



# **Second Quarter 2020 Earnings Teleconference**

**July 28, 2020**

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# Disclosure Regarding Forward-Looking Statements

Information provided in this release 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, guidance, preliminary results, expectations, hopes, beliefs and intentions on strategies regarding the future. These forward-looking statements include, without limitation, statements relating to our plans and expectations for our revenues and EBITDA. 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: market slowdown due to the impacts from COVID-19 pandemic, other public health crises, epidemics or pandemics; impacts to manufacturing and supply chain abilities from an extended shutdown or disruption of our operations due to the COVID-19 pandemic; supply shortages and supplier financial risk, particularly from any of our single-sourced suppliers, including suppliers that may be impacted by the COVID-19 pandemic; aligning our capacity and production with our demand, including impacts of COVID-19; a major customer experiencing financial distress, particularly related to the COVID-19 pandemic; any adverse results of our internal review into our emissions certification process and compliance with emission standards; increased scrutiny from regulatory agencies, as well as unpredictability in the adoption, implementation and enforcement of emission standards around the world; disruptions in global credit and financial markets as the result of the COVID-19 pandemic; adverse impacts from government actions to stabilize credit markets and financial institutions and other industries; product recalls; the development of new technologies that reduce demand for our current products and services; policy changes in international trade; a slowdown in infrastructure development and/or depressed commodity prices; the U.K.'s exit from the European Union (EU); labor relations or work stoppages; reliance on our executive leadership team and other key personnel; lower than expected acceptance of new or existing products or services; changes in the engine outsourcing practices of significant customers; our plan to reposition our portfolio of product offerings through exploration of strategic acquisitions and divestitures and related uncertainties of entering such transactions; exposure to potential security breaches or other disruptions to our information technology systems and data security; challenges or unexpected costs in completing cost reduction actions and restructuring initiatives; failure to realize expected results from our investment in Eaton Cummins Automated Transmission Technologies joint venture; political, economic and other risks from operations in numerous countries; competitor activity; increasing competition, including increased global competition among our customers in emerging markets; foreign currency exchange rate changes; variability in material and commodity costs; the actions of, and income from, joint ventures and other investees that we do not directly control; changes in taxation; global legal and ethical compliance costs and risks; product liability claims; increasingly stringent environmental laws and regulations; the performance of our pension plan assets and volatility of discount rates, particularly those related to the sustained slowdown of the global economy due to the COVID-19 pandemic; future bans or limitations on the use of diesel-powered products; the price and availability of energy; our sales mix of products; protection and validity of our patent and other intellectual property rights; the outcome of pending and future litigation and governmental proceedings; continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support our future business; and other risks detailed from time to time in our SEC filings, including particularly in the Risk Factors section of our 2019 Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. 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 press release 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 SEC, which are available at <http://www.sec.gov> or at <http://www.cummins.com> in the Investor Relations section of our website.

# **2020 Summary**

# Q2 2020 Summary

- **Second quarter revenues of \$3.9 billion**
- **GAAP<sup>1</sup> Net Income of \$276 million and Diluted EPS of \$1.86**
  - **Discrete tax expense of \$14 million or \$0.09 Diluted EPS**
- **EBITDA of \$549 million or 14.3 percent of sales**
- **Cash, cash equivalents and marketable securities of \$2.1 billion and committed borrowing capacity of \$3.5 billion for a total of \$5.6 billion in liquidity**
- **Long-term credit ratings remain unchanged at A+ from Standard & Poor's and A2 from Moody's with stable outlooks**
- **Full year capital expenditures to be between \$500 million and \$525 million this year, down more than 25% from 2019**
- **Lower operating expenses driven by restructuring actions, temporary salary reductions, lower variable compensation expenses and reduction in discretionary expenses**

<sup>1</sup> Generally Accepted Accounting Principles

# Cummins Inc.

## Selected Financial Data - Quarter

<b>\$ MILLIONS</b>	<b>Q2 2020</b>	<b>Q2 2019</b>
Sales	3,852	6,221
Gross Margin (% of Sales)	23.1%	26.4%
SAR (% of Sales)	17.1%	14.1%
EBITDA	549	1,058
EBITDA (% of Sales)	14.3%	17.0%
GAAP Net Income attributable to Cummins Inc.	276	675
GAAP Net Income (% of Sales)	7.2%	10.9%
Diluted EPS	\$1.86	\$4.27
Dividend Per Share	\$1.31	\$1.14
ROANA (LTM) <sup>1</sup>	26%	36%
ROIC (LTM) <sup>1</sup>	15%	24%

<sup>1</sup> ROANA and ROIC calculations exclude Q4 2019 \$119 million of restructuring charges.

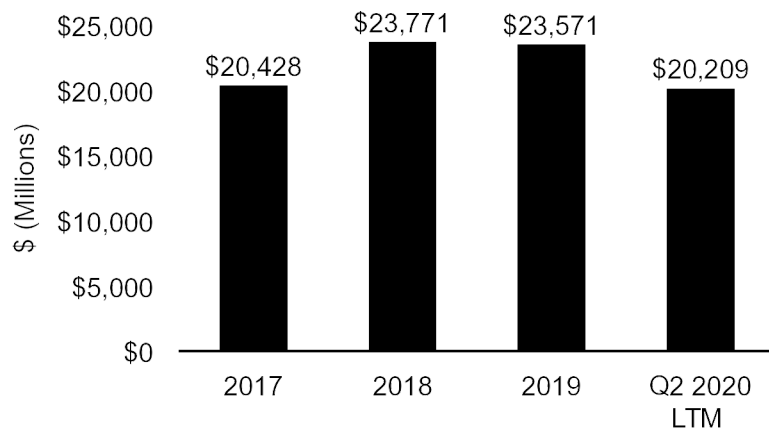
# Q2 2020 Income Statement by Segment

\$M	Engine	Distribution	Components	Power Systems	New Power	Intersegment Eliminations	Total
<b>Three months ended June 28, 2020</b>							
Net Sales	1,423	1,605	1,150	777	10	(1,113)	3,852
<i>Sales growth vs 2019</i>	(47)%	(21)%	(38)%	(35)%	25%	(29)%	(38)%
EBITDA	150	160	141	91	(38)	45	549
Segment EBITDA %	10.5%	10.0%	12.3%	11.7%	NM <sup>1</sup>		14.3%
<b>Three months ended June 30, 2019</b>							
Net Sales	2,703	2,028	1,846	1,203	8	(1,567)	6,221
EBITDA	416	172	297	173	(33)	33	1,058
Segment EBITDA %	15.4%	8.5%	16.1%	14.4%	NM <sup>1</sup>		17.0%

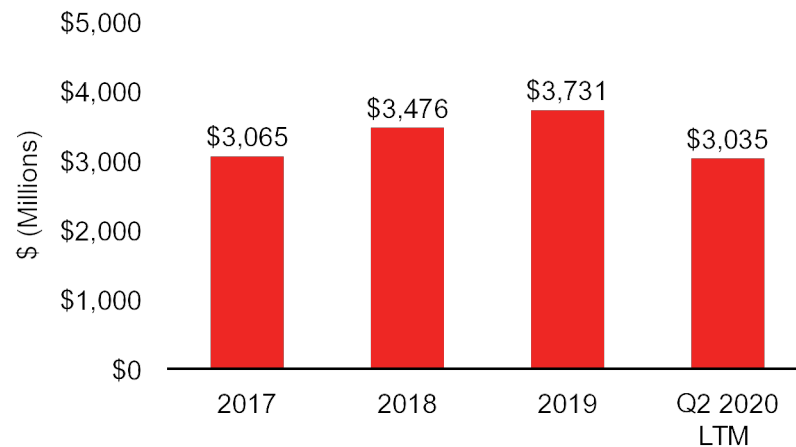
<sup>1</sup> "NM" - not meaningful information

# Cummins Inc.

## Sales



## EBITDA<sup>1 2</sup>



<sup>1</sup> 2017 EBITDA excludes \$39 million of joint venture tax charges related to Tax Legislation.

<sup>2</sup> Q4 2019 EBITDA excludes \$119 million of restructuring charges.



# Cummins is Investing in Building a Stronger Future

- Advanced diesel and natural gas powertrains and components
- Solid Oxide and PEM fuel cells for on and off-highway applications
- Alkaline and PEM electrolyzers for hydrogen production
- Electrified powertrains



# Alstom Trains Powered by Cummins

- The world's first two hydrogen trains were powered by Cummins Fuel Cells
- Trains successfully completed an 18-month trial in 2019 with over 180,000 km driven
- 41 trains will be powered by 82 Cummins Fuel Cell systems by 2022



# Cummins Hydrogen Products in the Field Today

## Electrolyzers



**Germany 2018**  
2.4MW Wind-to-Gas



**Quebec 2019**  
200 kg/day Onsite Generation  
for Fueling Station



 Air Liquide

**Quebec 2020**  
20MW Electrolyzer System

## Fuel Cells



**Trucks in Europe**  
4 trucks with Cummins Fuel Cell  
systems began operating this  
year



**Buses in China Since 2017**  
400 Fuel Cell systems powering  
buses in China



**Trains in Germany Since 2018**  
82 Fuel Cell systems powering  
41 trains by 2022

# **CMI Hydrogen Day**

**Monday, November 16, 2020**

**Virtual**

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[www.Cummins.com](http://www.Cummins.com)

**RSVP Coming Soon**





# **2020 Supplemental Information**

# Engine Segment

## Selected Financial Data

- Sales declined due to lower production in North America truck markets along with weaker demand from global construction customers.
- EBITDA margin as a percent of sales decreased as the impact of lower volumes was partially offset by cost savings related to restructuring activities and temporary salary reductions as well as increased joint venture income.

\$ MILLIONS	Q2 2020	Q2 2019	CHANGE
Sales	1,423	2,703	(47)%
EBITDA	150	416	(64)%
EBITDA (% of Sales)	10.5%	15.4%	

# Engine Segment - Sales by Market

- On-highway revenues declined due to decreased global demand in truck markets.
- Off-highway revenues decreased due to lower demand in construction markets.

\$ MILLIONS	Q2 2020	Q2 2019	CHANGE
Heavy-Duty Truck	415	970	(57)%
Medium-Duty Truck & Bus	391	739	(47)%
Light-Duty Automotive	180	480	(63)%
<b>On-Highway</b>	986	2,189	(55)%
<b>Off-Highway</b>	437	514	(15)%
<b>Total Sales</b>	1,423	2,703	(47)%

# Distribution Segment Selected Financial Data

- Sales decreased with revenues in North America down 25% and international sales declining by 12%.
- EBITDA margin as a percent of sales increased due to lower variable compensation expenses, temporary salary reductions and the benefits of our North America transformation work.

\$ MILLIONS	Q2 2020	Q2 2019	CHANGE
Sales	1,605	2,028	(21)%
EBITDA	160	172	(7)%
EBITDA (% of Sales)	10.0%	8.5%	



# Components Segment Selected Financial Data

- Sales in North America declined 55% driven by lower truck build rates, while revenues in international markets declined by 9% as a result of lower truck demand in Europe and India.
- EBITDA margin decreased as the impact of lower volumes was partially offset by the benefits of restructuring, temporary salary reductions, and reduced warranty costs.

\$ MILLIONS	Q2 2020	Q2 2019	CHANGE
Sales	1,150	1,846	(38)%
EBITDA	141	297	(53)%
EBITDA (% of Sales)	12.3%	16.1%	

# Power Systems Segment

## Selected Financial Data

- Industrial sales declined 33% driven by continued weakness in oil and gas and mining markets. Power generation sales decreased by 37%, with lower revenues in North America and international markets, with particular weakness in India.
- The decrease in EBITDA percent was due to the impact of lower volumes more than offsetting the impact of cost reduction actions and lower warranty expense.

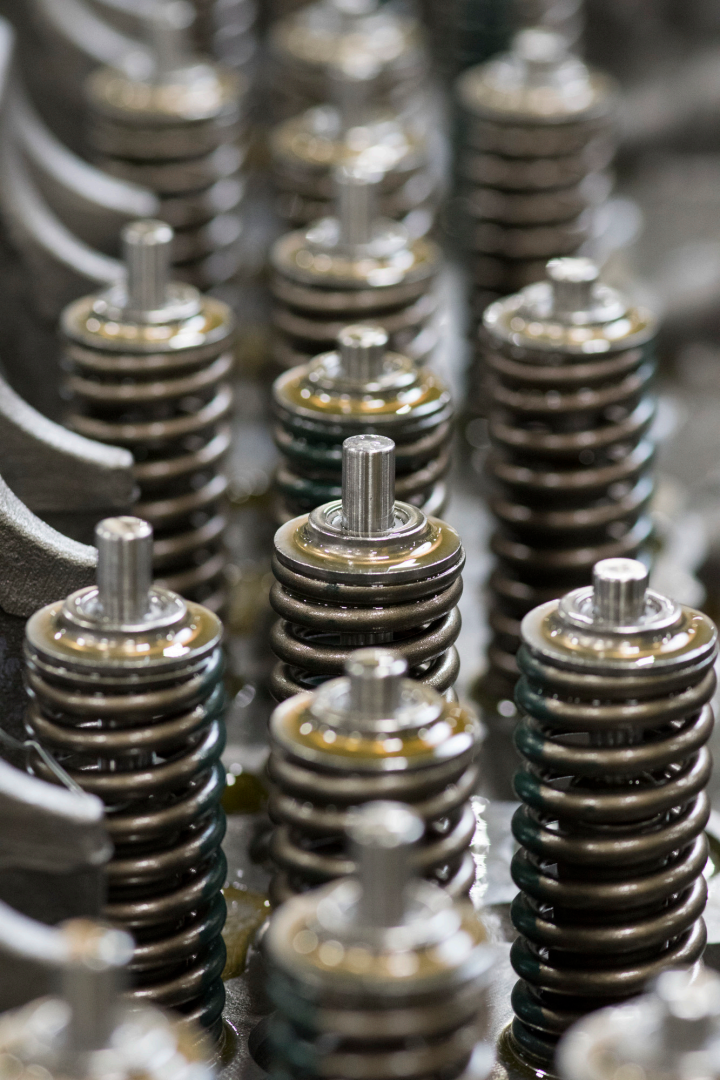
\$ MILLIONS	Q2 2020	Q2 2019	CHANGE
Sales	777	1,203	(35)%
EBITDA	91	173	(47)%
EBITDA (% of Sales)	11.7%	14.4%	

# New Power Segment Selected Financial Data

- EBITDA losses were \$38 million for the quarter driven by the development of new products and the expected slow ramp of new technology adoption.

\$ MILLIONS	Q2 2020	Q2 2019	CHANGE
Sales	10	8	+25%
EBITDA	(38)	(33)	NM <sup>1</sup>
EBITDA (% of Sales)	NM <sup>1</sup>	NM <sup>1</sup>	

<sup>1</sup> "NM" - not meaningful information



## Joint Venture Income - Quarter

<b>\$ MILLIONS</b>	<b>Q2 2020</b>	<b>Q2 2019</b>
Engine	84	62
Distribution	11	12
Components	12	11
Power Systems	9	11
New Power	(1)	—
<b>Total JV Income</b>	<b>115</b>	<b>96</b>

A close-up photograph of several interlocking metal gears, likely from a watch movement, showing intricate details and metallic textures. The gears are arranged in a diagonal pattern, with some in sharp focus and others blurred in the background.

## Cash Flow - Quarter

\$ MILLIONS	Q2 2020	Q2 2019
Operating Cash Flow	(22)	808
Capital Expenditures	77	133
Working Capital Measure	4,815	5,084
Working Capital Measure (% of Net Sales)	31.3%	20.4%
Debt to Capital %	32.1%	19.5%



# Appendix



# Cummins Inc.

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

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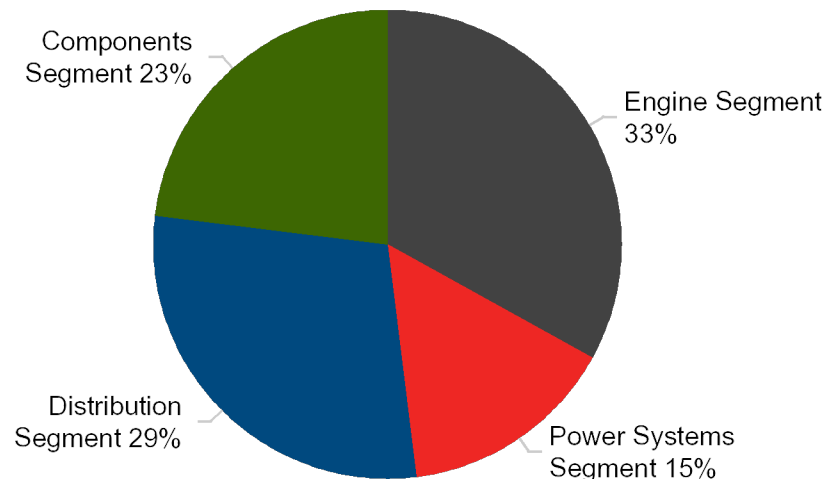
## Q2 2020 LTM Results

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Sales:	\$20.2 billion
EBITDA <sup>1</sup> :	\$3.0 billion
EBITDA% <sup>1</sup> :	15.0%

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## Q2 2020 LTM Revenue by Segment

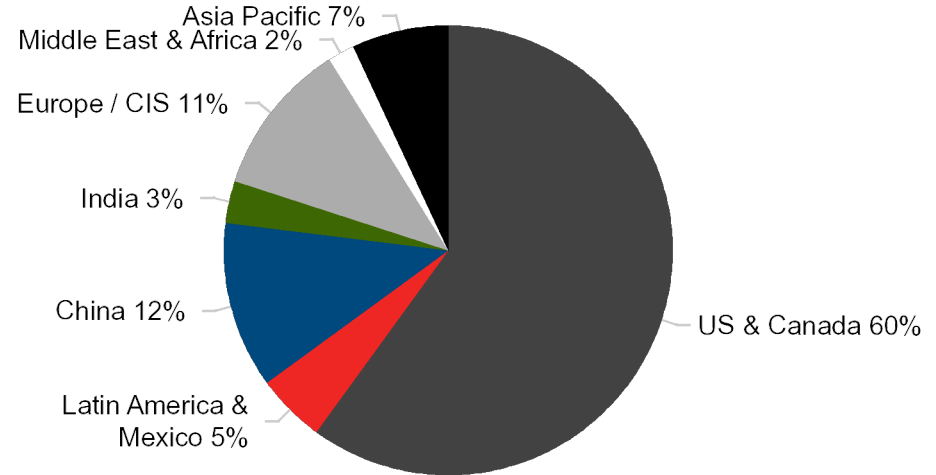


<sup>1</sup> Q4 2019 EBITDA excludes \$119 million of restructuring charges.

# Cummins Inc.

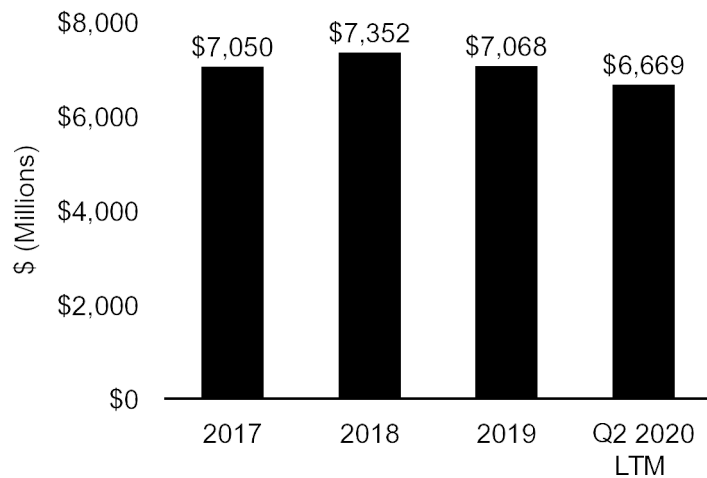
- Capitalizing on global emissions regulations
- Strong geographic diversification and leadership across multiple end-markets
- Global distribution network with presence in more than 190 countries and territories

## Q2 2020 LTM Revenue by Marketing Territory

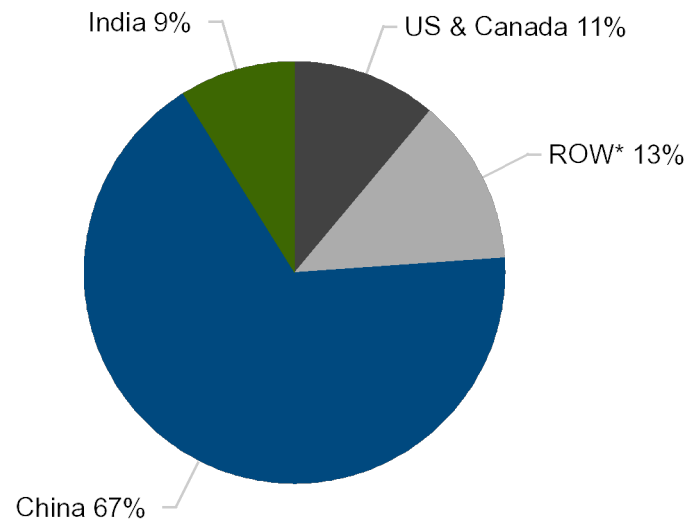




# Cummins - Joint Venture Sales Unconsolidated



## Q2 2020 LTM Revenue:



\* Rest of world

# Engine Segment - Overview

- Diesel and natural gas engines from 2.8L to 15L and 48 hp to 715 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

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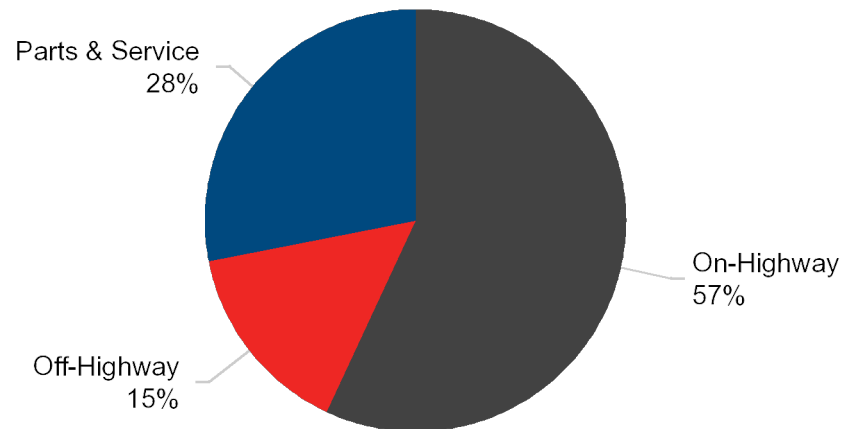
## Q2 2020 LTM Results

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Sales:	\$8.3 billion
EBITDA <sup>1</sup> :	\$1.1 billion
EBITDA% <sup>1</sup> :	13.7%

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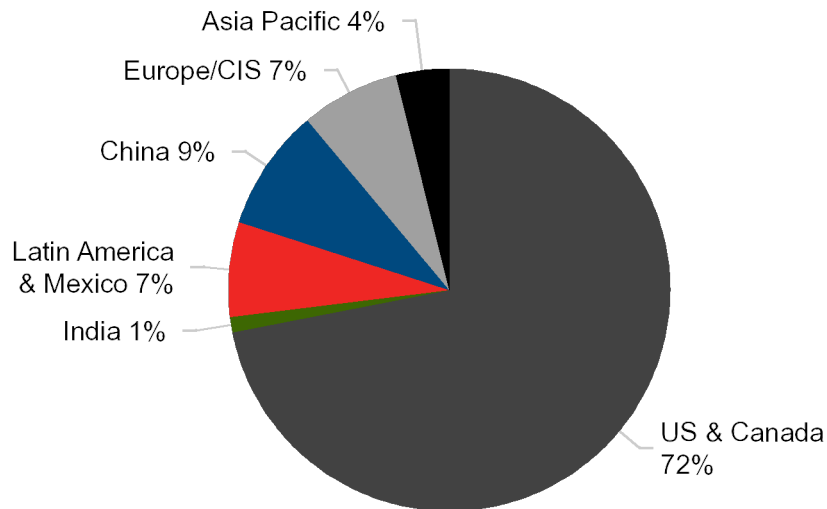
## Q2 2020 LTM Revenue by Product



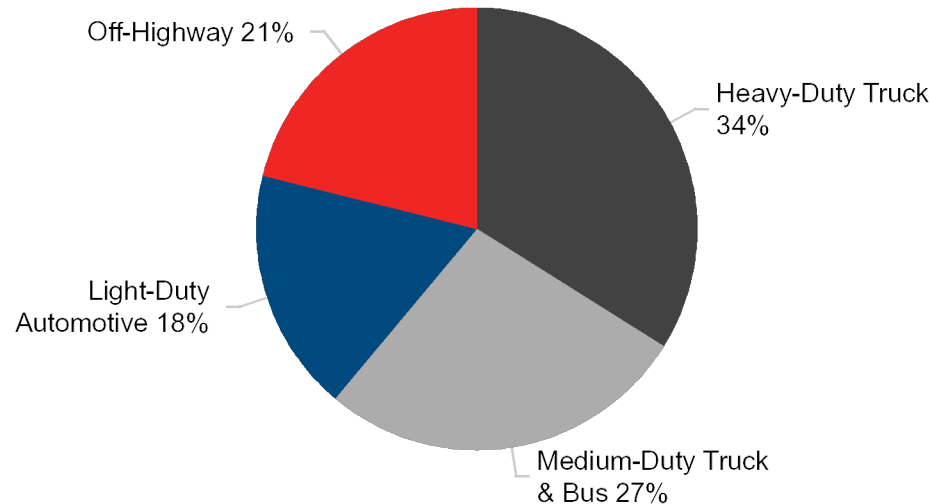
<sup>1</sup> Q4 2019 EBITDA excludes \$18 million of restructuring charges.

# Engine Segment - Sales Mix

## By Region



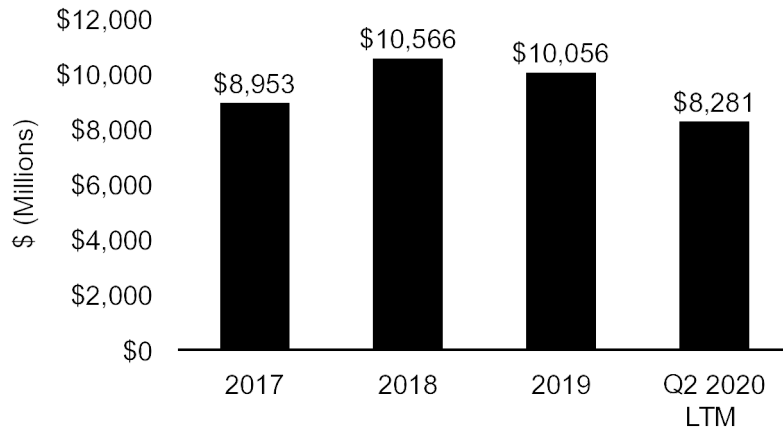
## By Application



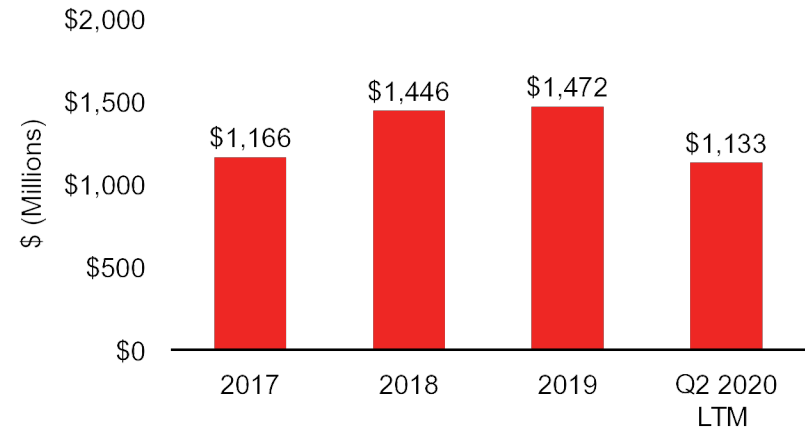
**Q2 2020 LTM Revenue: \$8.3 billion**

# Engine Segment - Historical Performance

## Segment Sales



## Segment EBITDA<sup>1 2</sup>

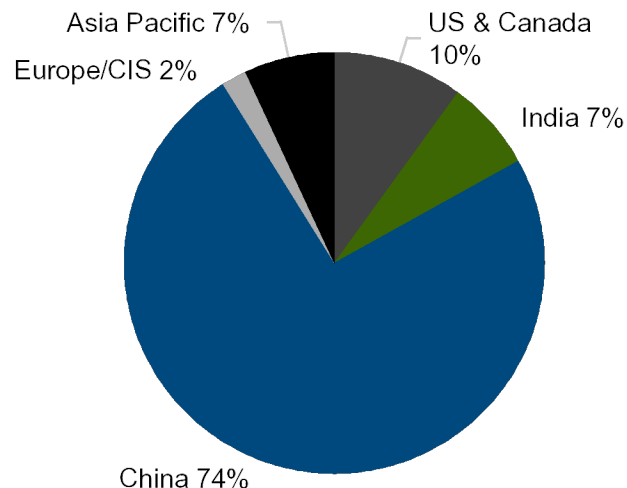
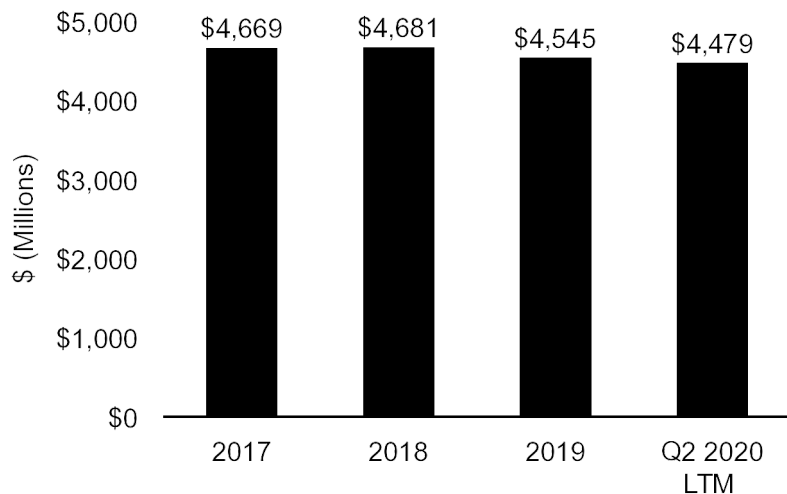


<sup>1</sup> 2017 EBITDA excludes \$23 million of joint venture tax charges related to Tax Legislation.

<sup>2</sup> Q4 2019 EBITDA excludes \$18 million of restructuring charges.

# Engine Segment - Joint Venture Sales Unconsolidated

## Q2 2020 LTM Revenue



# Distribution Segment - Overview

- Provide aftermarket support and increase solution-based revenue
- Increasing network capabilities in emerging markets to capture profitable growth

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## Q2 2020 LTM Results

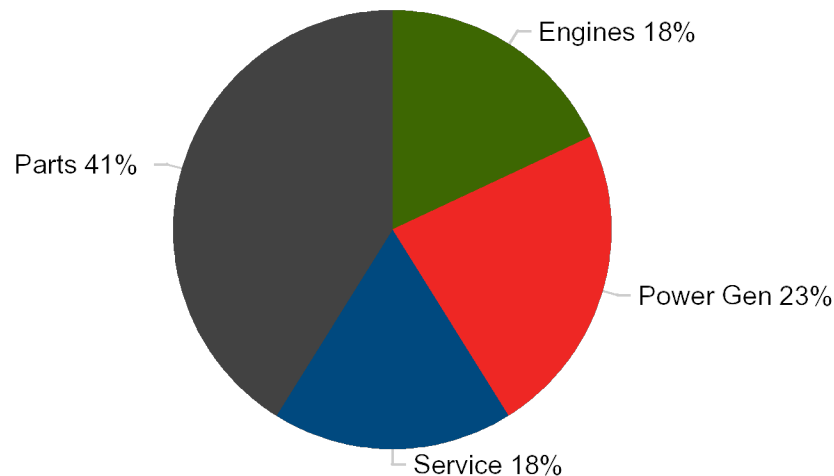
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Sales:	\$7.5 billion
EBITDA <sup>1</sup> :	\$668 million
EBITDA% <sup>1</sup> :	9.0%

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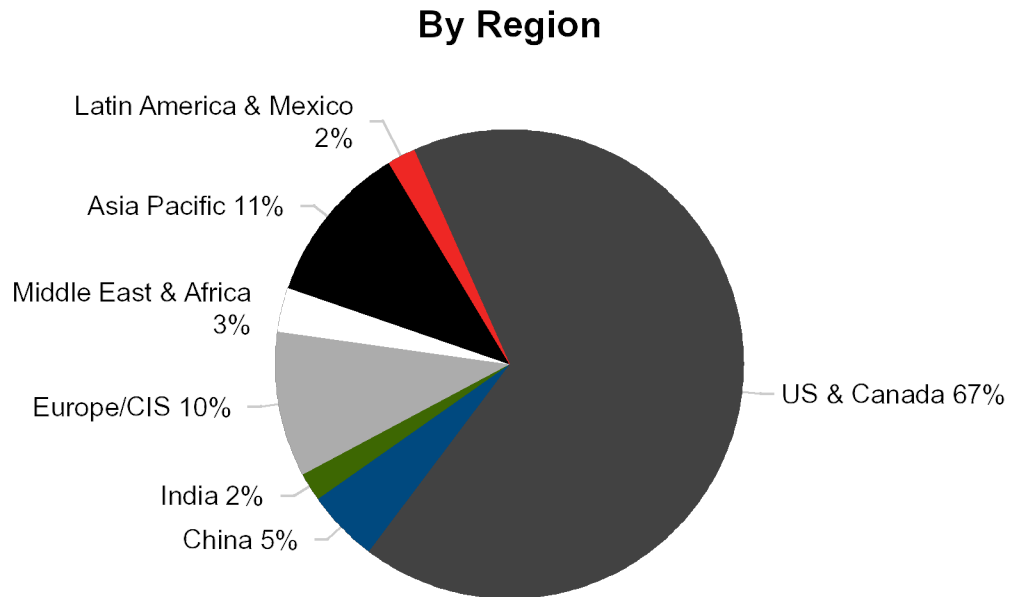
<sup>1</sup> Q4 2019 EBITDA excludes \$37 million of restructuring charges.

## Q2 2020 LTM Revenue by Product



# Distribution Segment - Sales Mix

- Key enabler for Cummins growth
- Benefiting from increased population of products in the field



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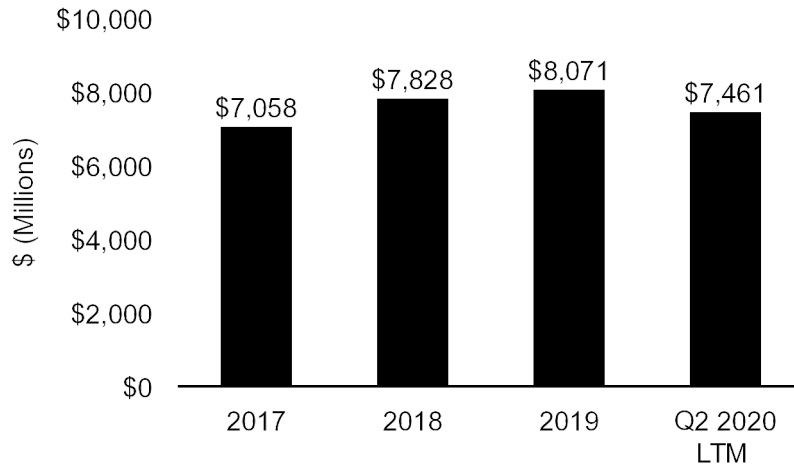
**Q2 2020 LTM Revenue**

**\$7.5 billion**

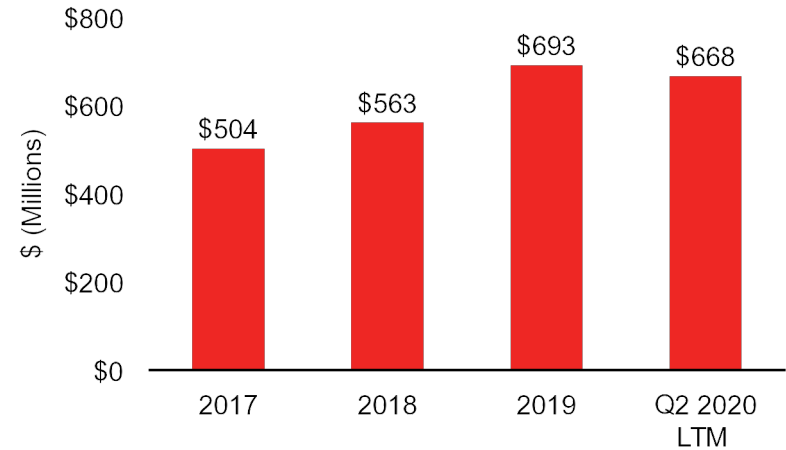
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# Distribution Segment - Historical Performance

## Sales



## EBITDA<sup>1 2</sup>

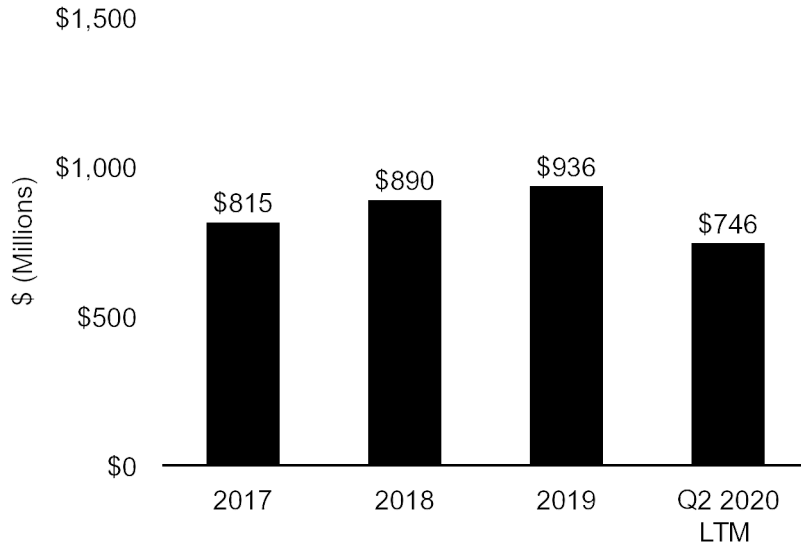


<sup>1</sup> 2017 EBITDA excludes \$4 million of joint venture tax charges related to Tax Legislation.

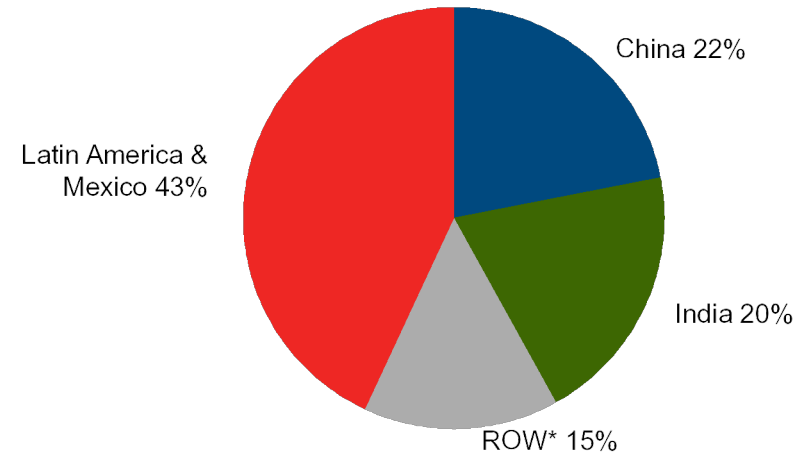
<sup>2</sup> Q4 2019 EBITDA excludes \$37 million of restructuring charges.



# Distribution Segment - Joint Venture Sales Unconsolidated



## Q2 2020 LTM Revenue



\* Rest of World

# Components Segment - Overview

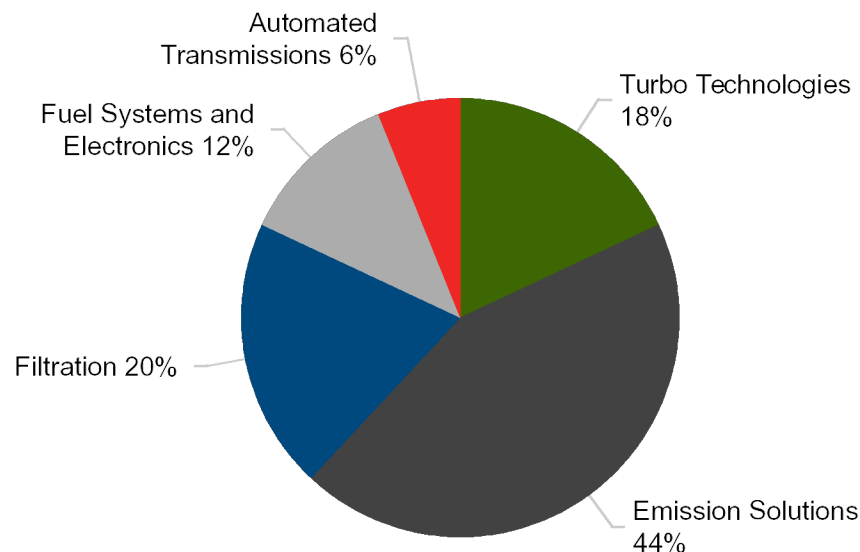
- Leading supplier of aftertreatment products for commercial vehicle applications
- Largest worldwide supplier of turbochargers from 3.8L to 25L for commercial applications
- World's leading supplier of filtration, coolant and chemical products

## Q2 2020 LTM Results

Sales:	\$5.9 billion
EBITDA <sup>1</sup> :	\$915 million
EBITDA% <sup>1</sup> :	15.6%

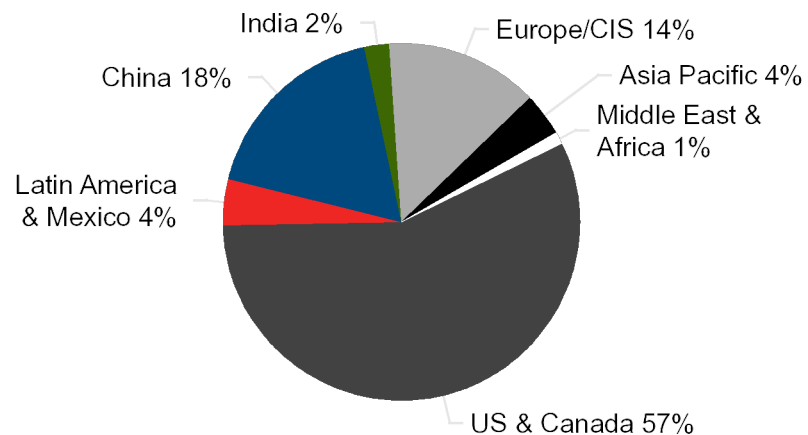
<sup>1</sup> Q4 2019 EBITDA excludes \$20 million of restructuring charges.

## Q2 2020 LTM Revenue by Business

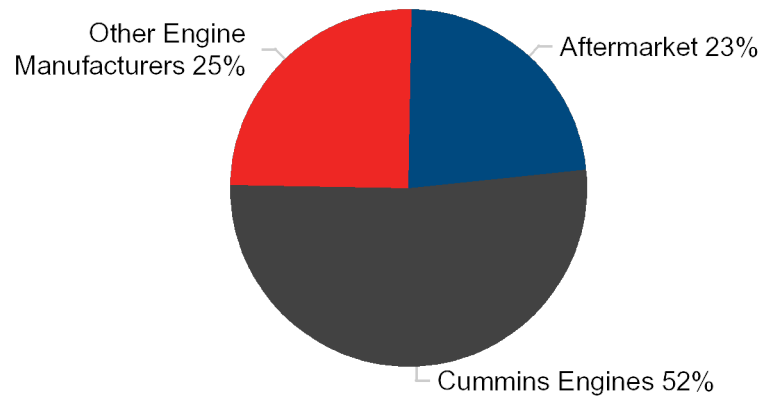


# Components Segment - Sales Mix

## By Region



## By Application



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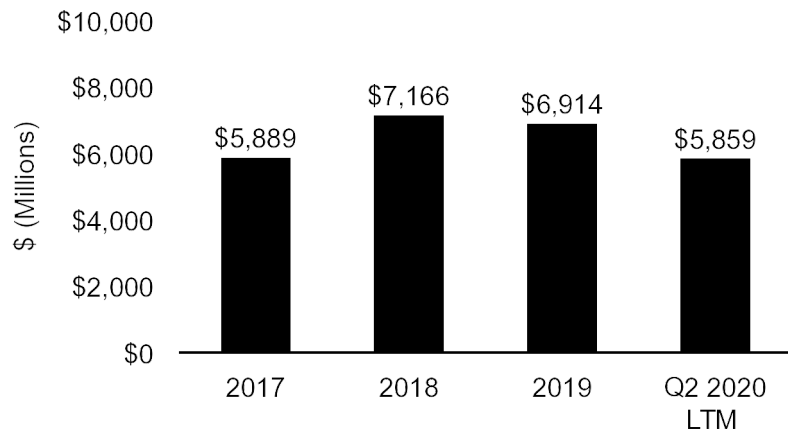
**Q2 2020 LTM Revenue:**

**\$5.9 billion**

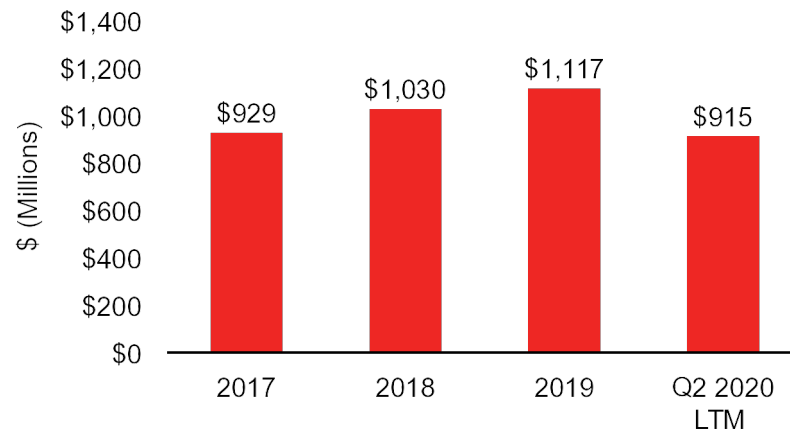
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# Components Segment - Historical Performance

## Sales



## EBITDA<sup>1 2</sup>

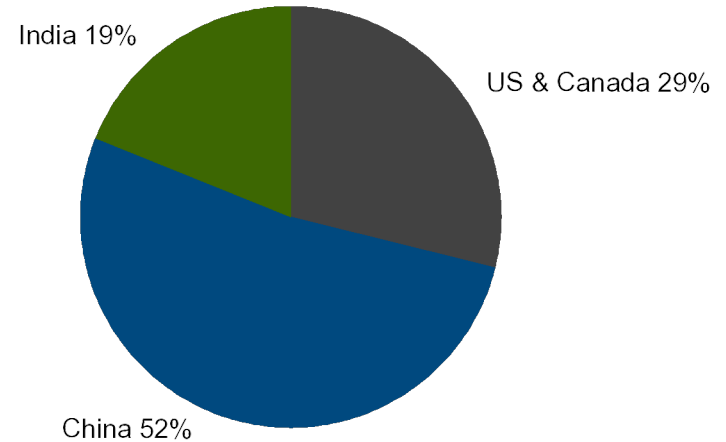
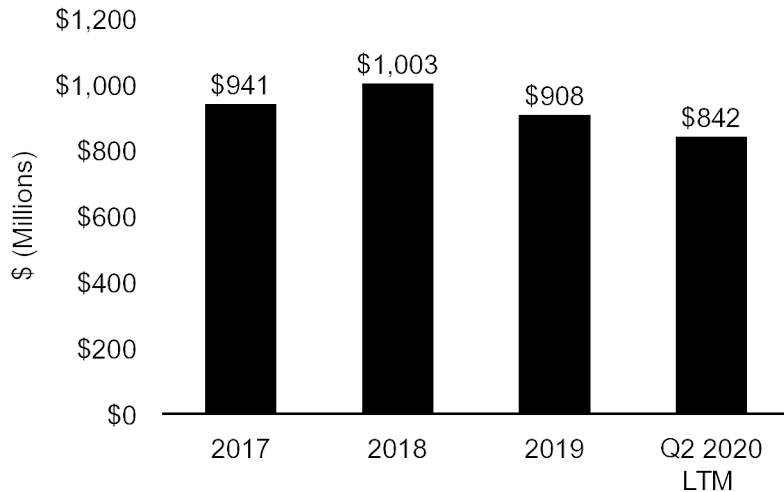


<sup>1</sup> 2017 EBITDA excludes \$12 million of joint venture tax charges related to Tax Legislation.

<sup>2</sup> Q4 2019 EBITDA excludes \$20 million of restructuring charges.

# Components Segment - Joint Venture Sales Unconsolidated

## Q2 2020 LTM Revenue



# Power Systems Segment - Overview

- Global provider of power generation systems, components and services from 2kW to 3.5 Megawatts (MW)
- Leading supplier of alternators from 3kVA to 12,000kVa
- Leading market share in multiple geographies

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## Q2 2020 LTM Results

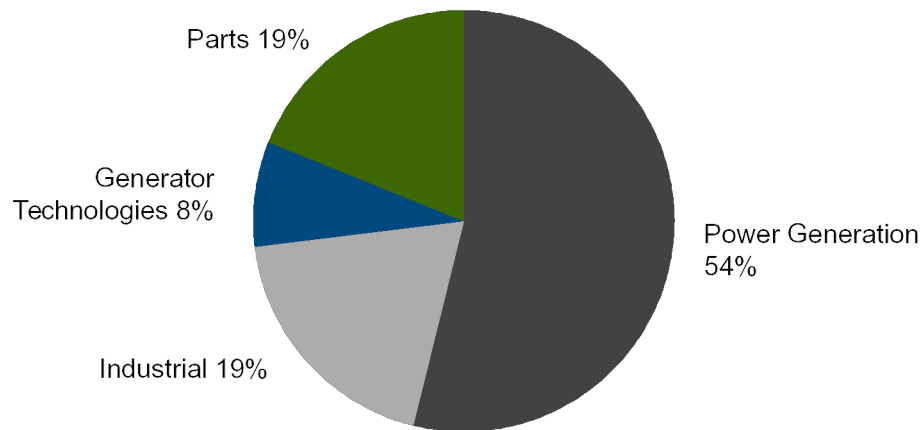
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Sales:	\$3.8 billion
EBITDA <sup>1</sup> :	\$381 million
EBITDA% <sup>1</sup> :	9.9%

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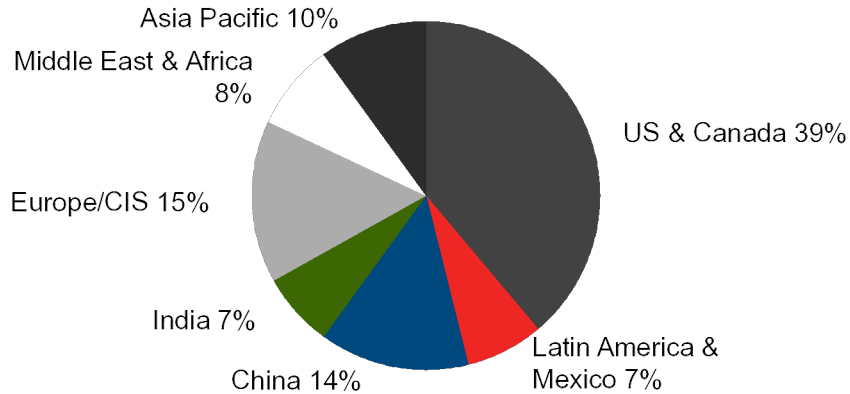
<sup>1</sup> Q4 2019 EBITDA excludes \$12 million of restructuring charges.

## Q2 2020 LTM Revenue by Product

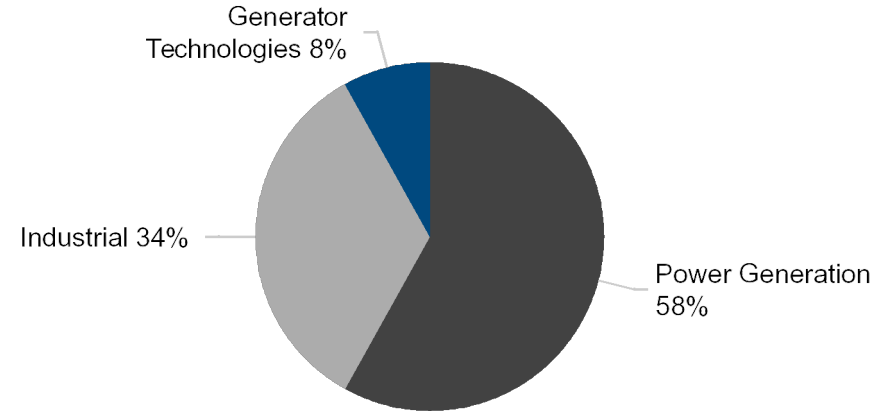


# Power Systems Segment - Sales Mix

By Region



By Product Line



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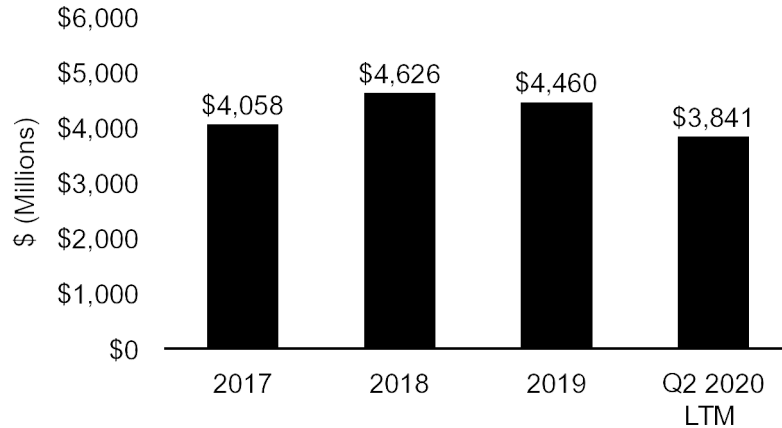
**Q2 2020 LTM Revenue:**

**\$3.8 billion**

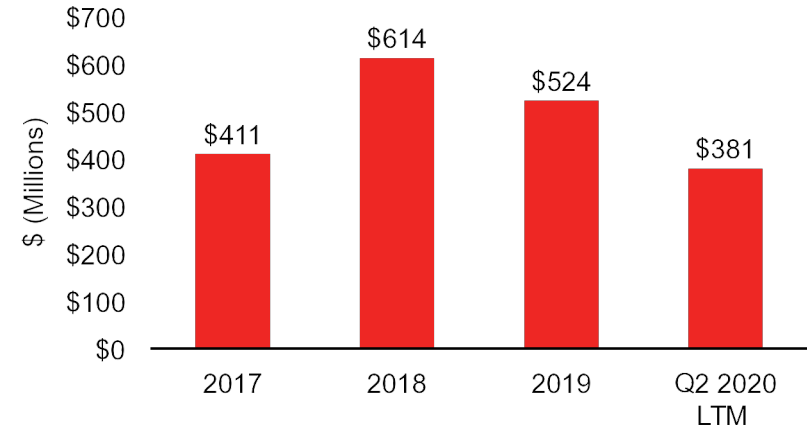
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# Power Systems Segment - Historical Performance

## Sales



## EBITDA<sup>1</sup>

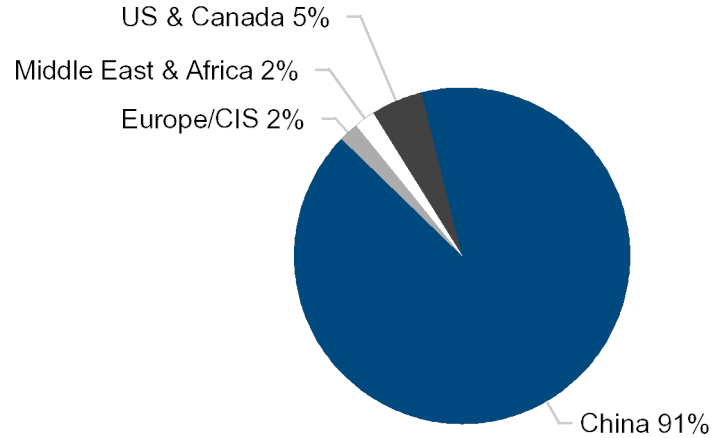
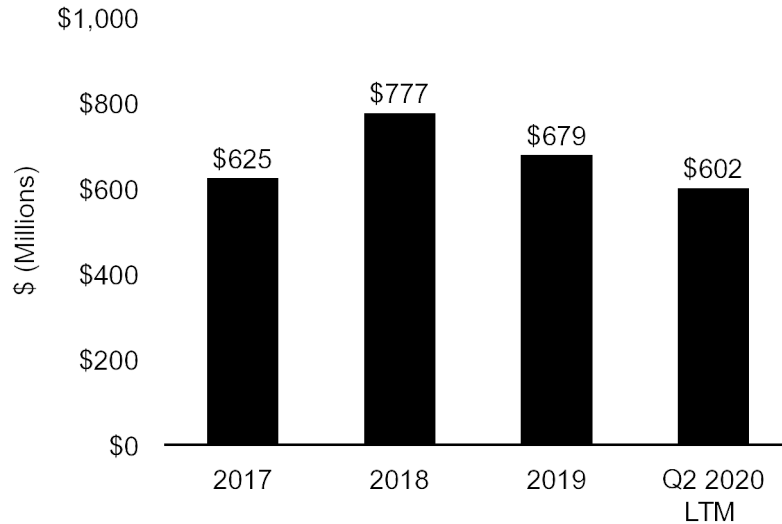


<sup>1</sup> Q4 2019 EBITDA excludes \$12 million of restructuring charges.



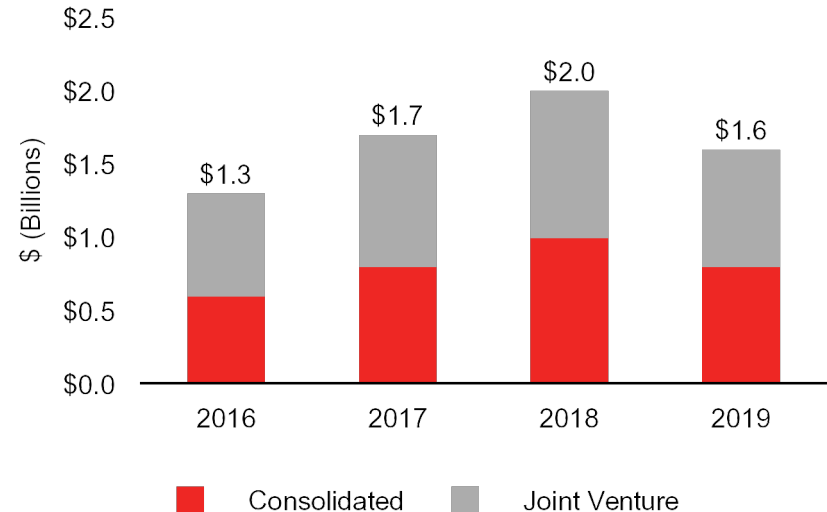
# Power Systems Segment - Joint Venture Sales Unconsolidated

## Q2 2020 LTM Revenue



# Emerging Market Sales - India<sup>1</sup>

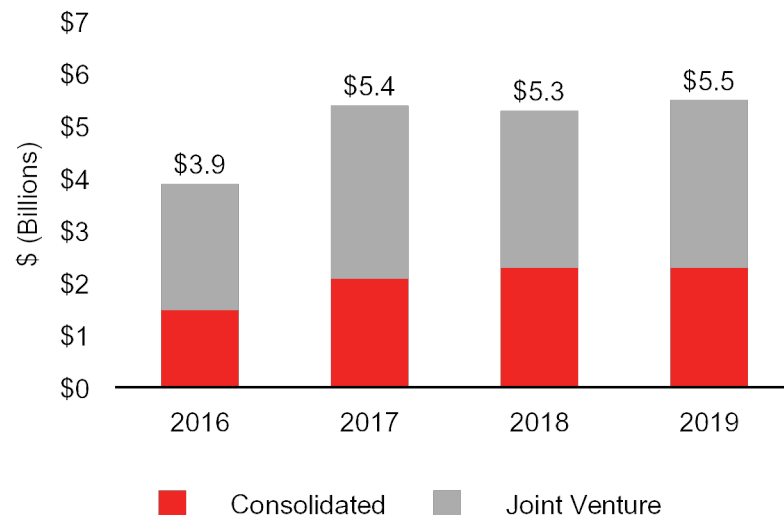
- Present in India for over 50 years
- Market leadership
- Strong OEM relationships
- Expanding our markets



<sup>1</sup> Consolidated & JV sales with eliminations

# Emerging Market Sales - China<sup>1</sup>

- Present in China for over 40 years
- Broad product portfolio for On and Off Highway
- Strong OEM partners
- Growth from new products and tightening emission standards



<sup>1</sup> Consolidated & JV sales with eliminations

# Non-GAAP Reconciliation - EBITDA

In Millions	Three Months Ended	
	28-Jun-20	30-Jun-19
Net income attributable to Cummins Inc.	\$ 276	\$ 675
Net income attributable to noncontrolling interests	(7)	10
Consolidated net income	269	685
Income tax expense	93	186
Income before taxes	362	871
Interest expense	23	29
EBIT	385	900
Depreciation and amortization	164	158
EBITDA	549	1,058
Less: Non-segment EBITDA	45	33
Total Segment EBITDA	\$ 504	\$ 1,025

We define EBITDA as earnings before interest expense, provision for income taxes, depreciation & amortization, and non-controlling interests in earnings of consolidated subsidiaries. The table above reconciles EBITDA, a non-GAAP financial measure, to our consolidated earnings before income taxes and non-controlling interests, for each of the applicable periods. We believe EBITDA 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, income taxes, or depreciation & amortization methods. 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 - EBITDA (LTM)

	Twelve Months Ended	
In Millions	28-Jun-20	30-Jun-19
Net income attributable to Cummins Inc.	\$ 1,709	\$ 2,609
Net income attributable to noncontrolling interests	2	53
Consolidated net income	1,711	2,662
Income tax expense	424	569
Income before taxes	2,135	3,231
Interest expense	94	123
EBIT	2,229	3,354
Depreciation and amortization	687	616
EBITDA	2,916	3,970
Restructuring charges	119	—
EBITDA excluding restructuring charges	3,035	3,970
Less: Non-segment EBITDA excluding restructuring charges	105	16
Total Segment EBITDA excluding restructuring charges	\$ 2,930	\$ 3,954

We define EBITDA as earnings before interest expense, provision for income taxes, depreciation & amortization, and non-controlling interests in earnings of consolidated subsidiaries. The table above reconciles EBITDA, a non-GAAP financial measure, to our consolidated earnings before income taxes and non-controlling interests, for each of the applicable periods. We believe EBITDA 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, income taxes, or depreciation & amortization methods. 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

	Three Months Ended	
In Millions	28-Jun-20	30-Jun-19
Accounts and notes receivable, net	\$ 3,441	\$ 4,179
Inventories	3,655	3,896
Accounts Payable - (principally trade)	(2,281)	(2,991)
Working capital measure	\$ 4,815	\$ 5,084
Annualized Working capital measure (% of Net Sales)	31.3%	20.4%

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

In Millions			
	28-Jun-20	30-Jun-19	1-Jul-18
Total Assets	\$ 20,314	\$ 20,254	\$ 18,915
Less: Deferred debt costs	3	3	2
Less: Deferred tax assets	462	408	330
Less: Pension and other postretirement benefit adjustments excluded from net assets	81	87	155
Less: Liabilities deducted in arriving at net assets	7,798	8,354	7,737
Total net assets	11,970	11,402	10,691
Less: Cash, cash equivalents and marketable securities	2,104	1,732	1,532
Net assets for operating segments	\$ 9,866	\$ 9,670	\$ 9,159

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

# Non-GAAP Reconciliation - Invested Capital Used for Return on Invested Capital Calculation

In Millions

	28-Jun-20	30-Jun-19	1-Jul-18
Total Equity	\$ 8,130	\$ 9,196	\$ 8,194
Less: Defined benefit postretirement plans	(716)	(676)	(668)
Equity used for return on invested capital calculation	8,846	9,872	8,862
Loans payable	109	119	55
Commercial paper	2,027	434	802
Current maturities of long-term debt	66	46	49
Long-term debt	1,639	1,624	1,556
Invested capital used for return on invested capital calculation	\$ 12,687	\$ 12,095	\$ 11,324

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



# Non-GAAP Reconciliation - Net Operating Profit After Taxes Used for Return on Invested Capital Calculation

	<u>Twelve Months Ended</u>	
In Millions		
	28-Jun-20	30-Jun-19
Net income attributable to Cummins Inc.	\$ 1,709	\$ 2,609
Net income attributable to noncontrolling interests	2	53
Consolidated net income	1,711	2,662
Income tax expense	424	569
Income before taxes	2,135	3,231
Interest expense	94	123
EBIT	2,229	3,354
Restructuring charge	119	—
EBIT excluding restructuring charge	2,348	3,354
Less: Tax effect on EBIT	472	591
Net operating profit after taxes used for return on invested capital calculation	\$ 1,876	\$ 2,763

A reconciliation of net operating profit after taxes used for return on invested capital calculation to net income attributable to Cummins Inc. in our Consolidated Financial Statements is shown in the table above.



**Thank you for your interest**

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