



Cummins, Inc. (NYSE: CMI)

Brown Socially Responsible Investment Fund
September 15th, 2020





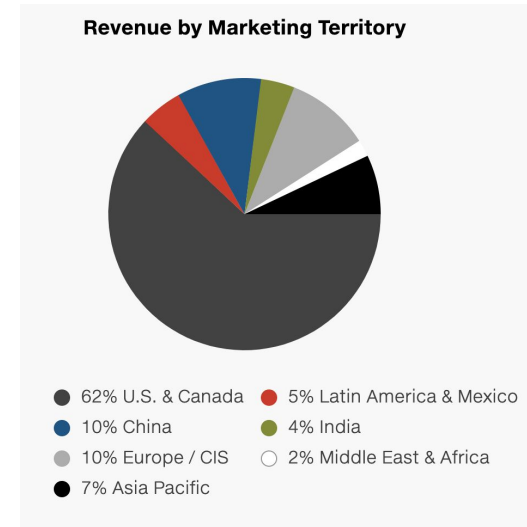
Finance Pitch

Company Overview (MQ)



At a Glance:

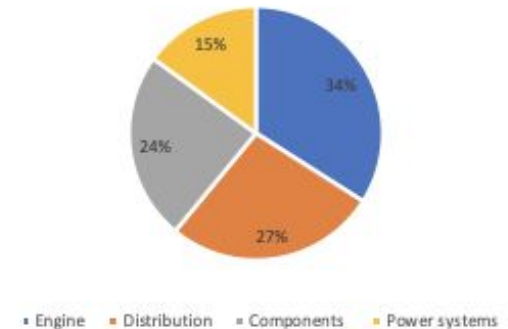
- Cummins Inc (CMI:NYQ), operates in industrials (industrials engineering). Design, manufacture, distribute hybrid powertrain and powertrain related components.
 - Key operating regions: North America, Europe, Asia Pacific
 - Supplies engines and components to manufacturers, such as PACCAR, or Daimler.
 - Produce important components, e.g. cylinder blocks.
Around 19% of direct materials is externally sourced



Products/Services:

- 5 operating segments: engine, distribution, components, power systems, and new power segment.
 - Power systems non automobile related
 - New power focuses on fully electric to hybrid (new, Q3, 2019)
- Engine still highest performing sector in sales, 34%.

Net sales (by segment)



Strategy:

- Entered joint ventures or acquired majority interest with 4 companies in last 3 years. Most recent and significant were Hydrogenics (Hydrogen generation and fuel cell) and Eaton Cummins (engine)
- Expanding into new fuel sources, represented with Hydrogenics and new power segment
- With shift to electric cars, new power segment and market will determine success

Industry Overview (Hans)

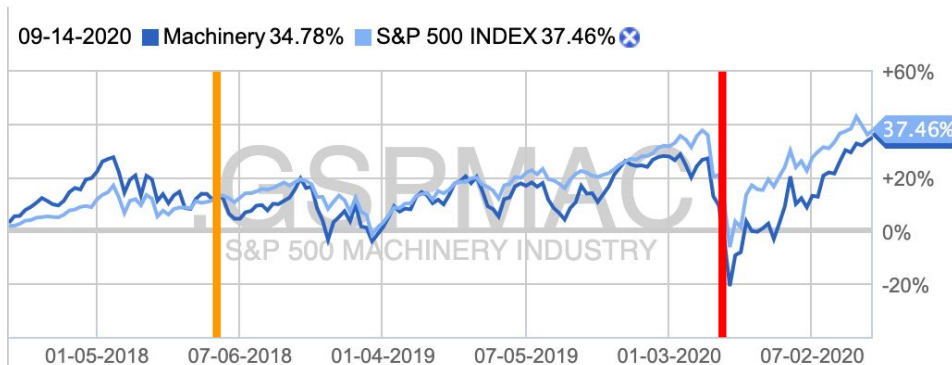


Selected Competitors

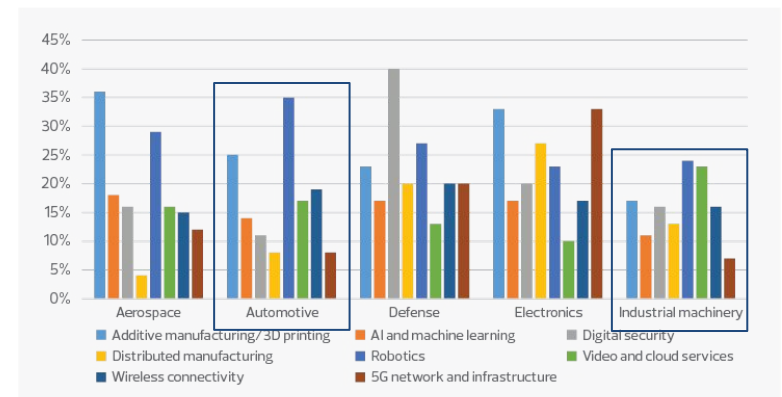
- Caterpillar, Inc.
 - Energy & Transportation direct competitor (~40% of revenue)
- Navistar
 - Parts + Global Ops direct competitor (~23% of revenue)

Industry Outlook

- Industrial Machinery growth trends
 - -5.7% CAGR expected in 2020 from \$580 to \$547.2 billion
- Industry-wide trends
 - Increased automation and digitization (Industrial Internet of Things)
 - Decentralization of supply chains
- Impact of recent events
 - Supply chains hurt by COVID and trade conflicts
 - COVID weighing on vehicle manufacture
 - Industry transition away from oil and gas engines (CMI mostly diesel)



Investments that companies plan to make post-pandemic



Comparables (Jackson)



Company	Market Cap. (\$B)	P/E (TTM)	3-Yr EPS CAGR	Net Income Margin	FCF Yield	Dividend yield	EV/ EBITDA	Debt/Equity	ROA
Cummins (NYSE:CMI)	\$30.59B	18.35	34.39%	8.47%	4.73%	2.53%	11.94	1.498	8.49%
Caterpillar (NYSE:CAT)	\$85.15B	20.00	104.43%	8.90%	6.44%	1.75%	15.32	4.558	5.34%
Volvo Group (STO:VOLV A)	\$40.31B	19.34	-20.49%	5.20%	5.16%	3.99%	16.34	2.691	3.60%
Navistar ¹ (NYSE:NAV)	\$4.06B	19.38	91.01%	0.11%	0.36%	-	16.21	N/A ²	0.13%
Generac (NYSE:GNRC)	\$11.30B	45.05	17.36%	11.55%	2.83%	-	31.38	1.523	9.54%

As of market close on Friday September, 11 2020.

¹Navistar in advanced talks to be acquired by Volkswagen's truck unit, Tranton SE, for \$43 per share.

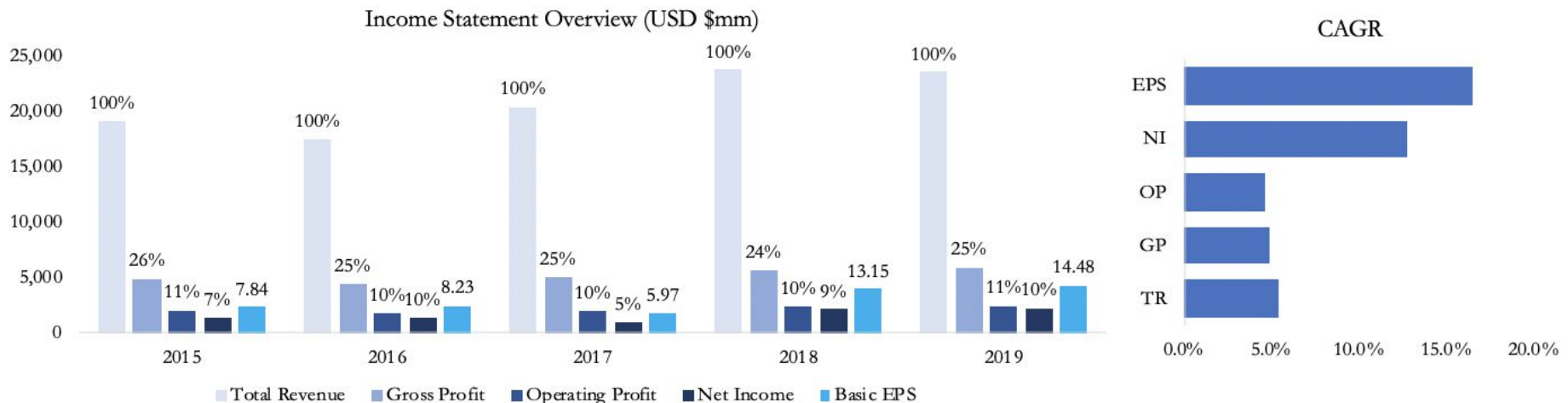
²Navistar has negative shareholder equity.

Income Statement Overview (Max)



Income Statement

- Strong long-term growth over the past five years has been driven by the top line
- Margins have remained relatively constant with minor improvements
- Basic EPS has increased significantly in the past few years due to share buybacks
- In the last quarter, net sales were **down 38% YoY** and net income **decreased 59%** YoY due to COVID-19
- Despite COVID-related headwinds, Cummins's business will likely rebound after the virus's effects lessen in the future, but valuation is currently at an all-time-high
- **Takeaway:** Despite recent underperformance, Cummins demonstrates a solid IS through reliable but moderate growth and steady margins. However, high recent valuations indicate a good opportunity to sell.



Balance Sheet & Cash Flow Statement Overview (Nitya)



Balance Sheet:

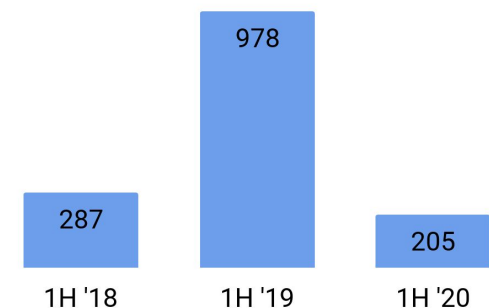
- **43% increase** in total C&CE during 1H 2020 (21.5% increase from Q2 '19)
- **21% decrease** in inventory turnover (1.87 in 1H 2020 vs. 2.36 1H 2019)
- Debt to cap up to 32.1% from 21.9% in Q4 '19
 - Primarily due to higher outstanding commercial paper of \$1.367B since Q4 '19

Dollars in millions	June 28, 2020	December 31, 2019
Working capital ⁽¹⁾	2,918	3,127
Current ratio	1.42	1.50
Accounts and notes receivable, net	3,441	3,670
Days' sales in receivables	73	58
Inventories	3,655	3,486
Inventory turnover	3.7	4.7
Accounts payable (principally trade)	2,281	2,534
Days' payable outstanding	66	58
Total debt	3,841	2,367
Total debt as a percent of total capital	32.1 %	21.9 %

Cash Flow Statement:

- Cash from operations **down ~70% yoy** from \$1.22B to \$357M, driven by...
 - 41% decrease (\$557M) in net income
 - Higher working capital requirements of \$133M (lower A/P and accrued expenses, higher inventory as a result of much lower demand)
 - Lower equity in income of investees, net of dividends of \$81M
- Cash used in investing **down 43% yoy** driven by lower capex of \$90M and lower net acquisitions of marketable securities of \$75M
- Cash from (used in) financing **up \$1.17B from 1H '19** (\$460M from -711M) driven by higher net borrowings of CP
- Temporary cash saving measures in response to COVID-19:
 - Reducing planned capex by 25% to \$500-\$525 million for the year
 - Tiered payroll cut across workforce (ends after 9/30/2020)
 - Suspension of share repurchases during Q2 2020

Free cash flow (CFO - Capex) in millions



New Power segment focuses on hydrogen fuel cells and electric powertrains

- Segment has successfully launched electric powertrains for buses in North America
- 2019 acquisition of Hydrogenics
 - Hydrolysis technology focused around fuel cells
- 2018 acquisition of Efficient Drivetrains Inc
 - Focus on high-efficiency electric vehicles

Growth of International Sales:

- Sales in China increased by 63% YOY, driven by record level truck production and expanding influence in the region

Increased truck production:

- Positive long-term outlook for global construction and mining
- Cummins boasts a very large share of truck engine production
- Projected global annual increases of 3.3% through 2024 with opportunities for much faster growth in India and eastern Europe

Stability:

- A2 credit rating (Moody's)
- Diverse global footprint
- Competitive product portfolio

Outperformance of Analyst Projections (short term):

- Over 100% above Q2 EPS estimates, significantly beat EBIDTA estimates
- Analysts have significantly upgraded Q3 earnings projections

New Power Segment

- How much substance is there to this move given it makes up <1% of total sales?
- Management doesn't consider hydrogen technology ready for commercial vehicles and is largely dependent on economic viability of hydrogen as an alternative fuel in general
- High investment, but doesn't seem to be showing returns?
- Will this really become the focus of the business long-term as traditional diesel is phased out across different industries?

Highly Cyclical Stock

- Lots of liquidity chasing capital in the market right now according to larger macroeconomic trends
- Are we due for a correction? If so, Cummins is a good sell right now since their business is highly tied to larger economic environment
- Are hopes of recovery baked into stock price already?

Risks to Commercial Vehicle Growth/Demand

- Demand projections reliant on assumptions that the larger economy will have recovered from pandemic effects
- Cummins may face competition from Tesla and Nikola in the near future, as electric trucking enters the market



Finance Vote



ESG Pitch

Environmental



Key Issues	Opportunity	Risk
<p>Energy</p>	<ul style="list-style-type: none"> ● New Power Segment: Record \$1 billion in R&D for hydrogen & low-carbon energy fueled products ● Reduced energy intensity by 31% since 2010 ● Purchase of a wind farm offset Cummins HQ electricity use + expanded solar energy use ● Estimated aggregated savings from energy efficiency: \$62 million per year 	<ul style="list-style-type: none"> ● New Power makes up very little sales (<1%) ● Not a lot of concrete growth goals regarding the New Power Segment
<p>GHG</p>	<ul style="list-style-type: none"> ● Efforts reduced GHG intensity by 42% since 2010 ● Products in use: exceeded carbon savings goal in Cummins products and the company expects to cut emissions by 23 million metric tons by December (saving customers \$9 billion through fuel efficiency) ● New Diesel engine released in 2018 with lower NOx and CO2 emissions 	<ul style="list-style-type: none"> ● 1998 to 2006: Clean Air Act Violation ● 2010 to 2015: Engine emission repairs ● 2018: Recall of 500,000 trucks ● 2018: Violation in China: Fined \$52,500 for a missing carbon filter
<p>Water & Waste</p>	<ul style="list-style-type: none"> ● Surpassed 2020 50% water reduction target in 2019 at 54% and hit its 15 water-neutral site goal ● Recycled 91% of total waste generated in 2019. Goal for 2020 is 95% ● Waste disposal decreased by 10% since 2010 ● Focus on remanufacturing 	<ul style="list-style-type: none"> ● 2017 violation in Romania: Fined \$62,550 due to lack of compliance in regards to its waste recycling tax ● 23 Cummins sites pending Zero Disposal Approval (2020 goal: 30 sites) ● Many sites located in water scarce regions

Key Takeaways:

- In the end, it is a diesel engine company but it does seem to be a leader in its industry
- Products in use make up 99% of the company's GHG footprint
- History of emissions scandals

Future Aspirations

PLANET 2050 INITIATIVE //

2050 ASPIRATIONS

COMMUNITIES ARE BETTER BECAUSE WE ARE THERE

2050 TARGETS:

- Net positive impact in every community where Cummins operates.
- Near zero local site environmental footprint.

DOING OUR PART TO ADDRESS CLIMATE CHANGE AND AIR EMISSIONS

2050 TARGETS:

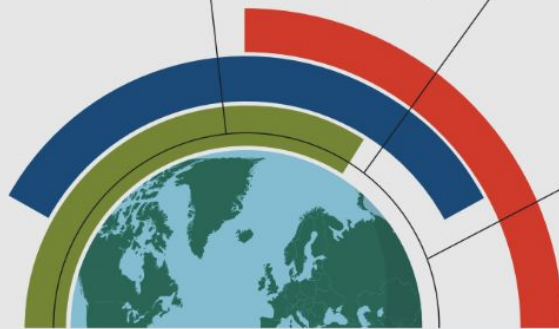
- Customer success is powered by carbon neutral technologies that address air quality.
- Carbon neutrality and near zero pollution in Cummins' facilities and operations.

USING NATURAL RESOURCES IN THE MOST SUSTAINABLE WAY

2050 TARGETS:

- Design out waste in products and processes
- Use materials again for next life
- Reuse water and return clean to the community

NOTE: Company facilities include all consolidated operations and joint ventures that are part of the Cummins Enterprise Environmental Management System. The company's strategy also includes addressing environmental needs in communities where Cummins employees live and work and where the company does business. Those goals are under development.



PLANET 2050

PROSPERITY | LEADERSHIP | ADVOCACY | NURTURE | ENVIRONMENT | TOGETHER™

2030 GOALS

SCIENCE-BASED TARGETS

1. Reduce absolute greenhouse gas (GHG) emissions from facilities and operations by 50%.
2. Reduce scope 3 absolute lifetime GHG emissions from newly sold products by 25%.
3. Partner with customers to reduce scope 3 GHG emissions from products in the field by 55 million metric tons.
4. Reduce volatile organic compounds emissions from paint and coating operations by 50%.

CIRCULAR ECONOMY

5. Create a circular life-cycle plan for every part to use less, use better, use again.
6. Generate 25% less waste in facilities and operations as a percent of revenue.
7. Reuse or responsibly recycle 100% of packaging plastics and eliminate single-use plastics in dining facilities, at employee events and as amenities.
8. Reduce absolute water consumption in facilities and operations by 30%.

PLANET 2050 NUMBERS

300 MILLION

Metric tons of carbon dioxide (CO₂) to be reduced through science-based goals by 2030.

100%

Packaging plastics at Cummins to be reused or responsibly recycled by 2030 under PLANET 2050.

4.0 MILLION

Tanker trucks full of gasoline equal to the amount of CO₂ to be removed under the company's 2030 goals.

50%

New 2030 goal for reduction in volatile organic compounds from paint and coating operations.

Key Issues	Opportunity	Risk
Labor Practices	<ul style="list-style-type: none"> ● Reputation as industry leader in workplace safety ● All facilities meet OHSAS 18001 health and safety standards ● 20k (out of 60k) employees are represented by various unions ● Top-scoring company on 2020 Disability Equality index 	<ul style="list-style-type: none"> ● Penalized \$250k since 2000 for labor related violations
Materials Sourcing and Supply Chain	<ul style="list-style-type: none"> ● 80% of materials are dual sourced, current target is 90% ● Adopted new Human Rights Policy in 2018 to address labor exploitations ● Selects and manages suppliers through a supplier code of conduct ● Audits suppliers to ensure compliance with Cummins's prohibited materials policy 	<ul style="list-style-type: none"> ● No outstanding risks

Key Takeaways:

- Leader in workplace safety
- No significant scandals, controversies, or risks

Governance



Tom Linebarger: CEO/Chairman

- Joined Cummins in 1993 and has held a variety of positions at the company since
- Outspoken on Cummins dependency on the Chinese market, on US-China Business Council
- Says his biggest strength is having worked on the technical side of the company as well as the business side
- Compensation
 - Cash: \$9,335,700
 - Equity: \$6,300,176
 - CEO to Employee Pay Ratio: 342:1
- After being hit early by Covid-19, executives took early pay cuts and postponed stock buybacks



Board: 11 members

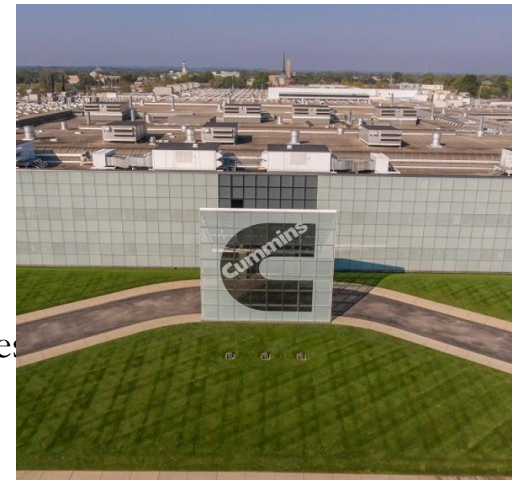
- 3 women
- 3 people of color

Opportunities:

- Experienced CEO highly committed to Cummins
- Emphasis on ethics and compliance -- program started in 2012
- Named to Ethisphere's list of the World's Most Ethical Companies for past 12 years
- No major scandals

Risks:

- Expanding board diversity is seen as very low priority
- CEO Employee pay gap

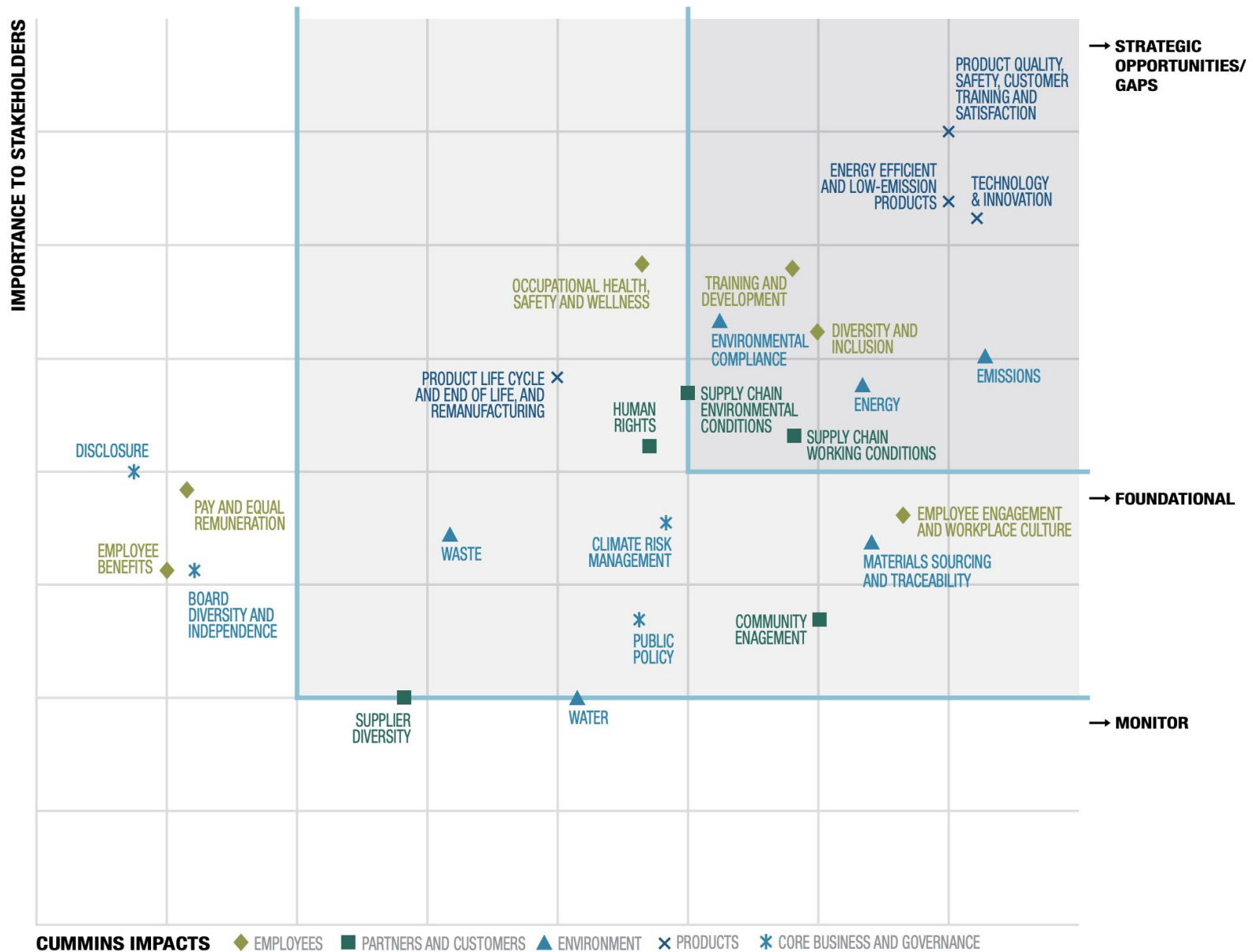


ESG Comparables



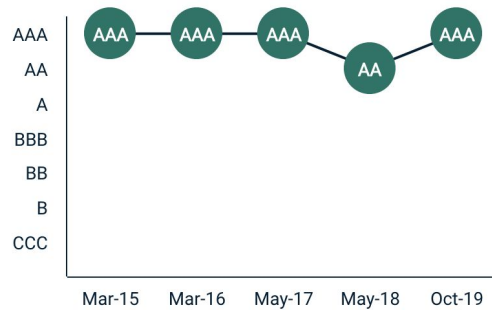
Company	Environmental Risk	Social Risk	Governance Risk	Total ESG Score	MSCI Rating
Cummins	3.5	9.3	6.4	19.2	AAA
Daimler AG	9.0	7.3	10.3	26.6	BBB
Caterpillar, Inc.	10.7	19.7	8.9	39.3	A
Volvo Group	3.1	15.7	9.6	28.4	AA
Ford Motor Co.	9.5	10.2	10.2	29.9	B
PACCAR Inc	8.3	17.3	9.4	35	BBB
Hino Motors	4.5	15.1	9.4	29	A

ESG Comparables



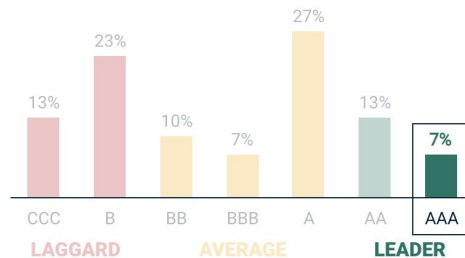
ESG Rating history

MSCI ESG Rating history data over the last five years or since records began.



ESG Rating distribution

Universe: MSCI ACWI Index constituents construction & farm machinery & heavy trucks, n=30.



Key Takeaways:

- **Several environmental scandals, especially in GHG emissions**
- **Comprehensive Planet 2050 plan**
- **Aggressive GHG emissions goals for 2030 fall in line with climate scientists**
- **Surpassed water reduction goals set in 2014 two years ahead of schedule and goal of 15 water neutral manufacturing sites**
- **Expanding into electric batteries and hydrogen powered fuel cells with New Power segment, however no concrete plans or goals for this segment**
- **Only met three of the seven 2020 environmental goals they set in 2014 sustainability plan so far, COVID has interrupted growth**
- **Little to no growth in recycling rates in past five years, along with modest decreases in waste disposal since 2010**
- **Leader in industry in workplace safety; outperforms average incident rate by 90%**
- **Very stakeholder focused, evident in their supportive of workforce, especially during pandemic**
- **Diverse and experienced board and executives**



ESG Vote



Elevator Pitches

Teladoc Health (NYSE: TDOC)

Company Overview:

- Leading provider of telehealth services in the US, including medical opinions, AI, and data analytics
- Active in 130 countries, with 51.5 million paid subscribers as of Q2 2020
- Strong revenue growth driven by organic factors and acquisitions, including InTouch and MedecinDirect
- Planned merger with Livongo, a virtual chronic disease management tool



ESG (Good and Bad):

Due to their small size, there are no ESG ratings currently available

E: Reducing travel to/from doctors offices helps cut down on carbon emissions

S: Internal DE&I Council, inclusive leadership training

G: 85% of CEO compensation received as stock, overall decrease in executive compensation from 2018-2019

Financials (2020 Q2):

- 127% YTD Return vs. -7% Industry
- Revenue: 68.9% 3-Year CAGR
- EPS: (\$0.74), a 10% YoY decrease
 - Projected to stay negative in the next year
- First positive EBITDA results in Q2
- D/E: 0.87, above industry average of 0.66
- FCF: \$27.3 million, up from -\$3.1 million in 2019 Q2

Growth Drivers:

- Merger with Livongo will create a telehealth superpower; only 25% overlap in clients
- COVID-19 has accelerated adoption of telehealth services
- Demand for reducing healthcare costs makes telehealth attractive to patients
- Governments around the world are looking to telehealth to provide high-quality care for rural populations

Risks:

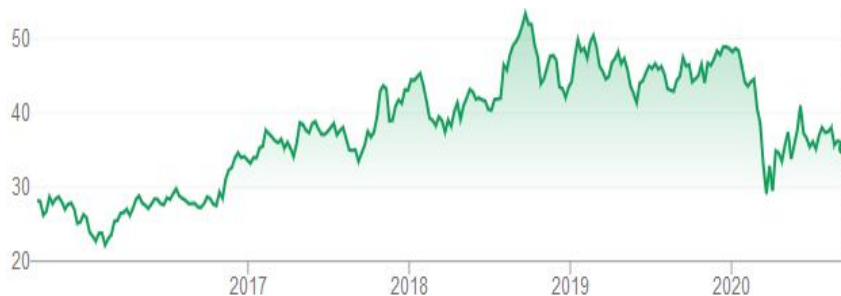
- Current Revolving Credit Facility agreement was terminated in July, leaving Teladoc vulnerable to market conditions for additional debt financing
- Threat of regulation that increases costs
- Additional political and legal challenges associated with international expansion

Allison Transmissions (NYSE: ALSN)



Company Overview:

- World's largest manufacturer of automatic transmissions and hybrid propulsion systems for medium-heavy duty commercial vehicles (60% market share)
- Strong core business in on-highway vehicles - distribution, municipal vehicles, buses, etc
- Possesses strong pricing power due to patents and brand recognition among vehicle manufacturers
- Competitors include Ford, ZF Group, Voith



ESG (Good and Bad):

E: Auto transmission and hybrid engines help car manufacturers cut down on fuel usage and carbon emissions

S: Sales exposure to US military (~5%)

G: Prudent capital allocation in terms of acquisitions, R&D expenditures, strong share buyback program. No POC on board.

Other risks: Lack of ESG transparency

Financials:

- **-27%** YTD return vs **-5%** (S&P Industrials)
- Industry leading EBITDA margins of 40%
- FY19: \$2.70bn Revenue, \$604m profit
- EPS growth: 31.47% 5-year CAGR (pre covid)
- D/E is 4.01 but interest coverage is 5.1x
- \$434m cash on hand, \$319m available RCF, no debt maturities till 2024.
- P/E of 7.25 vs 22.84 industry average

Growth Drivers:

- Cyclical recovery in commercial vehicle manufacturing as auto companies resume production
- Global expansion outside NA - market penetration of fully automatic transmissions is ~5% for on-highway commercial vehicles (ex. NA)
- Growth in hybrid and electric segments

Risks:

- Disruptions to production volumes due to global pandemic and economic uncertainty - Net sales for Q2 2020 down 49% YoY but still profitable and cash flow positive
- Adoption of electric trucks - However, they are still in infant stages + Allison is already introducing EV solutions