

# Second Quarter 2017 Earnings Teleconference

August 1, 2017





# Participants

Tom Linebarger	Chairman and Chief Executive Officer
Rich Freeland	President and Chief Operating Officer
Pat Ward	Vice President and Chief Financial Officer
Mark Smith	Vice President - Financial Operations



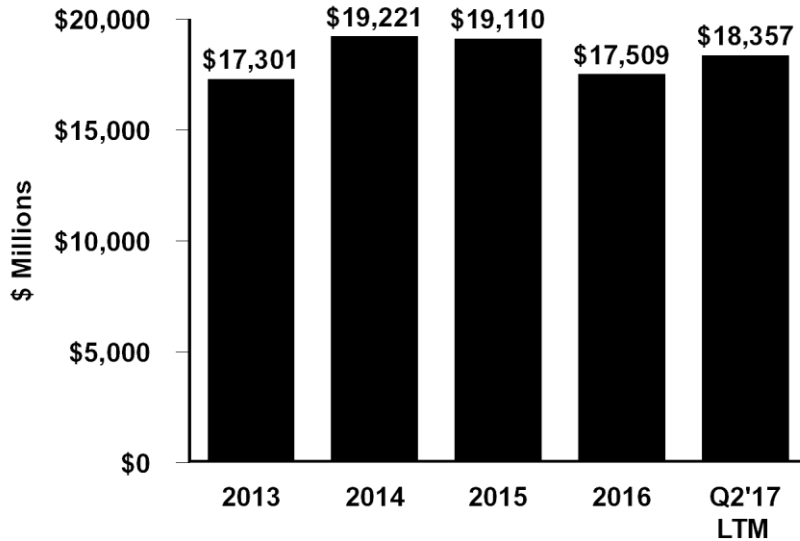
# Disclosure Regarding Forward-Looking Statements

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 2016 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.

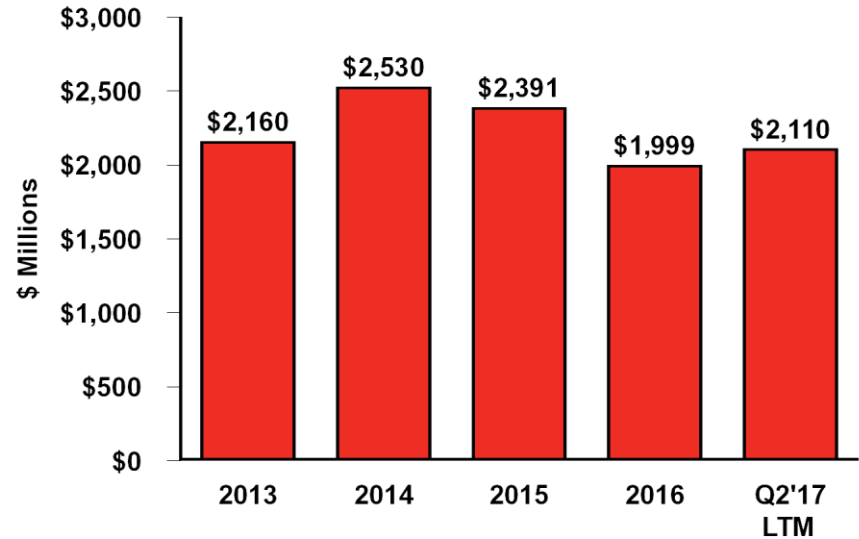


# Cummins Inc.

### Sales



### EBIT<sup>1</sup>



### 2017 Guidance

**Sales Up 9 to 11%**

**EBIT 11.75 to 12.5%**

<sup>1</sup> 2014 EBIT excludes \$32 million in operating actions within PSBU. 2015 EBIT excludes \$211 million of impairment of light-duty diesel assets and \$90 million of restructuring actions and other charges.



# Cummins Inc.

## Selected Financial Data

<b>\$Millions</b>	<b>Q2'17</b>	<b>Q2'16</b>
Sales	5,078	4,528
Gross Margin (% of Sales)	24.6%	26.4%
SAR (% of Sales)	15.2%	15.0%
EBIT	620	591
EBIT (% of Sales)	12.2%	13.1%
GAAP Net Income	424	406
GAAP Net Income (% of Sales)	8.3%	9.0%
Diluted EPS	\$2.53	\$2.40
Dividend Per Share	\$1.025	\$0.975
ROANA (LTM)	23%	24%
ROE (LTM)	19%	18%



# Joint Venture Income

<b>\$Millions</b>	<b>Q2'17</b>	<b>Q2'16</b>
Engine	56	46
Distribution	13	19
Components	15	12
Power Systems	14	11
Total JV Income	98	88



# Engine Segment Selected Financial Data

\$Millions	Q2'17	Q2'16	Change
Sales	2,307	2,002	+15%
EBIT	277	206	+34%
EBIT (% of Sales)	12.0%	10.3%	

- Sales increased from a year ago due to a 14% increase in on-highway revenues and a 20% increase in off-highway revenues.
- EBIT improved due to benefits from higher volumes, stronger joint venture earnings in China and the absence of the loss contingency charge recorded a year ago, partially offset by higher variable compensation and warranty costs.



# Engine Segment - Sales by Market

\$Millions	Q2'17	Q2'16	Change
Heavy-Duty Truck	714	622	+15%
Medium-Duty Truck & Bus	701	600	+17%
Light-Duty Automotive	429	394	+9%
<b>On-Highway</b>	<b>1,844</b>	<b>1,616</b>	<b>+14%</b>
<b>Off-Highway</b>	<b>463</b>	<b>386</b>	<b>+20%</b>

- On-highway revenues increased from a year ago primarily due to higher production of medium and heavy-duty trucks in North America and increased market share.
- Off-highway revenues increased as a result of strong demand for construction equipment in North America and China.





# Key On-Highway Engine Markets - 2017

Key Market	2016	2017	Change Market Size
	Actual	Forecast	
Heavy Duty Truck - NAFTA Class 8, Group 2 - Production	201K units	205K units	Up 2%
Medium Duty Truck - NAFTA Class 6-7, and Class 8 Group 1 - Production	108K units	115K units	Up 6%
Heavy & Medium Truck - China Sales	962K units	1,230K units	Up 28%
Heavy & Medium Truck - India Production	346K units	305K units	Down 12%
Heavy & Medium Truck - Brazil Production	61K units	67K units	Up 10%



# Distribution Segment Selected Financial Data

\$Millions	Q2'17	Q2'16	Change
Sales	1,722	1,544	+12%
EBIT	96	87	+10%
EBIT (% of Sales)	5.6%	5.6%	

- Organic sales increased 7%, and revenue from the acquisition completed in the fourth quarter of 2016 added 6% with a negative foreign currency impact of 1%.
- EBIT margin remained flat with the benefits of higher sales offset by higher variable compensation resulting from the Company's projection for higher earnings.



# Components Segment Selected Financial Data

\$Millions	Q2'17	Q2'16	Change
Sales	1,454	1,279	+14%
EBIT	190	190	—%
EBIT (% of Sales)	13.1%	14.9%	

- International sales increased by 25%, primarily due to China and India, in addition to a 6% sales increase in North America due to higher heavy and medium-duty truck production.
- EBIT as a percent of sales declined primarily due to a change in estimate for warranty liability.



# Power Systems Segment Selected Financial Data

\$Millions	Q2'17	Q2'16	Change
Sales	1,017	921	+10%
EBIT	61	90	-32%
EBIT (% of Sales)	6.0%	9.8%	

- Revenue increased primarily due to increased demand in both mining and oil and gas markets.
- EBIT declined primarily due to an accrual for the estimated costs of a quality campaign



# Guidance for 2017 Segment Results

Item	Engine	Distribution	Components	Power Systems
Consolidated Revenue Growth	Up 10 to 12%	Up 9 to 11%	Up 13 to 15%	Up 8 to 10%
EBIT Margins (% of Revenue)	10.5 to 11.5%	5.75 to 6.25%	13.0 to 13.5%	7.0 to 8.0%



# Guidance for 2017 Consolidated Results

Item	Full Year Guidance
Consolidated Revenue	Up 9 to 11%
Earnings from JVs	Up 12%
EBIT Margin	11.75 to 12.5%
Effective Tax Rate <sup>1</sup>	26.0%
Capital Expenditures	\$500 to \$530 M
Global Pension Funding	\$134 M
Interest Expense	\$76 M

<sup>1</sup> Excluding discrete income tax items



# Cash Flow

<b>\$Millions</b>	<b>Q2'17</b>	<b>Q2'16</b>
Operating Cash Inflow	447	471
Capital Expenditures	101	118
Working Capital Measure	4,235	3,976
Working Capital Measure (% of Annualized Net Sales)	20.8%	22.0%
Debt to Capital %	18.7%	20.6%

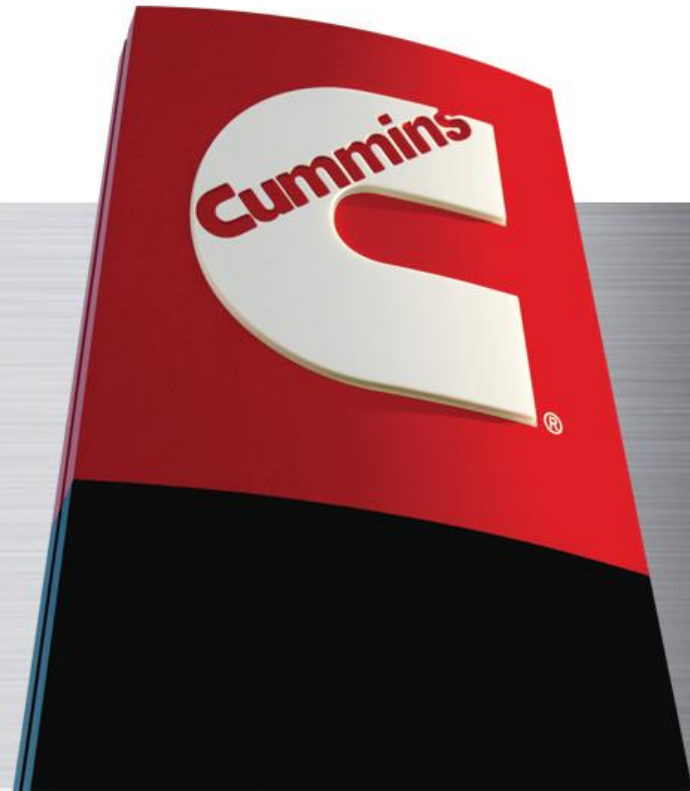
# Thank You for Your Interest in



For additional information contact:  
Adam Schumm, Investor Relations Executive Director  
(812) 377-3121  
Adam.J.Schumm@Cummins.com  
www.Cummins.com



# Appendix





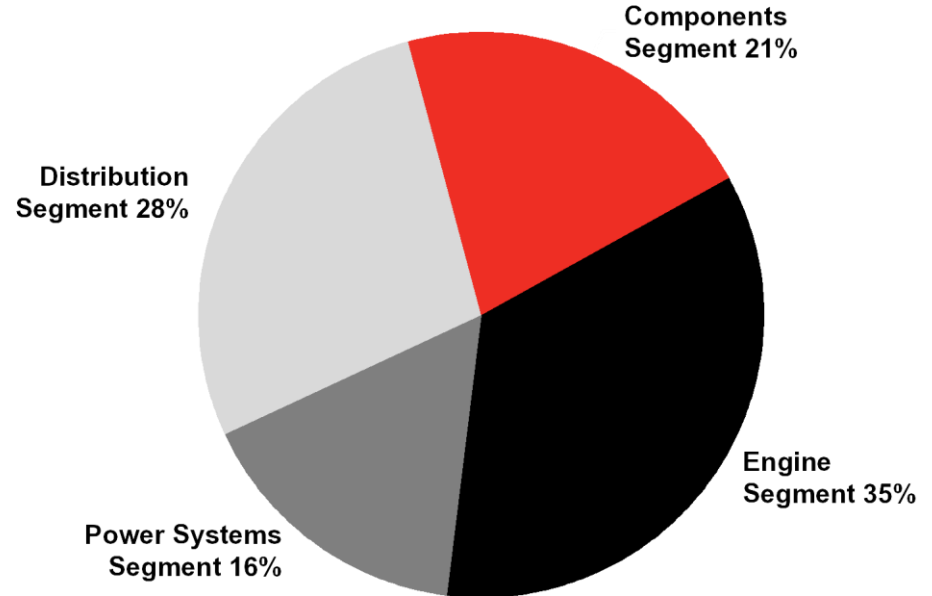
# Cummins Inc.

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

## Q2'17 LTM Results

**Sales:** \$18.4 billion  
**EBIT:** \$2.1 billion  
**EBIT%:** 11.5%

## Q2'17 LTM Revenue by Segment

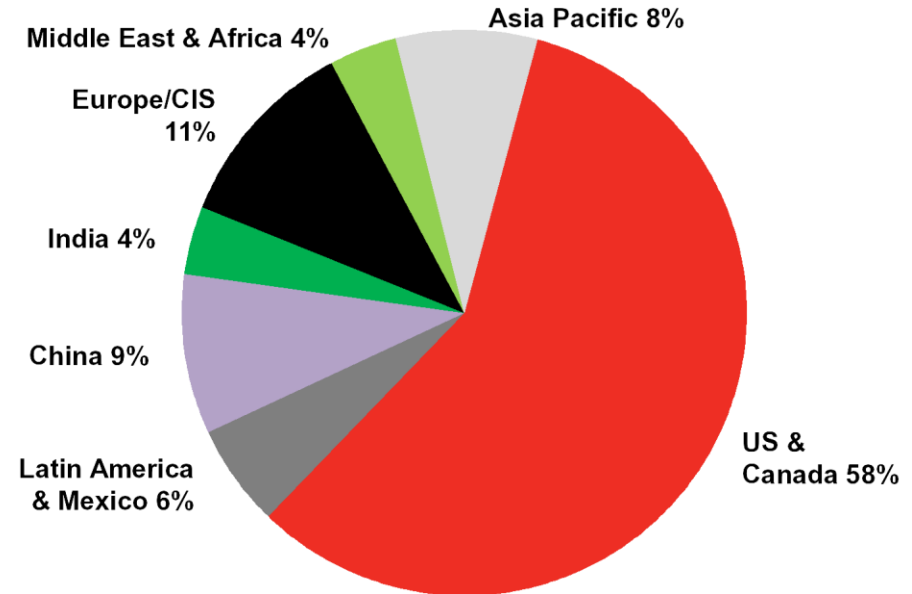




# Cummins Inc.

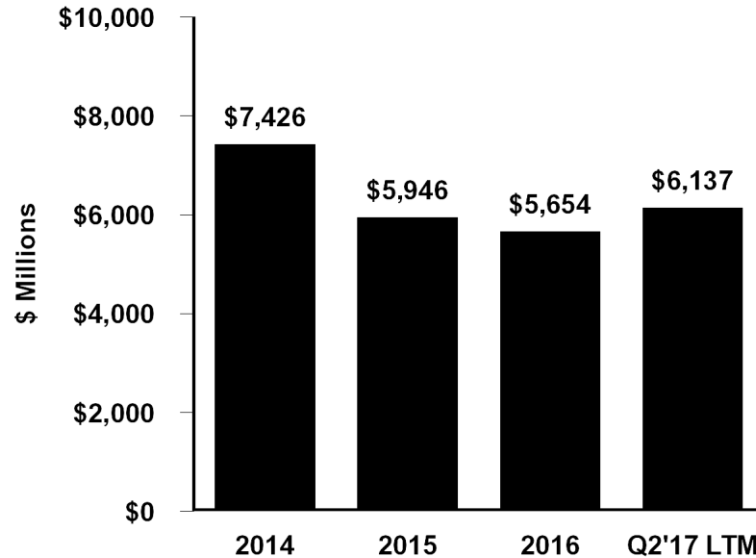
- Capitalizing on global emissions regulations
- Strong geographic diversification and leadership across multiple end-markets
- Global distribution network with presence in more than 190 countries and territories

## Q2'17 LTM Revenue by Marketing Territory

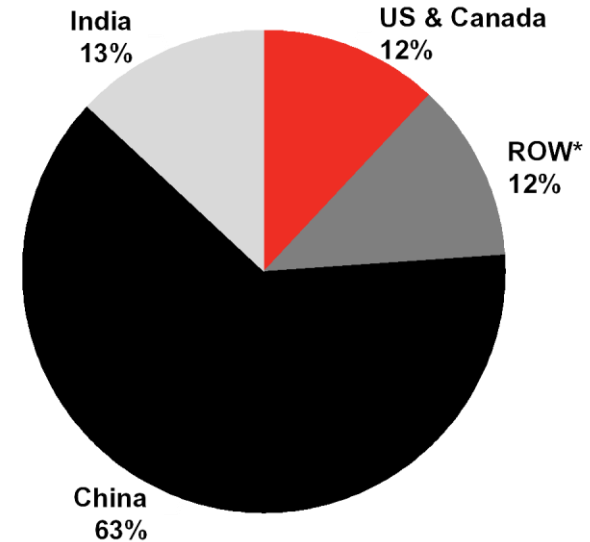




# Cummins - Joint Venture Sales Unconsolidated



## Q2'17 LTM Revenue



- Increased demand in China for off-highway equipment and commercial vehicles is the primary driver of the increase in revenues.

\* Rest of world



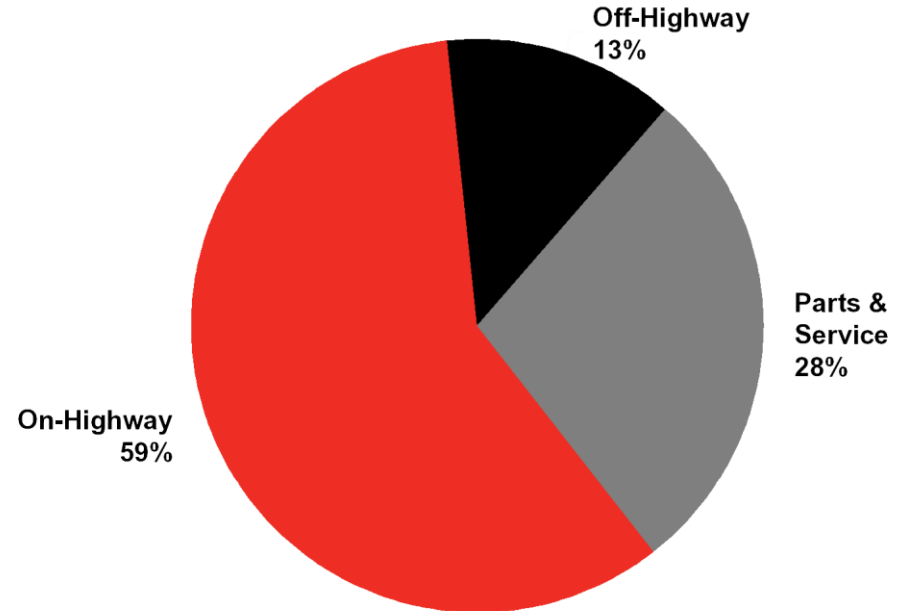
# Engine Segment - Overview

- 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

## Q2'17 LTM Results

**Sales: \$8.2 billion**  
**EBIT: \$789 million**  
**EBIT%: 9.7%**

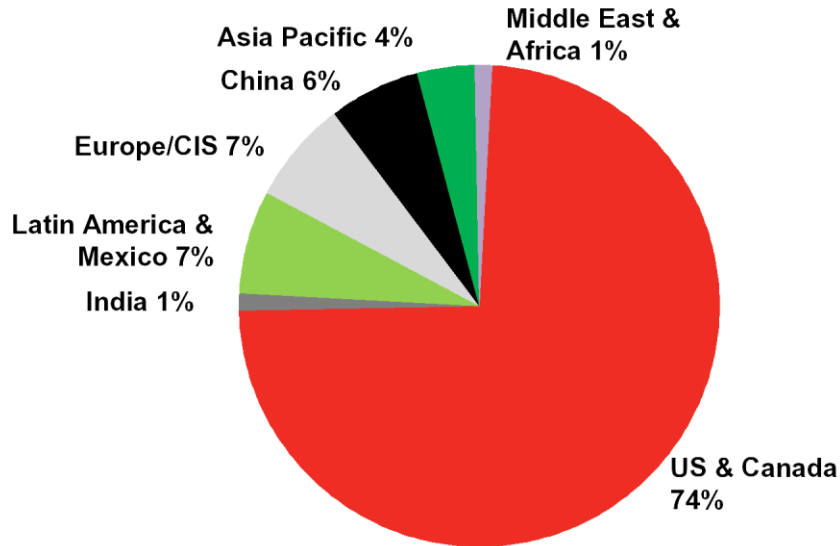
## Q2'17 LTM Revenue by Product



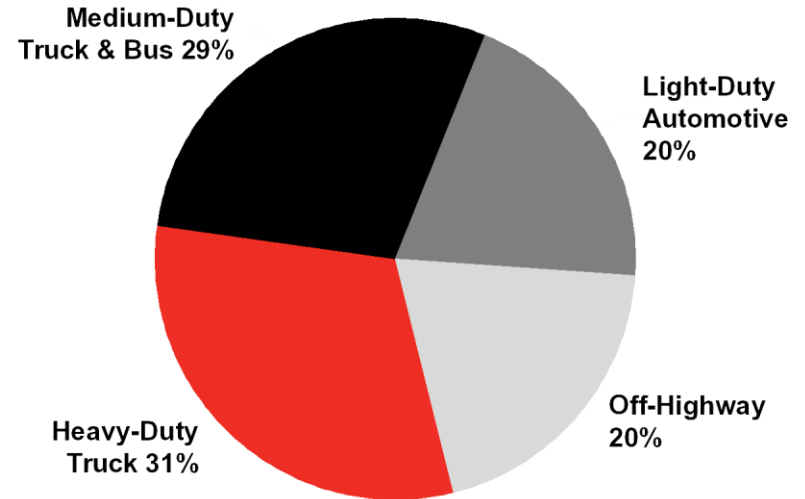


# Engine Segment - Sales Mix

### Geographic



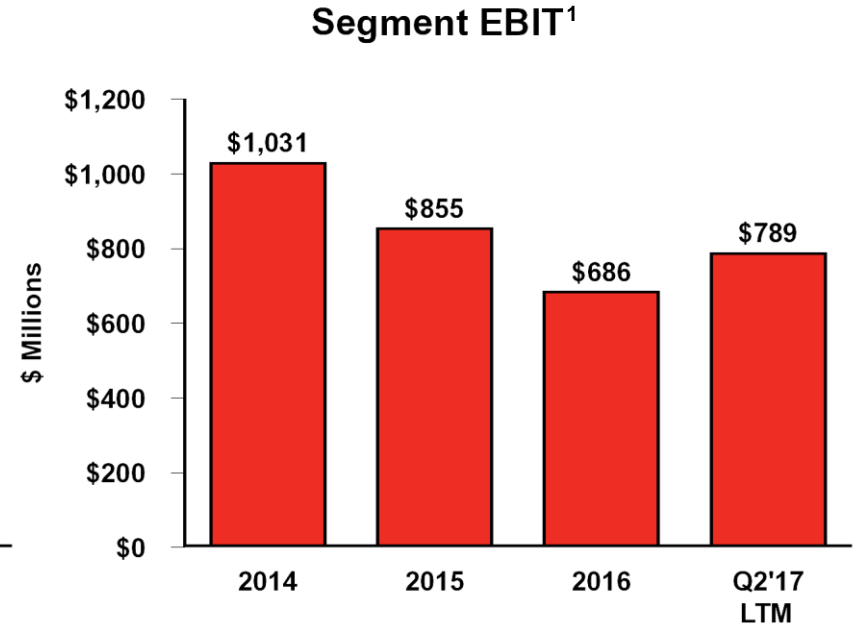
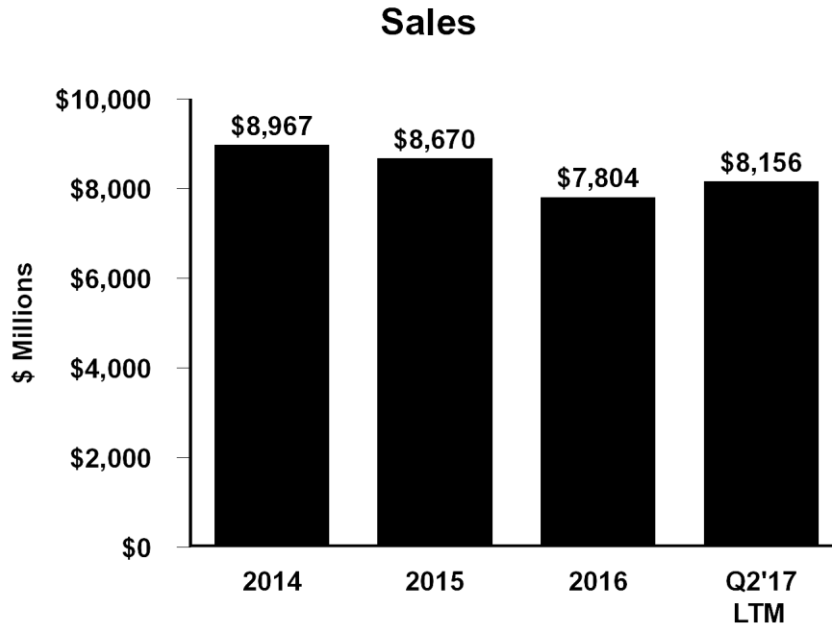
### Application



**Q2'17 LTM Revenue: \$8.2 billion**



# Engine Segment - Historical Performance

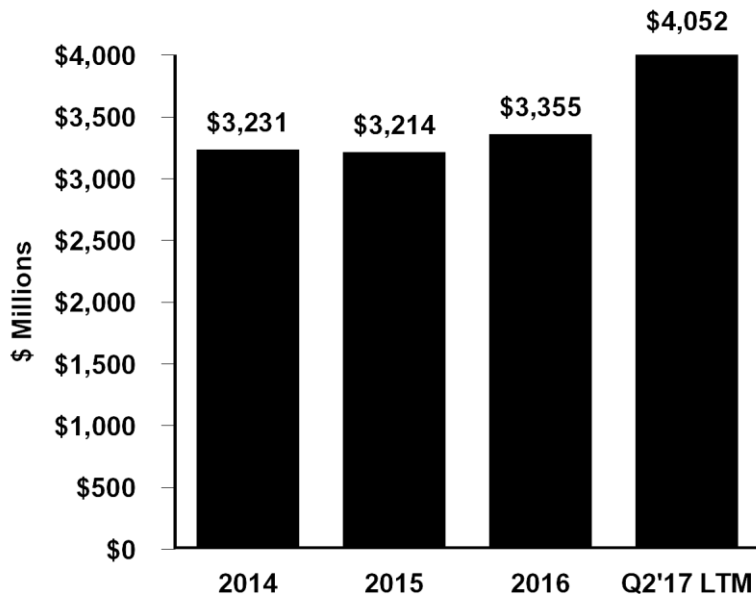


2017 Guidance	
Sales Up 10 to 12%	EBIT 10.5 to 11.5%

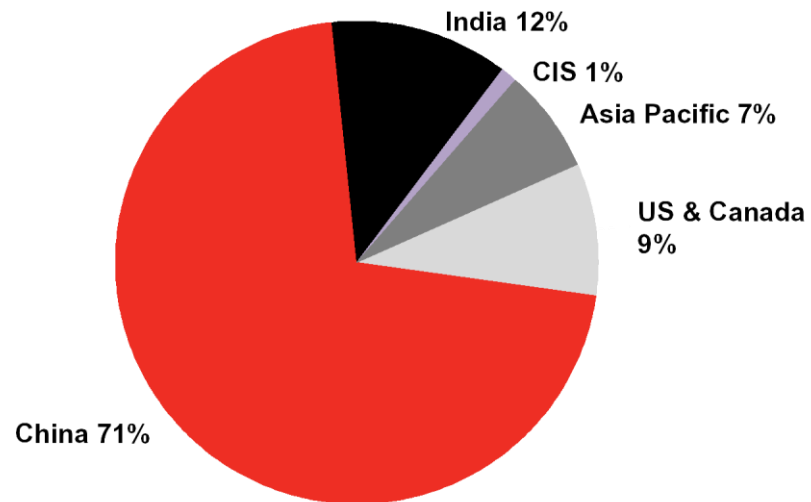
<sup>1</sup> 2015 EBIT excludes \$202 million of impairment of light-duty diesel assets and \$17 million of restructuring actions and other charges.



# Engine Segment - Joint Venture Sales Unconsolidated



## Q2'17 LTM Revenue







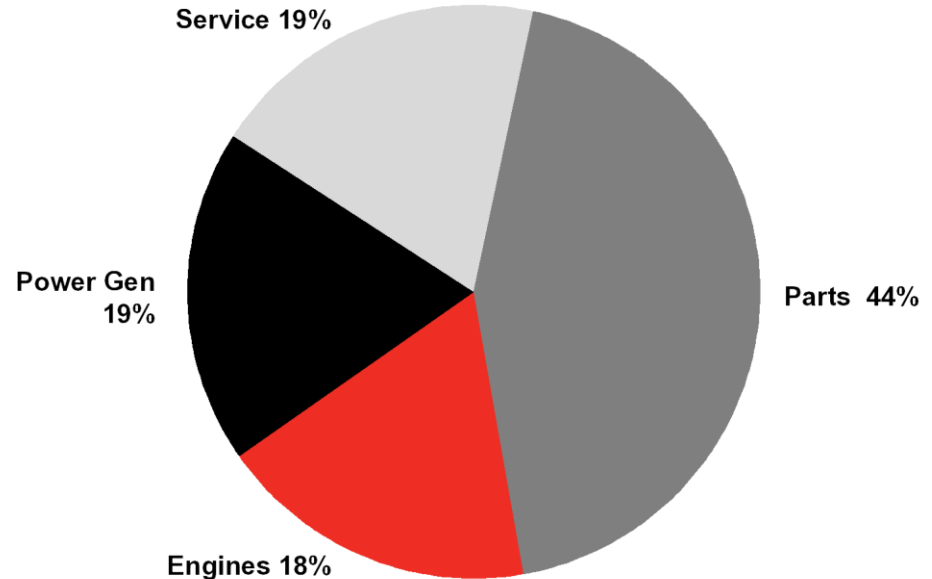
# Distribution Segment - Overview

- Provide aftermarket support and increase solution-based revenue
- Acquired our North American distributors
- Increasing network capabilities in emerging markets to capture profitable growth

## Q2'17 LTM Results

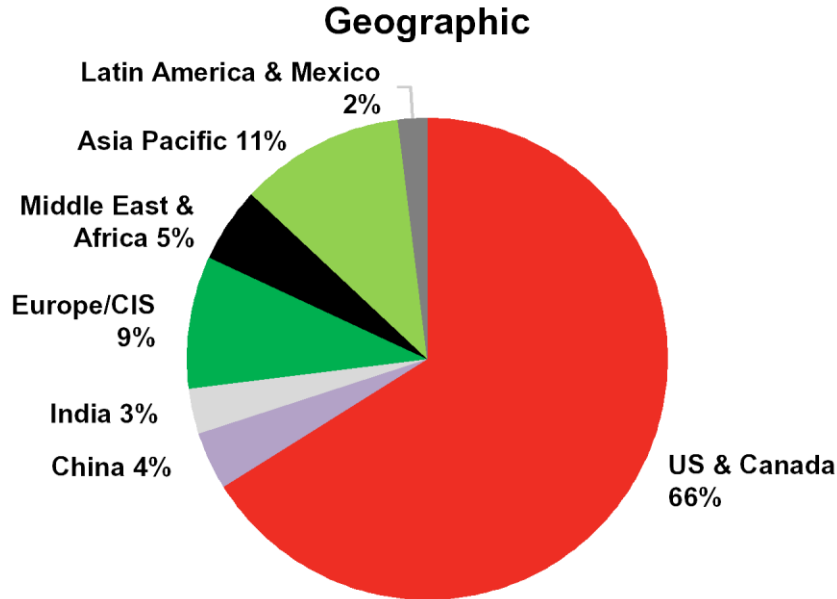
**Sales:** \$6.5 billion  
**EBIT:** \$414 million  
**EBIT%:** 6.3%

## Q2'17 LTM Revenue by Product





# Distribution Segment - Sales Mix

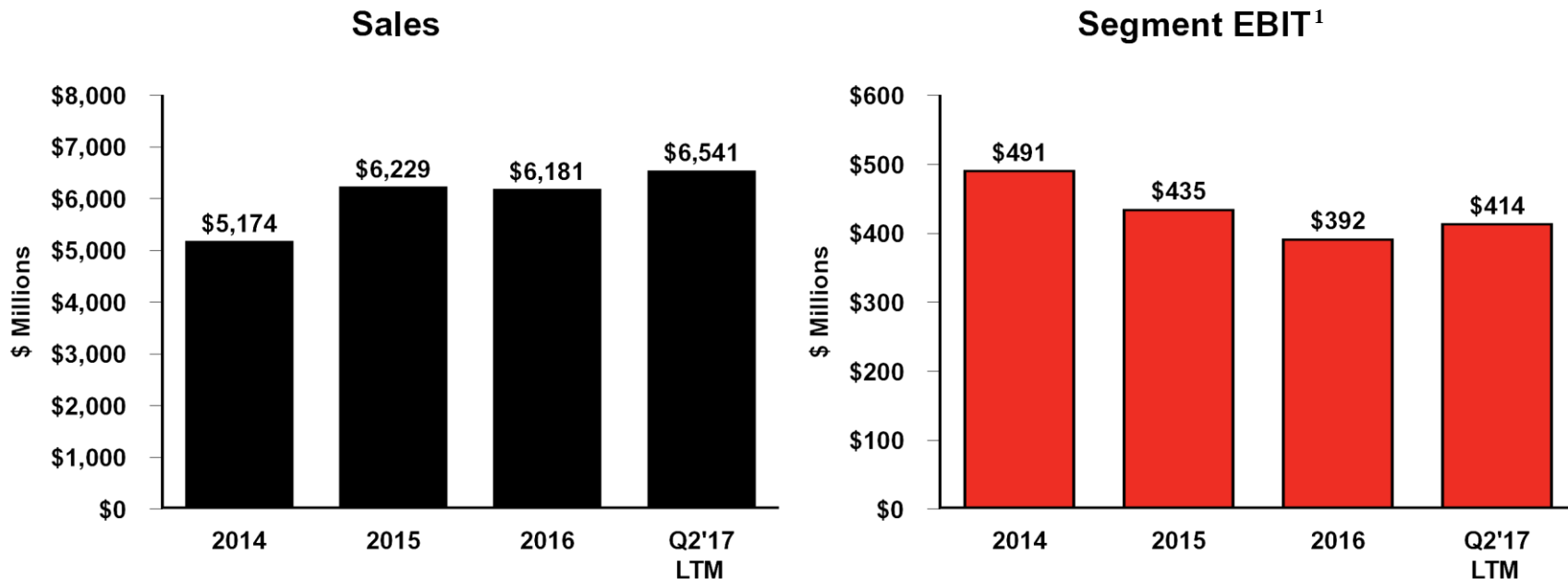


- Key enabler for Cummins growth
- Benefiting from increased population of product in the field

**Q2'17 LTM Revenue: \$6.5 billion**



# Distribution Segment - Historical Performance

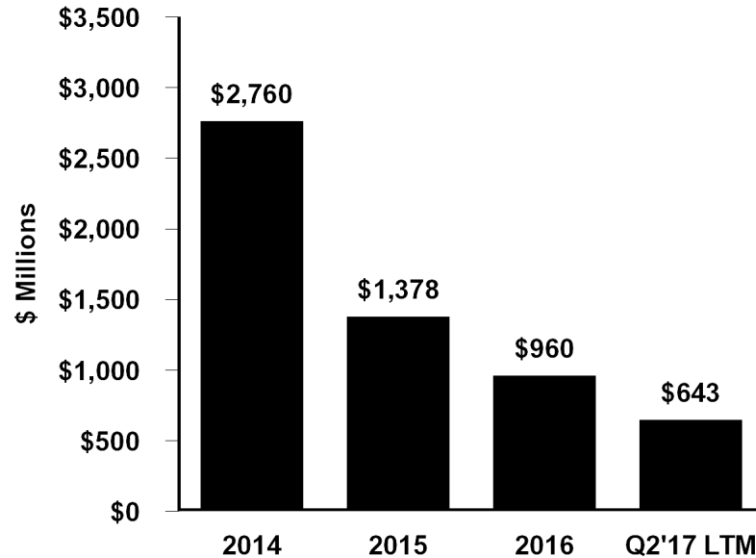


2017 Guidance	
Sales Up 9 to 11%	EBIT 5.75 to 6.25%

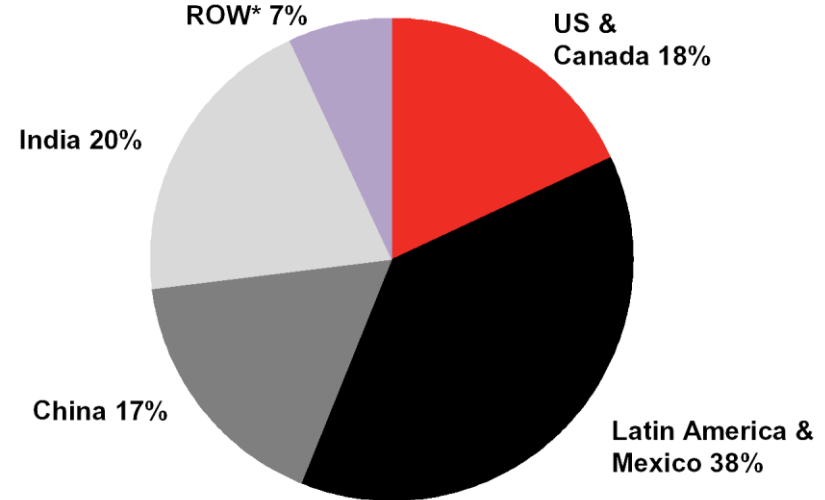
<sup>1</sup> 2015 EBIT excludes \$23 million of restructuring actions and other charges.



# Distribution Segment - Joint Venture Sales Unconsolidated



## Q2'17 LTM Revenue



▪ Joint venture sales decline primarily due to the acquisition of the last remaining unconsolidated North American distributor in the fourth quarter of 2016.

\* Rest of World



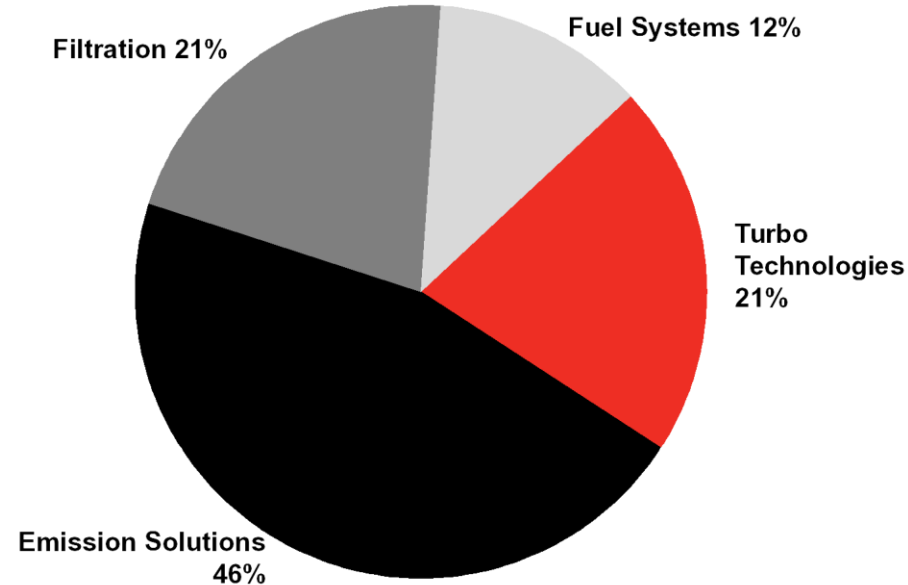
# Components Segment - Overview

- 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

## Q2'17 LTM Results

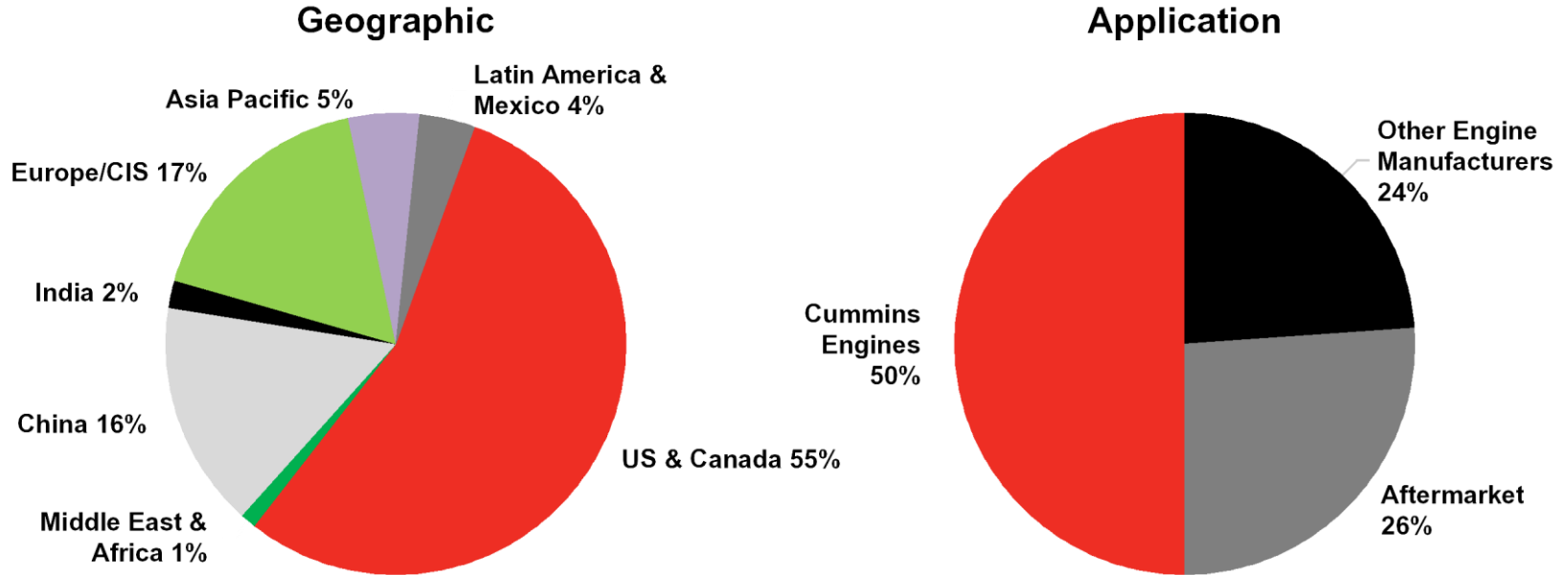
**Sales:** \$5.1 billion  
**EBIT:** \$657 million  
**EBIT%:** 12.8%

## Q2'17 LTM Revenue by Business





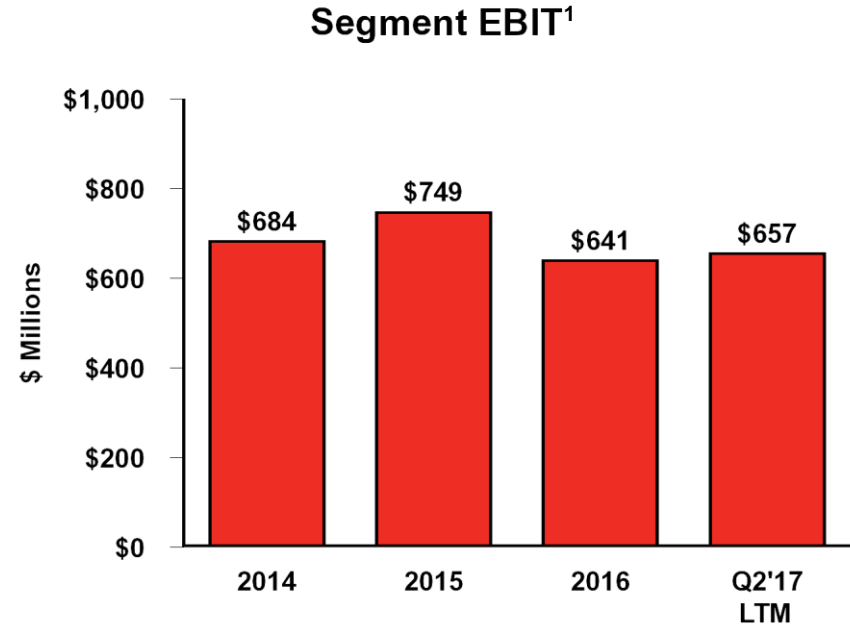
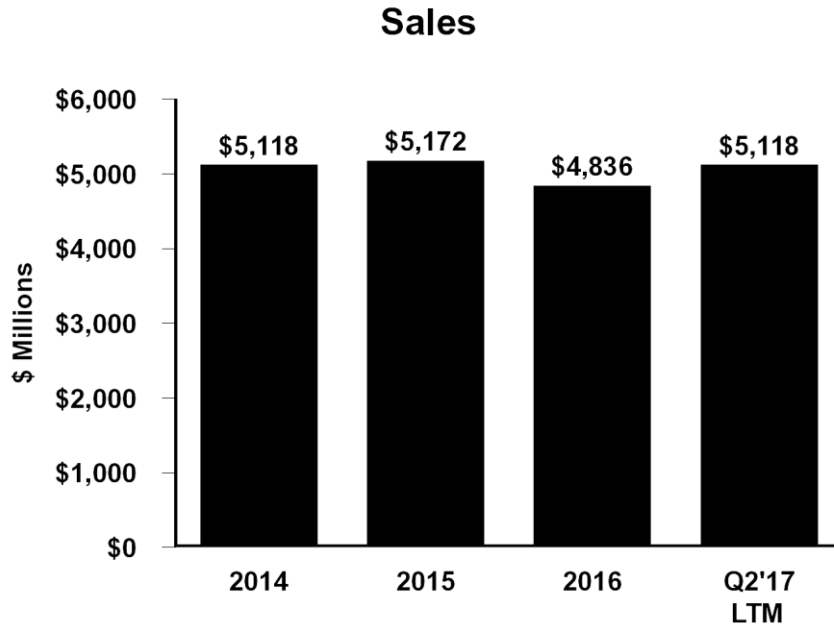
# Components Segment - Sales Mix



**Q2'17 LTM Revenue: \$5.1 billion**



# Components Segment - Historical Performance

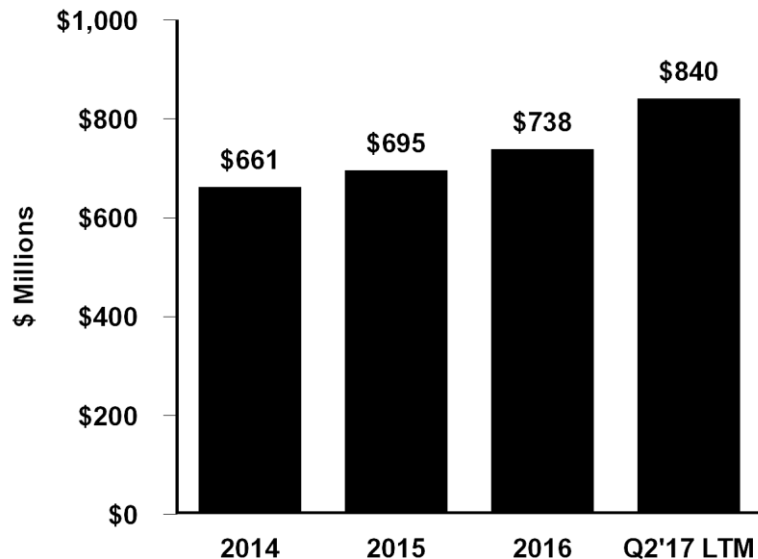


2017 Guidance	
Sales Up 13 to 15%	EBIT 13.0 to 13.5%

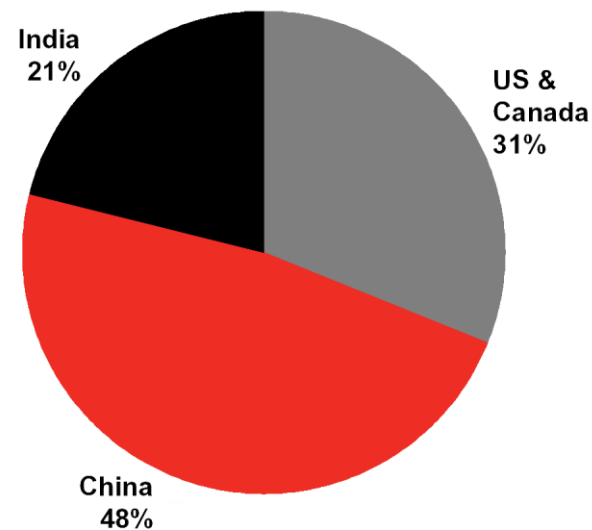
<sup>1</sup> 2015 EBIT excludes \$9 million of impairment of light-duty diesel assets and \$13 million of restructuring actions and other charges.



# Components Segment - Joint Venture Sales Unconsolidated



## Q2'17 LTM Revenue







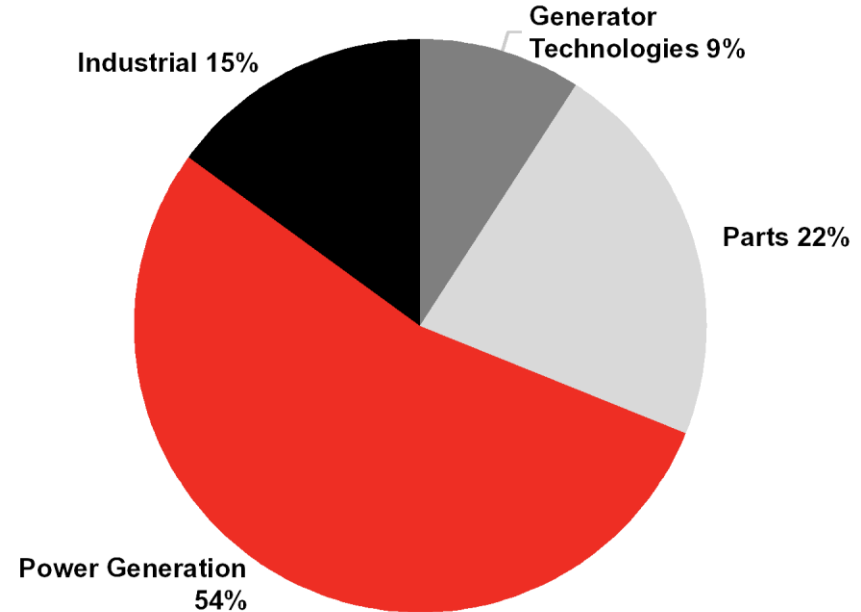
# Power Systems Segment - Overview

- 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

## Q2'17 LTM Results

**Sales:** \$3.7 billion  
**EBIT:** \$245 million  
**EBIT%:** 6.6%

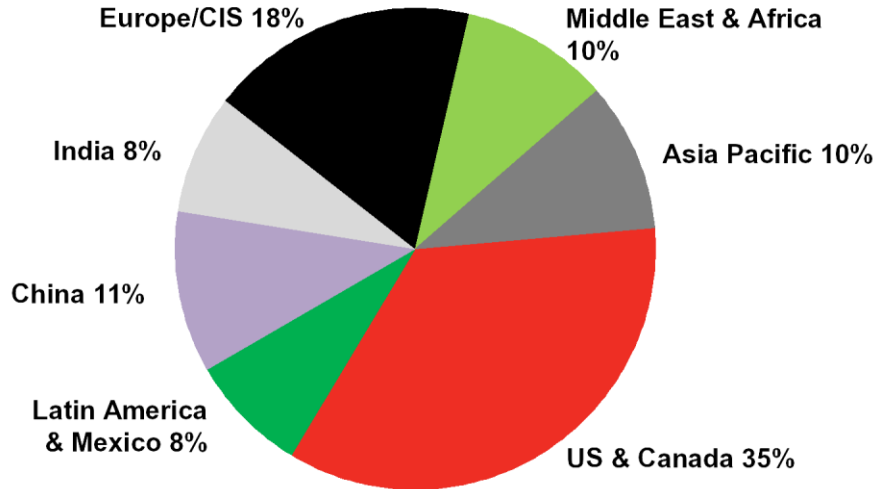
## Q2'17 LTM Revenue by Product



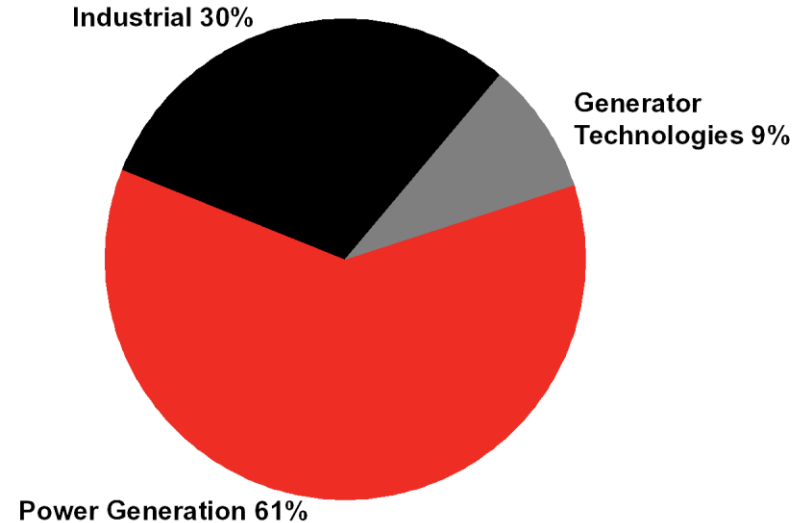


# Power Systems Segment - Sales Mix

### Geographic



### Product Lines

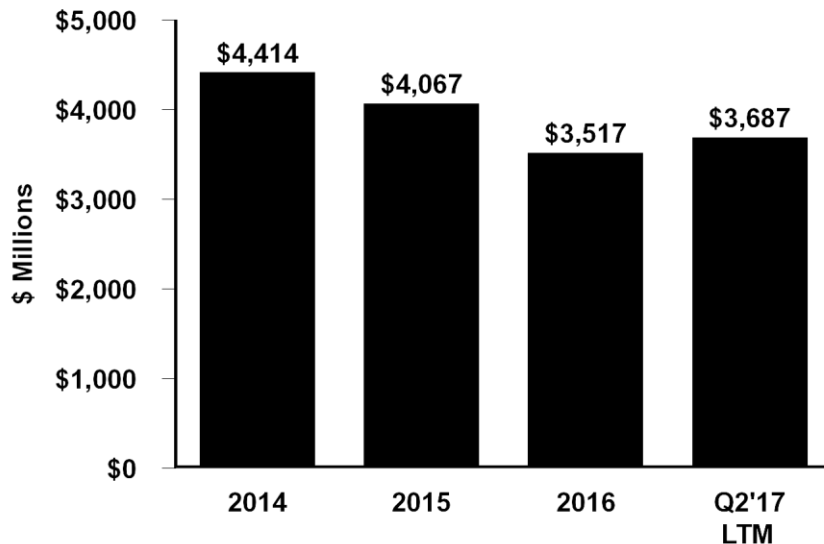


**Q2'17 LTM Revenue: \$3.7 billion**

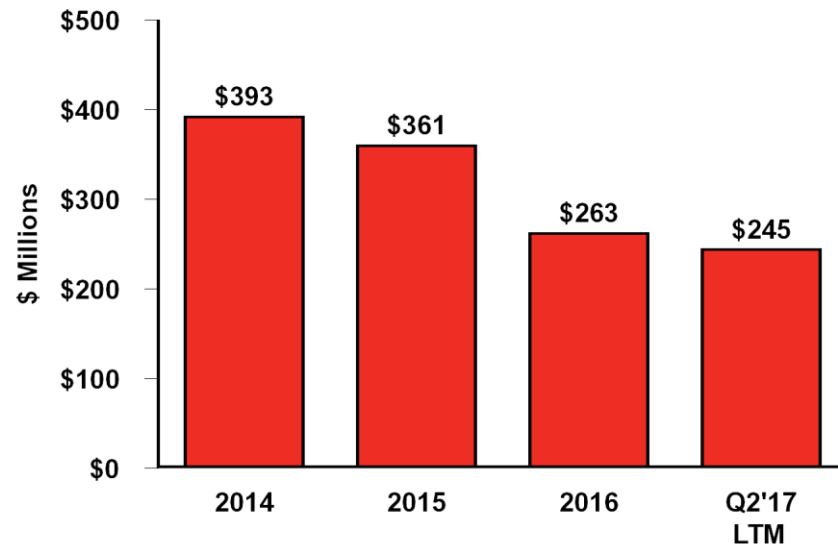


# Power Systems Segment - Historical Performance

### Sales



### Segment EBIT<sup>1</sup>



### 2017 Guidance

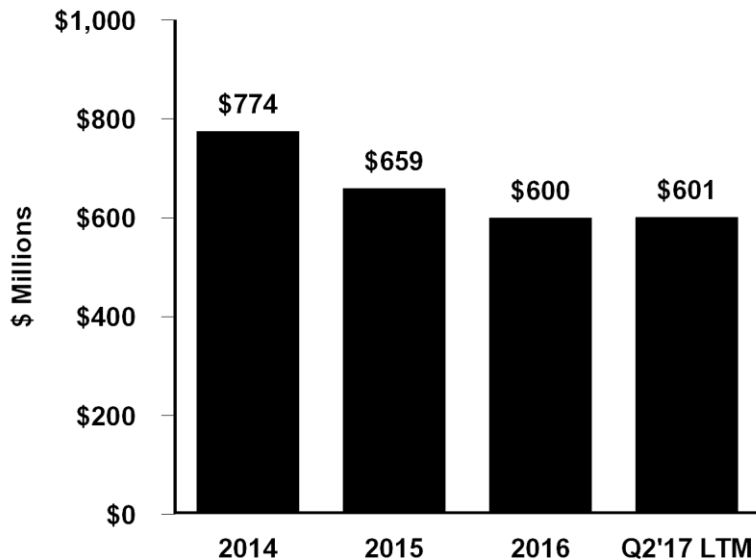
Sales Up 8 to 10%

EBIT 7.0 to 8.0%

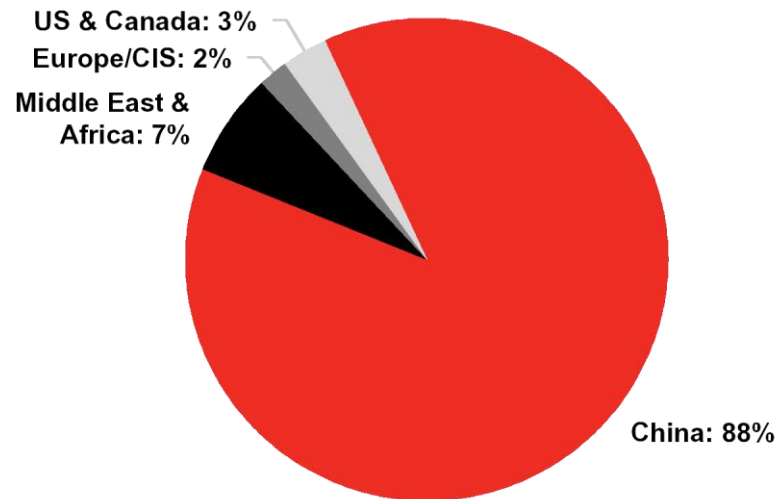
<sup>1</sup> 2014 EBIT excludes \$32 million in operating actions. 2015 EBIT excludes \$26 million of restructuring actions and other charges.



# Power Systems Segment - Joint Venture Sales Unconsolidated

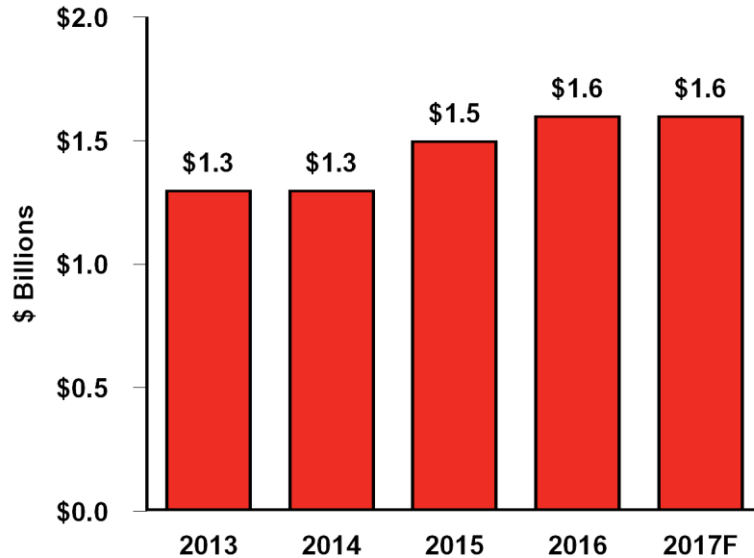


## Q2'17 LTM Revenue





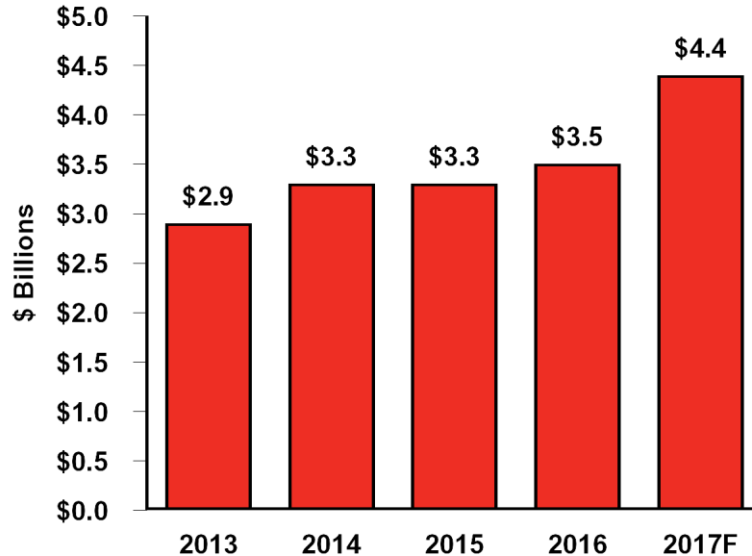
# Emerging Market Sales - India<sup>1</sup>



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

<sup>1</sup> Domestic consolidated + unconsolidated revenue Before intercompany 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 increasingly stringent emission standards

<sup>1</sup> Domestic consolidated + unconsolidated revenue before intercompany eliminations



# Non-GAAP Reconciliation - EBIT

Three Months Ended

In Millions

	July 2, 2017	July 3, 2016
EBIT	\$ 620	\$ 591
Less: Interest Expense	21	16
Income before taxes	<u>599</u>	<u>575</u>
Less: Income tax expense	158	148
Consolidated net income	<u>441</u>	<u>427</u>
	17	21
Less: Net income attributable to noncontrolling interests	<u>17</u>	<u>21</u>
Net income attributable to Cummins Inc.	<u>\$ 424</u>	<u>\$ 406</u>

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

In Millions

	July 2, 2017	July 3, 2016
Accounts and notes receivable, net	\$ 3,553	\$ 3,023
Inventories	2,982	2,778
Less: Accounts Payable - (principally trade)	(2,300)	(1,825)
Working capital measure	\$ 4,235	\$ 3,976
Annualized Working capital measure (% of Net Sales)	20.8%	22.0%

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

	July 2, 2017	July 3, 2016
Net assets for operating segments	<u>\$ 9,242</u>	<u>\$ 8,762</u>
Liabilities deducted in arriving at net assets	6,748	5,991
Pension and other postretirement benefit adjustments excluded from net assets	(134)	(176)
Deferred tax assets not allocated to segments	402	441
Deferred debt costs not allocated to segments	2	2
Total Assets	<u>\$ 16,260</u>	<u>\$ 15,020</u>

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 - Equity Used for Return on Equity Calculation

In Millions

	July 2, 2017	July 3, 2016
Equity used for return on equity calculation	\$ 8,142	\$ 7,497
Defined benefit postretirement plans	(649)	(636)
Total shareholders equity	7,493	6,861
Noncontrolling Interest	329	334
Total Equity	\$ 7,822	\$ 7,195

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.