges.

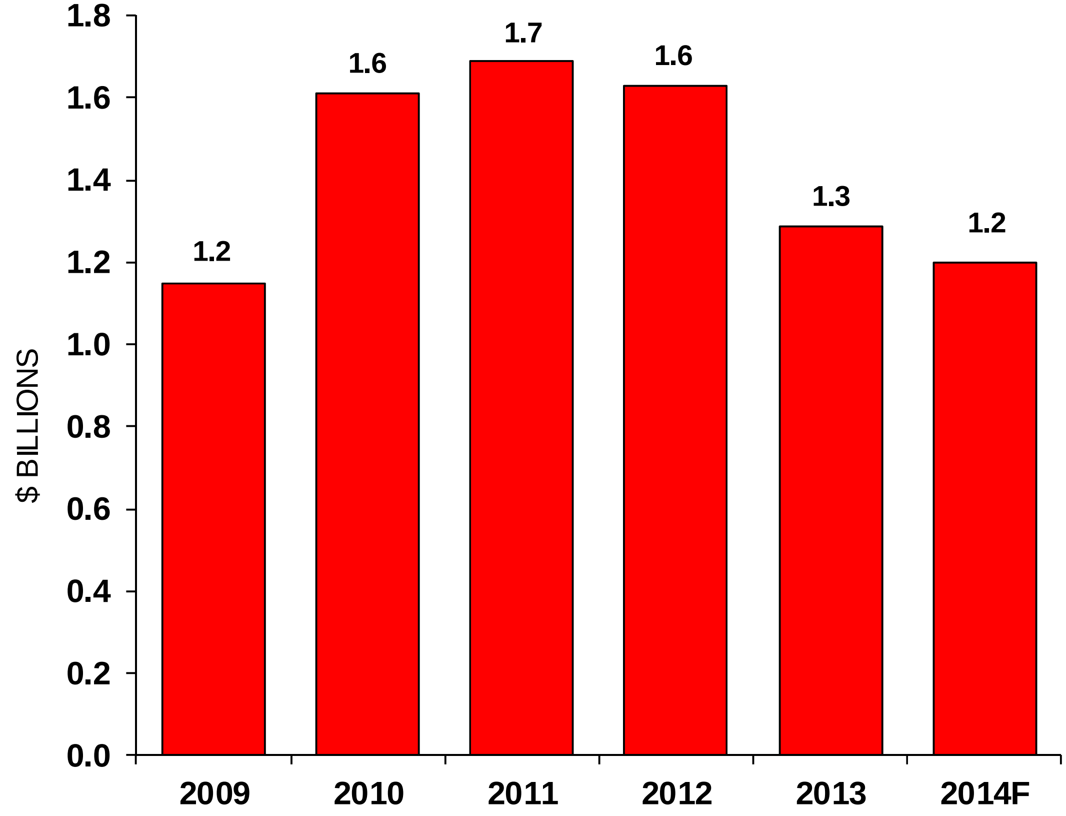
# Distribution Segment – Joint Venture Sales Unconsolidated




[1] ROW = Rest of World

# Emerging Market Sales – India[1]



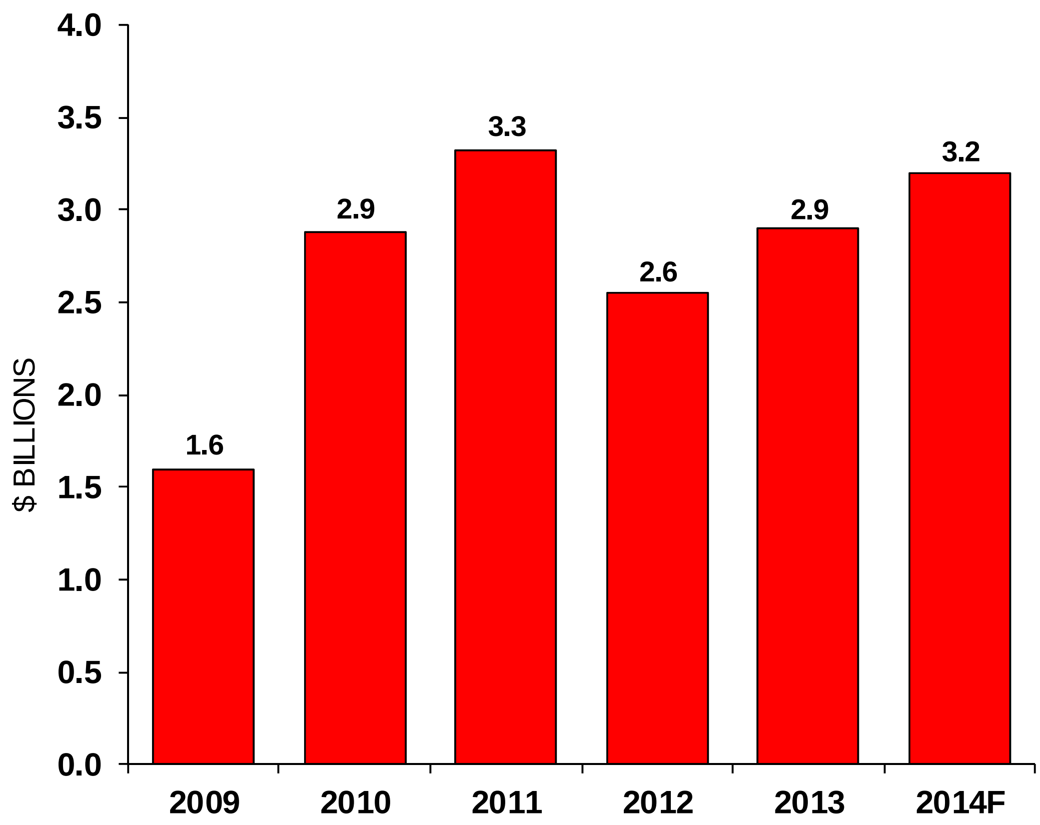

- Present in India for over 50 years
- Market leadership
- Strong OEM relationships
- Expanding our markets

Domestic consolidated + unconsolidated revenue.

KPIT Cummins excluded from Joint Venture Sales Unconsolidated beginning 2013 due to reduction in ownership interest.

[1] Before intercompany eliminations.

# Emerging Market Sales – China[1]




- Present in China for over 30 years
- Broad product portfolio - On and Off-Highway
- Strong OEM partners

Domestic consolidated + unconsolidated revenue.

[1] Before intercompany eliminations.

# Non-GAAP Reconciliation – EBIT

| Millions | Three Months Ended<br>June 29<br>2014 | <br>March 30<br>2014 | <br>June 30<br>2013 |
|---|---|---|---|
| EBIT excluding restructuring charges | $ 657 | $ 528 | $ 621 |
| Add: Special Items | 0 | 0 | 0 |
| Less: Restructuring charges | 0 | 0 | 0 |
| Total EBIT | $ 657 | $ 528 | $ 621 |
| Less: Interest Expense | 15 | 17 | 8 |
| Income before taxes | 642 | 511 | 613 |
| Less: Income tax expense | 170 | 153 | 172 |
| Consolidated net income | 472 | 358 | 441 |
| Less: Net income attributable to noncontrolling interests | 26 | 20 | 27 |
| Net Income attributable to Cummins Inc. | 446 | 338 | 414 |

We define EBIT as earnings before interest expense, provision for income taxes, and non-controlling interests in earnings of consolidated subsidiaries. We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation program. The table above reconciles EBIT, a non-GAAP financial measure, to our consolidated earnings before income taxes and non-controlling interests, for each of the applicable periods. We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard for financing methods, capital structure, or income taxes. This measure is not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data.

# Non-GAAP Reconciliation – Working Capital

| Millions | June 29 2014 | March 30 2014 | June 30 2013 |
|---|---|---|---|
| Accounts and notes receivable, net | $ 3,188 | $ 2,949 | $ 2,745 |
| Inventories | 2,745 | 2,580 | 2,475 |
| Less: Accounts Payable - trade | (1,905) | (1,887) | (1,669) |
| Working capital measure | $ 4,028 | $ 3,642 | $ 3,551 |
| Working capital measure (% of Annualized Net Sales) | 20.8% | 20.7% | 19.6% |

A reconciliation of the calculation of working capital measure as a % of annualized net sales to our Condensed Consolidated Financial Statements is shown in the table above.

# Non-GAAP Reconciliation – Net Assets

| Millions | June 29 2014 | June 30 2013 |
|---|---|---|
| Net assets for operating segments | $ 9,751 | $ 8,441 |
| Liabilities deducted in computing net assets | 5,519 | 4,964 |
| Pension and other postretirement liabilities | (181) | (786) |
| Deferred tax assets not allocated to segments | 376 | 404 |
| Debt-related costs not allocated to segments | 35 | 25 |
| Total Assets | $ 15,500 | $ 13,048 |

A reconciliation of net assets for operating segments to total assets in our Consolidated Financial Statements is shown in the table above.

# Non-GAAP Reconciliation – Equity Used for Return on Equity Calculation

| Millions | June 29 2014 | June 30 2013 |
|---|---|---|
| Equity used for return on equity calculation | $ 8,384 | $ 7,458 |
| Defined benefit postretirement plans | (597) | (754) |
| Total shareholders equity | 7,787 | 6,704 |
| Noncontrolling Interest | 371 | 389 |
| Total Equity | $ 8,158 | $ 7,093 |

A reconciliation of equity used for return on equity calculation to total shareholder's equity in our Consolidated Financial Statements is shown in the table above.