

# Third Quarter 2008 Earnings Teleconference

October 31, 2008





## Participants

Tim Solso                      Chairman and Chief Executive Officer

Joe Loughrey                Vice Chairman

Pat Ward                      Chief Financial Officer

Tom Linebarger             President and Chief Operating Officer

Dean Cantrell                Director – Investor Relations



## Disclosure Regarding Forward-Looking Statements & non-GAAP Financial Measures

This presentation contains certain forward-looking information. Any forward-looking statement involves risk and uncertainty. The Company's future results may be affected by changes in general economic conditions and by the actions of customers and competitors. Actual outcomes may differ materially from what is expressed in any forward-looking statement. A more complete disclosure about forward-looking statements begins on page 3 of our 2007 Form 10-K, and it applies to this presentation.

This presentation contains certain non-GAAP financial measures such as earnings before interest and taxes (EBIT). Please refer to our website ([www.cummins.com](http://www.cummins.com)) for the reconciliation of those measures to GAAP financial measures.



Remember to Make  
Your Reservation

# CMI Analyst Day - Components Segment -

November 11-12, 2008  
Charleston Marriott Hotel  
Charleston, SC

## Program:

Tuesday (Nov 11<sup>th</sup> - 8pm) - Evening Cocktails

Wednesday (Nov 12<sup>th</sup> - 8am) - Presentations

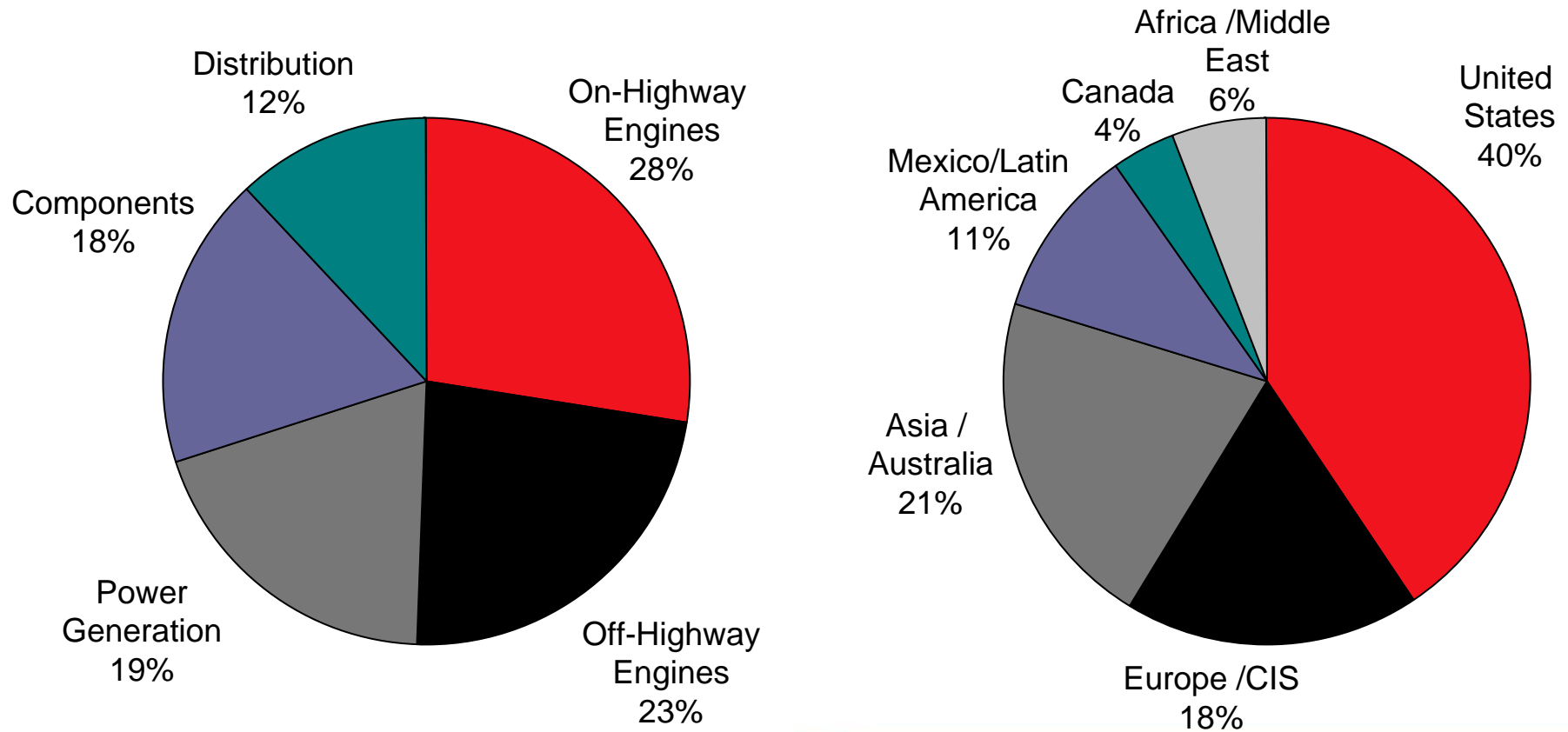
followed by Turbocharger plant tour

Finished by 3:30pm



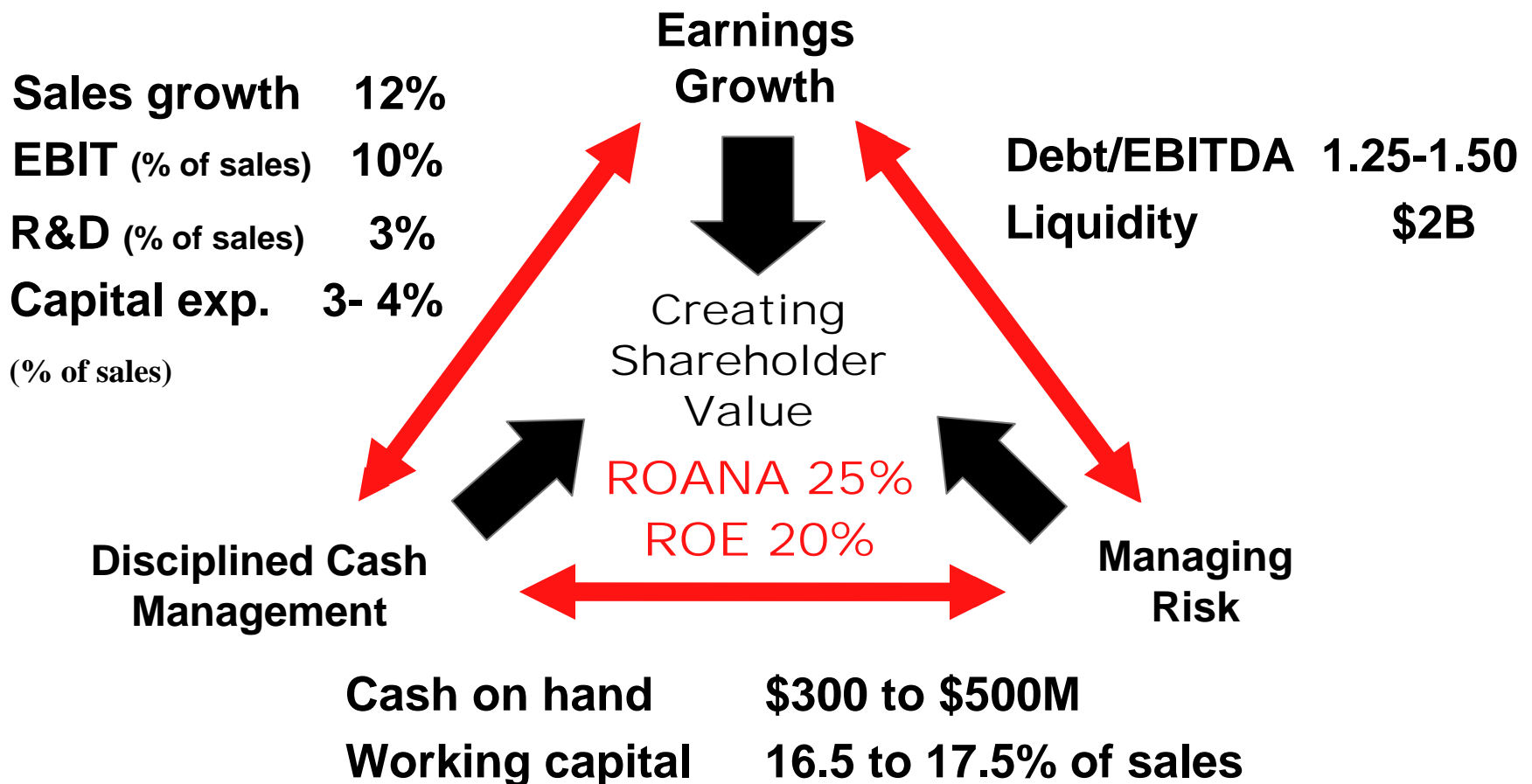
# Geographic and End-Market Diversification Benefits Cummins

## 2008 Year-to-Date Revenue





# Demonstrate Solid Financial Performance





## Cummins Inc. Selected Financial Data

<u>Targets</u>	
Sales growth:	12%
EBIT margin:	10%
ROANA:	25%
ROE:	20%

<u>\$ Millions</u>	<u>Q308</u>	<u>Q307</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	3,693	3,372	321	10%
EBIT	380	306	74	24%
% of Sales	10.3%	9.1%		
ROANA (LTM)	33%	28%		
ROE (LTM)	23%	20%		

- EBIT growing faster than sales.
- Gaining market share due to our technology leadership.
- Investing in profitable growth opportunities in each operating segment, and in domestic and international markets.



# Cummins Inc.

## Selected Income Statement Data

	<u>Q308</u>	<u>Q307</u>
Net Earnings (\$M)	229	184
Earnings Per Share	\$1.17	\$0.92
Warranties Issued (% of Net Sales)	2.7%	3.5%
Gross Margin (% of Net Sales)	22.2%	19.3%
SAR (% of Net Sales)	13.6%	12.5%

- Improved gross margin due to price realization and currency, volume shift to larger engines, and greater production efficiencies, partially offset by higher commodity prices.
- Higher investment in Research & Engineering for the development of future products.



# Power Generation Segment

## Selected Financial Data

Targets  
Sales growth: 15%  
EBIT margin: 10%

<u>\$ Millions</u>	<u>Q308</u>	<u>Q307</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	888	776	112	14%
EBIT	108	83	25	30%
% of Sales	12.2%	10.7%		

- International sales increased by 29% with strength in all geographies.
- Consumer revenues were down 34% as a result of the weak RV and recreational marine markets in North America.
- Order activity for Commercial business in North America remains above expectations in spite of economic environment.
- Gross margins and operating expenses improved due to price realization and volume leverage, respectively.



## Distribution Segment Selected Financial Data

Targets  
Sales growth: 15%  
EBIT margin: 11%

<u>\$ Millions</u>	<u>Q308</u>	<u>Q307</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	581	395	186	47%
EBIT	61	46	15	33%
% of Sales	10.5%	11.6%		

- Demand remains strong for Industrial engines & power generation, while steady growth continues in aftermarket.
- Revenues from International distributors grew faster than unconsolidated sales from North American JVs (acquisitions excluded).
- Acquisitions added \$80M to sales with minimal dilution to EBIT%.
- Operating margins improved, however non-operating currency translation negatively impacted profitability by 140 bps this quarter.



## Engine Segment Selected Financial Data

Targets  
Sales growth: 13%  
EBIT margin: 8.5%

<u>\$ Millions</u>	<u>Q308</u>	<u>Q307</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	2,279	2,153	126	6%
EBIT	160	155	5	3%
% of Sales	7.0%	7.2%		

- Favorable mix of heavy-duty and high-horsepower engines as well as price realization on industrial engines and parts offset higher commodity costs and lower mid-range engine volumes.
- Increased R&E development expense for future products and unfavorable currency translation erased gains in the gross margin.



# Engine Segment

## Sales by Market - On-highway

<u>\$ Millions</u>	<u>Q308</u>	<u>Q307</u>	<u>Change Amount</u>	<u>Change Percent</u>
Heavy-duty truck	630	520	110	21%
Medium-duty truck and bus	406	359	47	13%
Light-duty automotive/RV	<u>170</u>	<u>388</u>	<u>(218)</u>	<u>(56%)</u>
<b>Total on-highway</b>	<b>1,206</b>	<b>1,267</b>	<b>(61)</b>	<b>(5%)</b>

- Heavy-duty Truck engine shipments up 23% led by strong demand and market share gains in the U.S./Canada and, as anticipated, 65% weaker shipments to Mexico following start of new emission standard.
- Engine shipments to Medium-duty Truck up 2% mainly driven by strong demand in Brazil, offsetting softness in North American and Europe.
- Bus engine shipments up 25% on market share wins in North America.
- Light-duty Automotive & RV engine shipments down 64% primarily due to U.S. economic uncertainty affecting pick-up truck and RV markets.



# Engine Segment

## Sales by Market - Industrial

<u>\$ Millions</u>	<u>Q308</u>	<u>Q307</u>	<u>Change Amount</u>	<u>Change Percent</u>
Total Industrial	788	661	127	19%

- Construction engine sales up 19%; strong demand from Korean and Chinese OEM customers driven by macro economic growth and exports, more than offsetting weaker demand in U.S. and Europe.
- Commercial Marine engine sales up 96%, driven by favorable conditions in the offshore vessel, crew boat, tug and European inland barge segments.
- Mining engine sales up 12% as companies continue to invest in new equipment to meet replacement and fleet expansion needs.
- 15% increase in high-horsepower capacity above 30L in 2008.



## Components Segment Selected Financial Data

Targets  
Sales growth: 20%  
EBIT margin: 9%

<u>\$ Millions</u>	<u>Q308</u>	<u>Q307</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	801	741	60	8%
EBIT	61	34	27	79%
% of Sales	7.6%	4.6%		

- Emission Solutions revenues up \$30M or 27%, Turbo Technologies up \$21M or 9%, Fuel Systems up \$7M or 7%, and Filtration up \$22M or 8% (excluding business exited in 2007).
- Significant EBIT growth driven by price realization, manufacturing efficiencies and sales volume.
- All four businesses improved EBIT margin % from previous year.



## Joint Venture Income

<u>\$ Millions</u>	<u>Q308</u>	<u>Q307</u>
<b>Engine</b>	<b>26</b>	<b>24</b>
<i>On-highway</i>	17	15
<i>Off-highway</i>	10	7
<i>Rec. Marine</i>	(1)	2
<b>Power Generation</b>	<b>6</b>	<b>5</b>
<b>Distribution</b>	<b>31</b>	<b>26</b>
<b>Components</b>	<b><u>3</u></b>	<b><u>3</u></b>
<b>Total JV Income</b>	<b>66</b>	<b>58</b>

- Engine JV Income up primarily due to strong industrial sales in China, offsetting the weak Recreational Marine market in the U.S. and on-highway truck market in China transitioning to Euro 3
- Power Generation JV Income up led by China JV performance.
- Distribution JV income includes \$3M from acquisition in North America.



## Cash Flow

	<u>Q308</u>	<u>Q307</u>
Operating Cash Flow (\$M)	319	367
Capital Expenditures (\$M)	129	74
Pension Funding (\$M)	55	42
Share Repurchase (\$M)	79	174
Working Capital (% of Net Sales)	19.3%	18.2%

- Consistent earnings growth continue to improve Debt-to-Capital ratio (14.6%) and Debt-to-EBITDA (1.0X), which in the current economic environment are both comfortably better than our targets.
- Available liquidity of nearly \$2 Billion – primarily from cash and recently renewed long-term revolving credit facility
- Funding new product and capacity expansion projects as well as sustainable growth in shareholder returns with Operating cash flow.



## Guidance for 2008 Consolidated Results

<u>Item</u>	<u>Full Year Guidance</u>
Revenue	↓ Up 12%
Earnings from Joint Ventures	↑ Up 20%
EBIT Margin (%)	10%
Effective Tax Rate	↓ 32%
Capital Expenditures (\$M)	↓ \$550 to \$575
Global Pension Funding (\$M)	↑ \$95 to \$105

- ↑ Guidance revised upward
- ↓ Guidance revised downward
- ↔ Change to range of guidance



## Guidance for 2008 Segment Results

<u>Item</u>	<u>Engine</u>	<u>Power Generation</u>	<u>Components</u>	<u>Distribution</u>
Revenue	↓ Up 10-11%	↑ Up 15-16%	↓ Up 10-11%	↑ Up 42-43%
EBIT Relative to Target	↓ 7.5%	↑ Above 11%	7%	Close to 11% target

- ↑ Guidance revised upward
- ↓ Guidance revised downward
- ↔ Change to range of guidance



## Guidance for 2008 Engine Markets

- Revenue by market (including aftermarket):
  - Heavy-duty truck up 27 percent despite flat OEM truck builds in North America.
  - Global Medium-duty Truck & Bus up 23 percent, driven by Brazil and share gains in North America.
  - Light-duty Automotive & RV decline by 44 percent.
  - Industrial up 19 percent on global infrastructure spending.



Thank You for Your Interest in  
Cummins

We will now take your questions.

Contact Information:

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

# Appendix

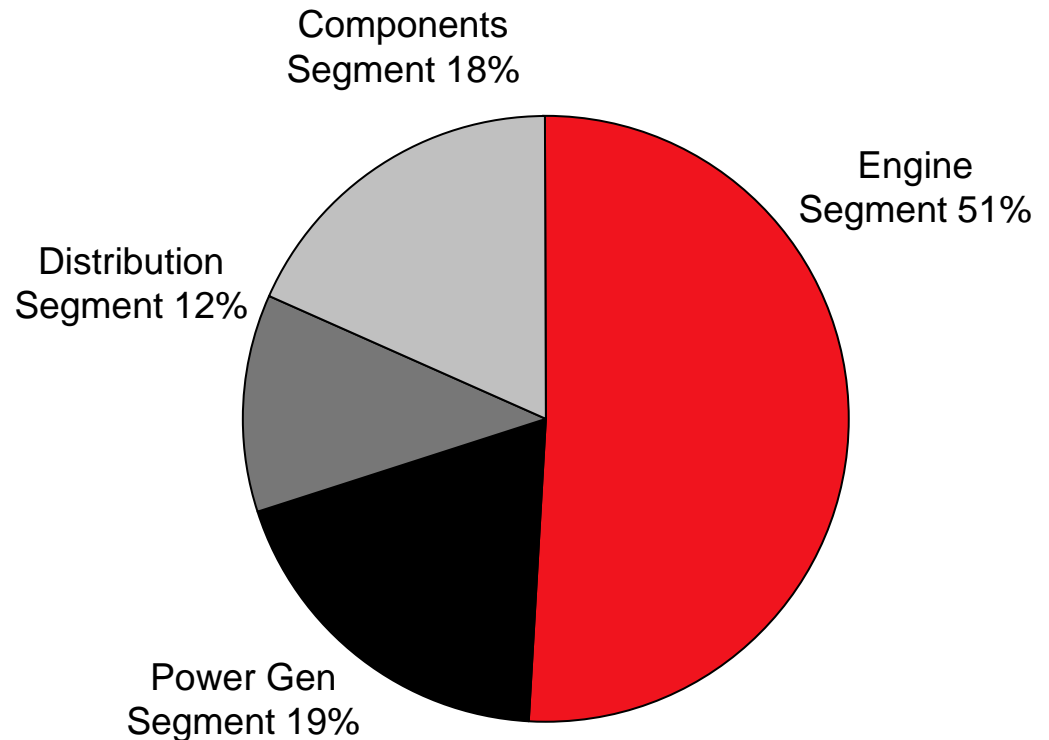




# Cummins Inc.

## Q3 2008 LTM Revenue by Segment

- Macro growth trends play to Cummins' strengths
- Disciplined investment for growth
- Demonstrated technology leadership



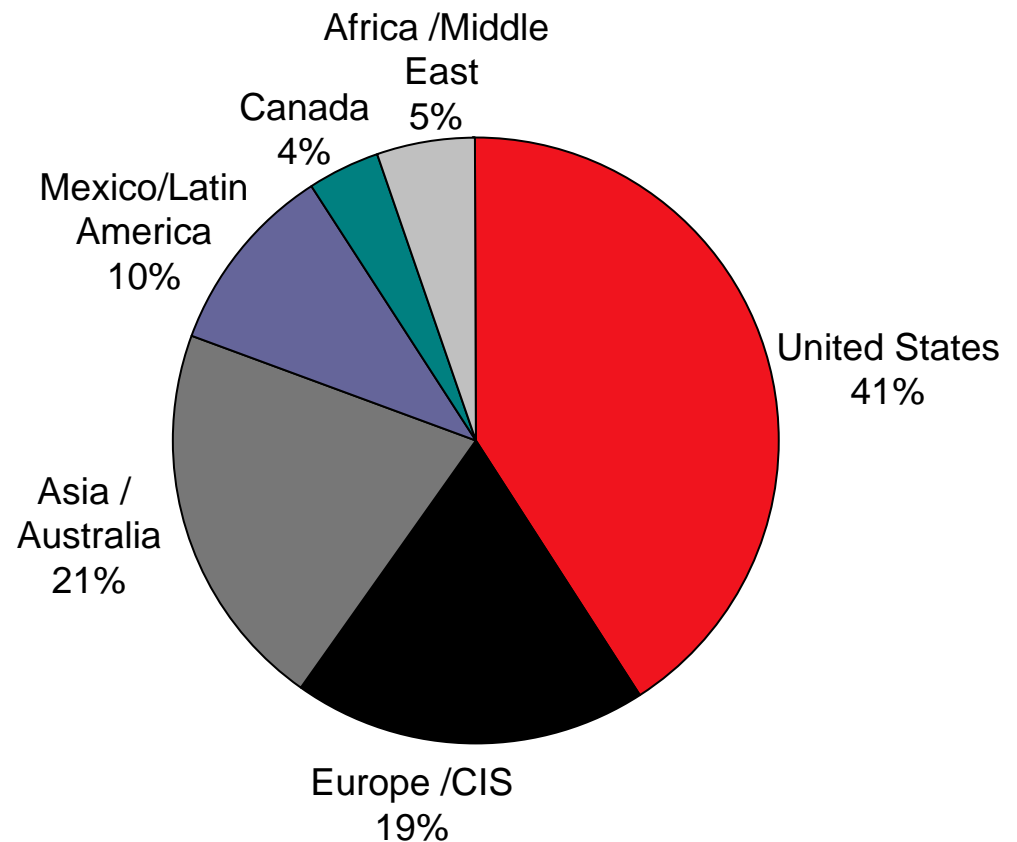
**Q3 2008 LTM Data**  
**Sales: \$14.6 billion**  
**EBIT: \$1,488 million**  
**EBIT Margin: 10.2%**



# Cummins Inc.

## Q3 2008 LTM Revenue by Marketing Territory

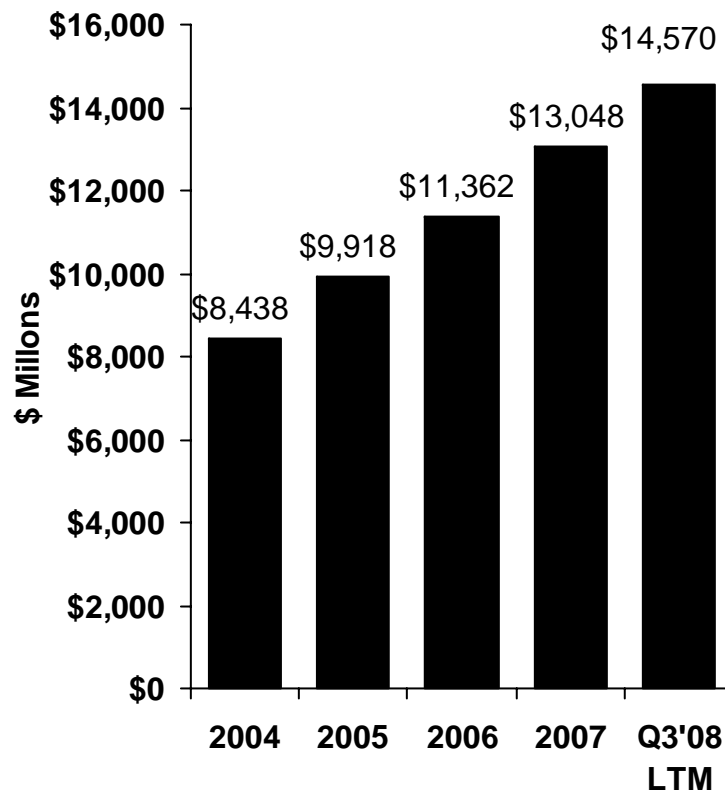
- International revenues grew from 52% of total sales in Q307 to 61% this quarter.
- All international areas growing at double digit rate
- Demonstrates our geographic diversity



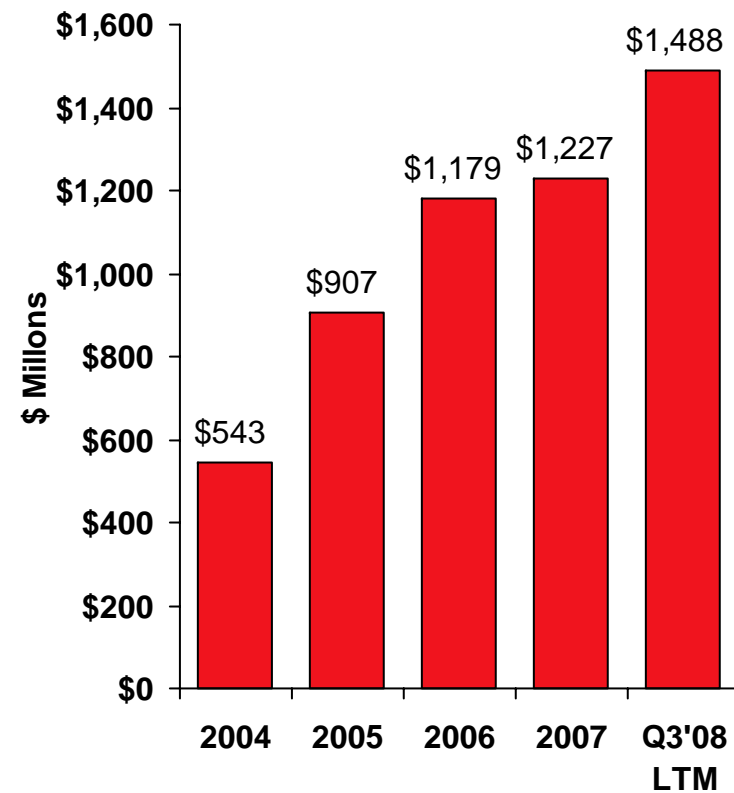


# Cummins - Historical Performance

## Sales



## EBIT





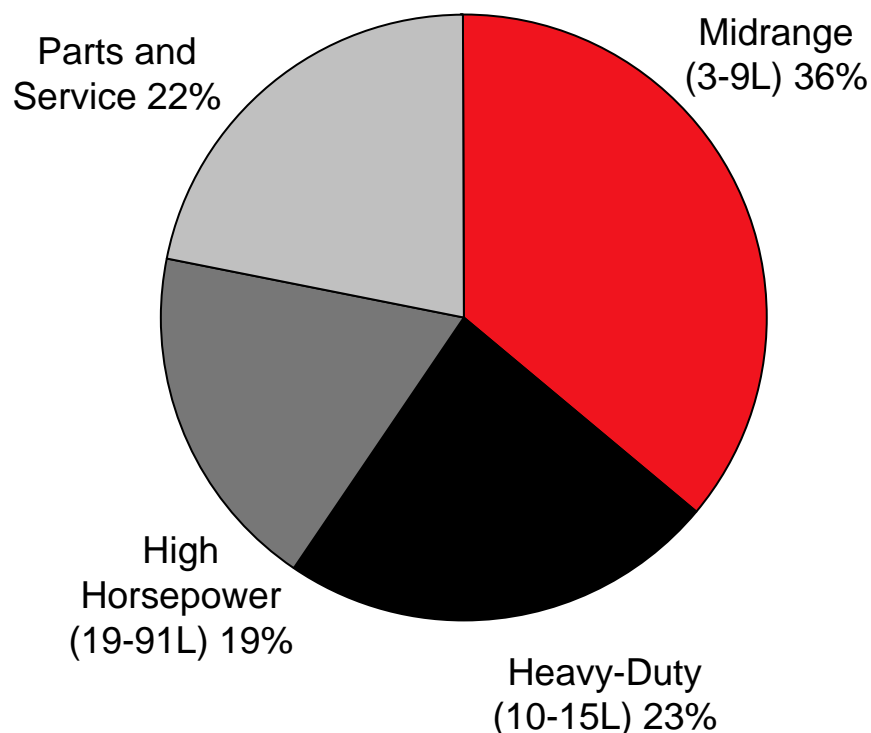
## Engine Segment

### Q3 2008 LTM Revenue by Product

- Emission regulations create opportunities
- Emerging markets
- Strategic OEM partnerships
- New engine platforms
- Aftermarket revenue creates stable earnings

#### Q3 2008 LTM Segment Data

**Sales: \$9.0 billion**  
**EBIT: \$695 million**  
**EBIT Margin: 7.7%**

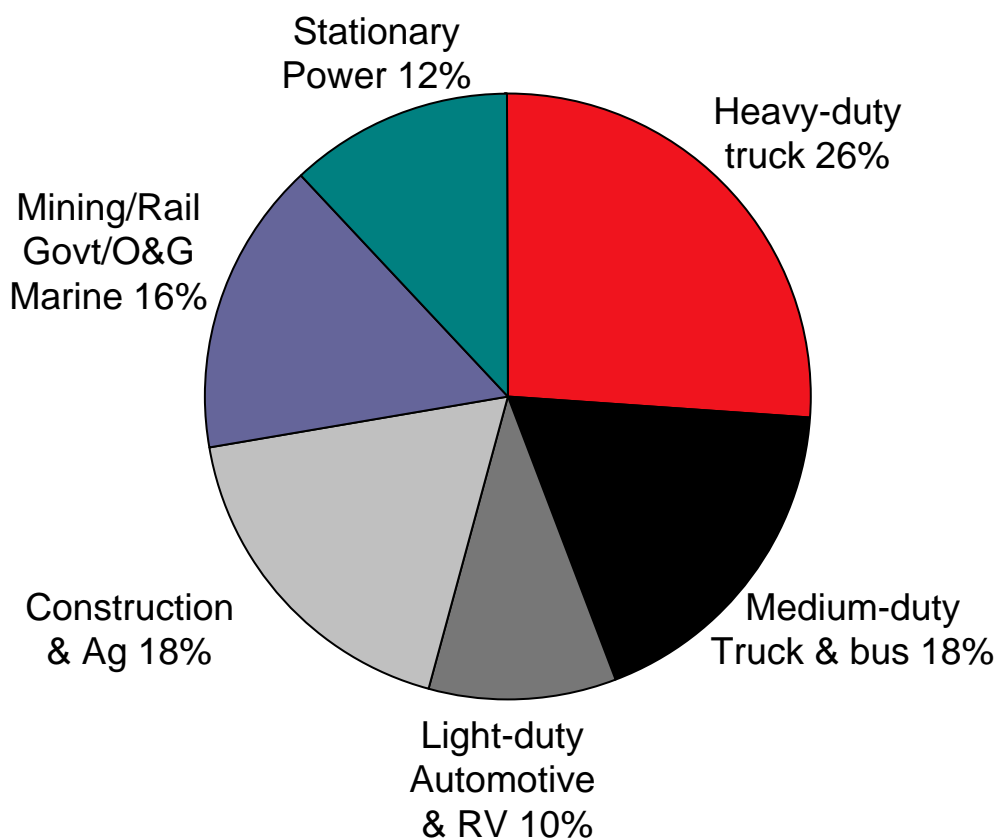




## Engine Segment

### Q3 2008 LTM Revenue by Market Application

- Gaining market share in on-highway markets
- Industrial markets supported by non-residential construction and commodity markets
- Expanding capacity to meet growing demand



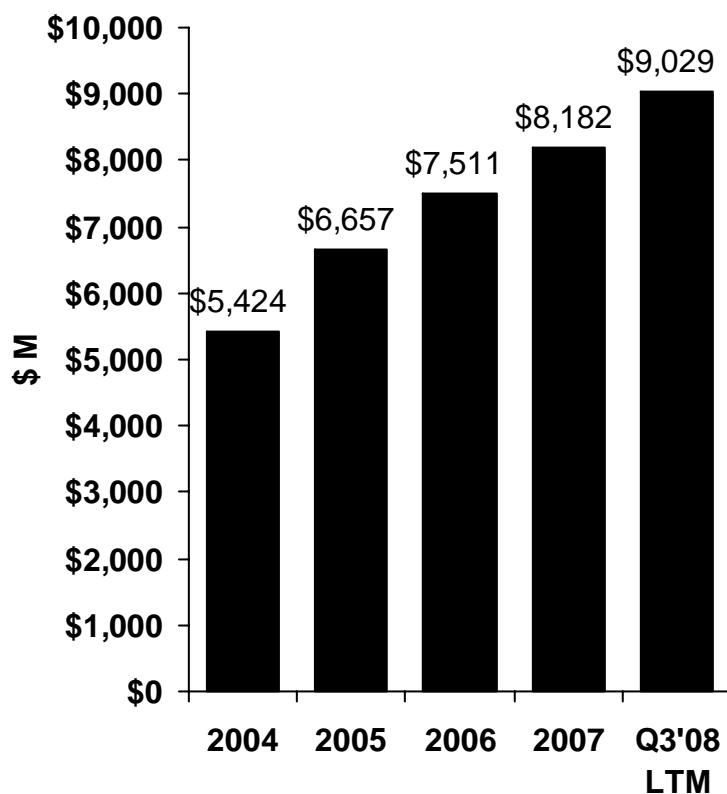
#### Q3 2008 LTM Segment Data

**Sales: \$9.0 billion**  
**EBIT: \$695 million**  
**EBIT Margin: 7.7%**

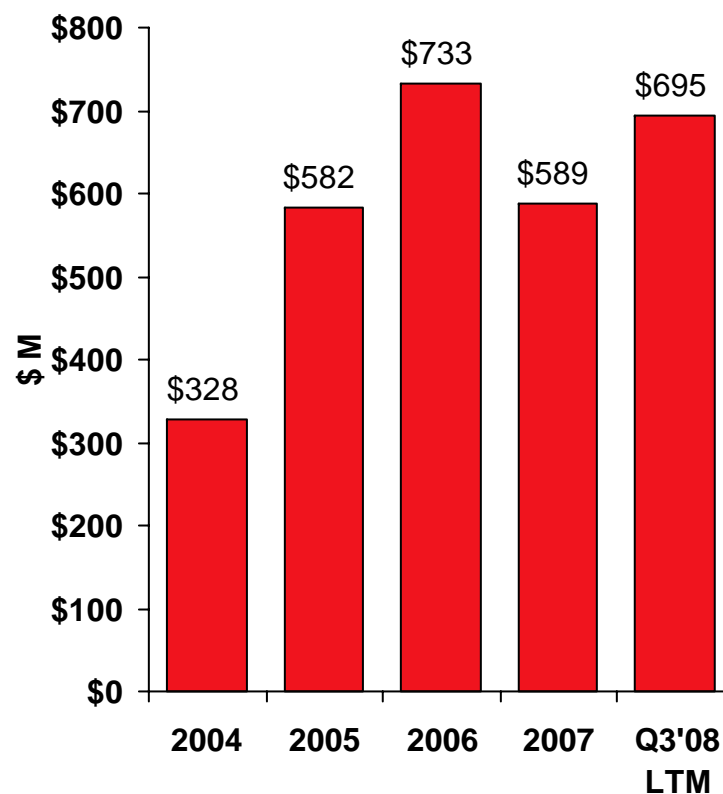


# Engines – Historical Performance

### Sales



### Segment EBIT

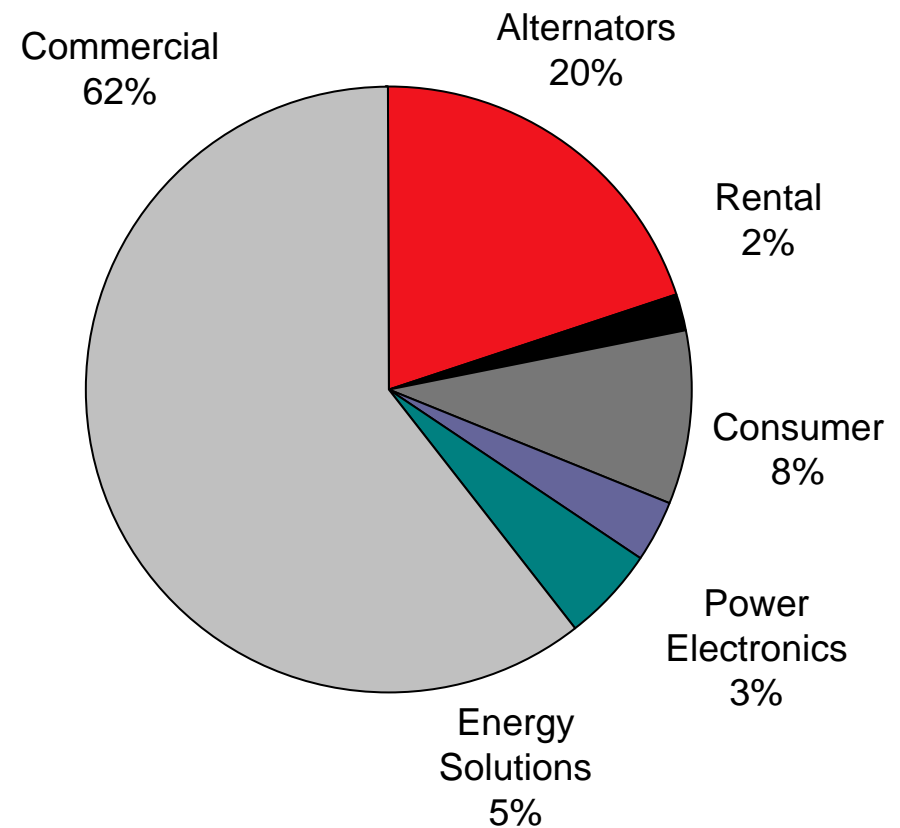




# Power Generation Segment

## Q3 2008 LTM Revenue by Product

- Capitalize on industry growth
- Leverage existing market leadership
- Establish leadership in all major markets
- Expand into new and adjacent markets



### Q3 2008 LTM Segment Data

Sales: \$3.5 billion

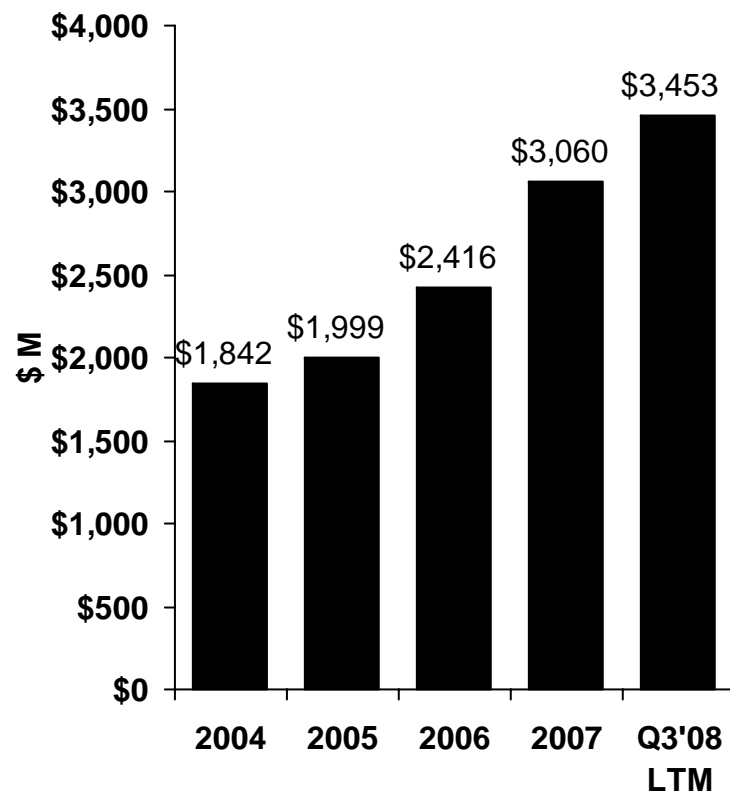
EBIT: \$387 million

EBIT Margin: 11.2%

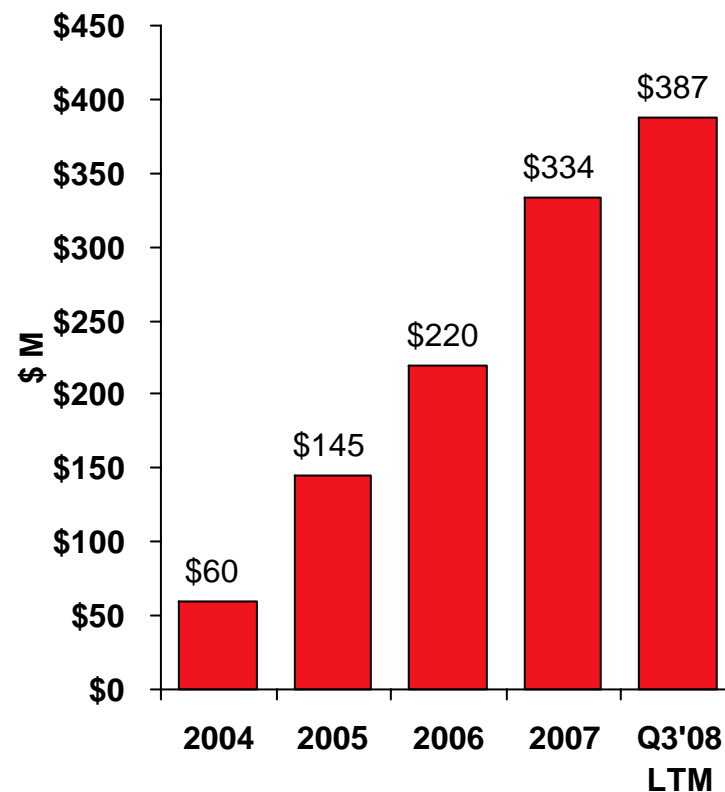


# Power Generation – Historical Performance

## Sales



## Segment EBIT

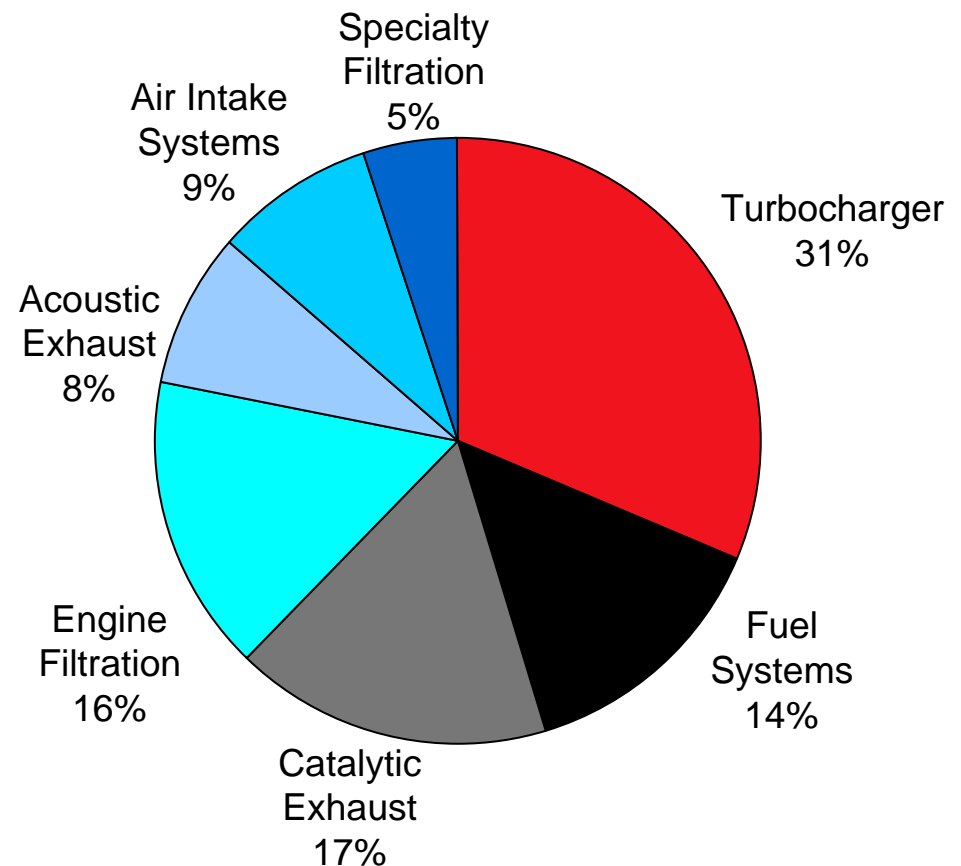




## Components Segment

### Q3 2008 LTM Revenue by Product

- New products launched
- Industry leading technology
- Capacity expansion
- Grow with CMI and non-CMI engine volumes
- Leverage global distribution to grow aftermarket



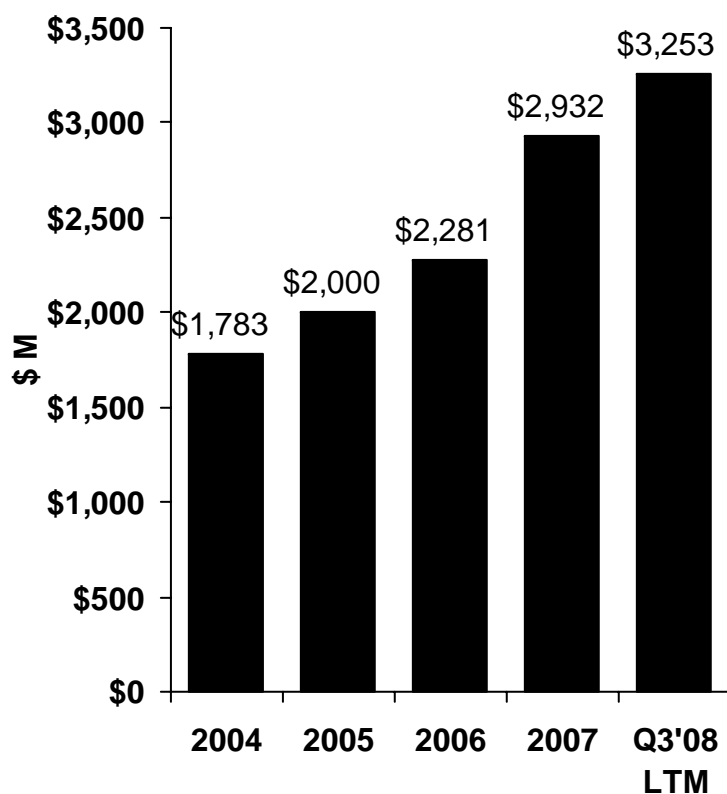
#### Q3 2008 LTM Segment Data

**Sales: \$3.3 billion**  
**EBIT: \$222 million**  
**EBIT Margin: 6.8%**

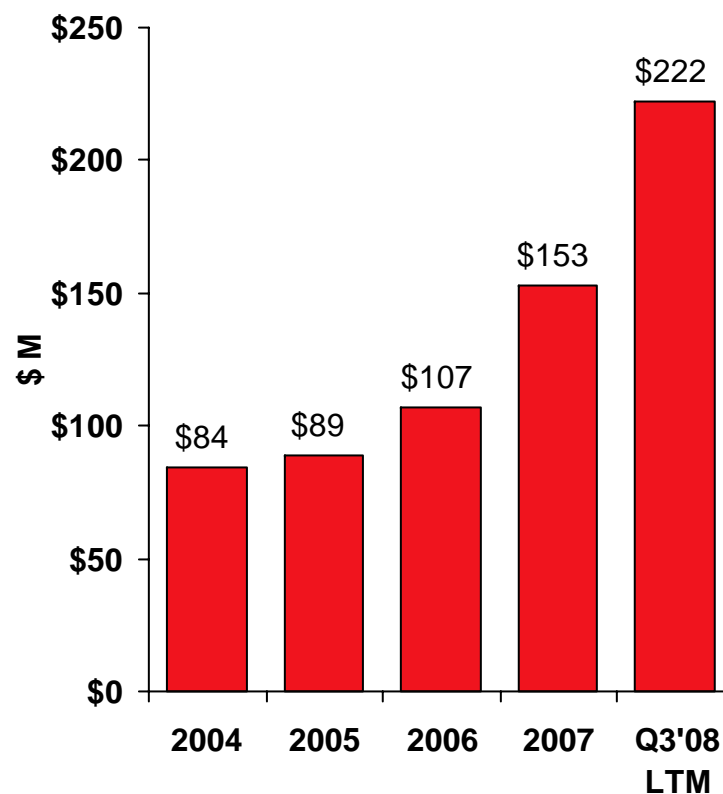


# Components - Historical Performance

## Sales



## Segment EBIT





## Distribution Segment

### Q3 2008 LTM Revenue by Product

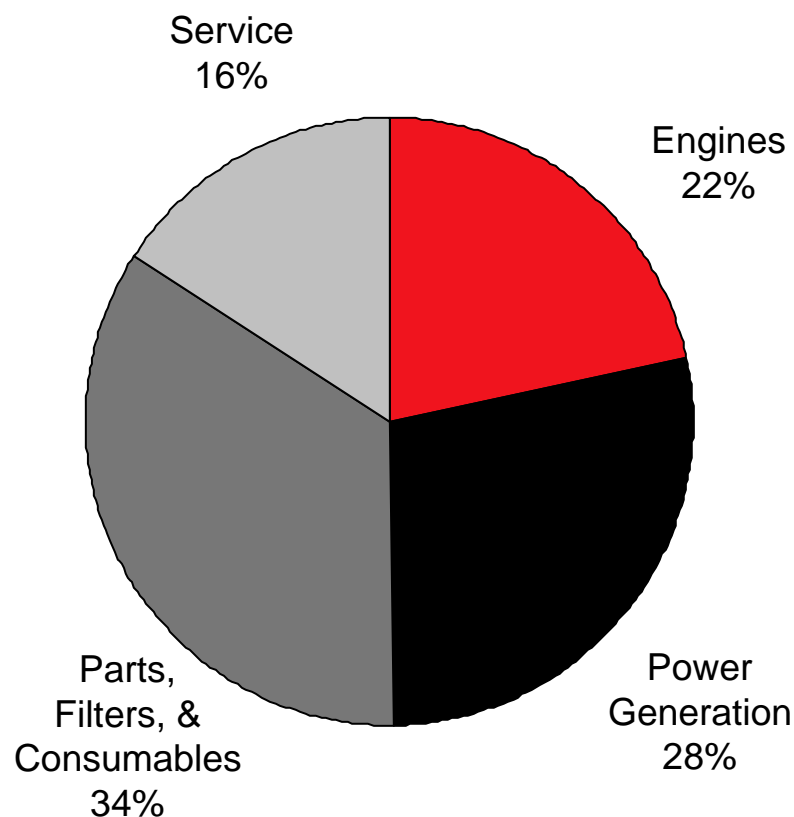
- Continue acquisitions, consolidations and integrations
- Leverage Cummins equipment growth
- World-class customer support
- Build capabilities – invest in growing regions

#### Q3 2008 LTM Segment Data

Sales: \$2.1 billion

EBIT: \$234 million

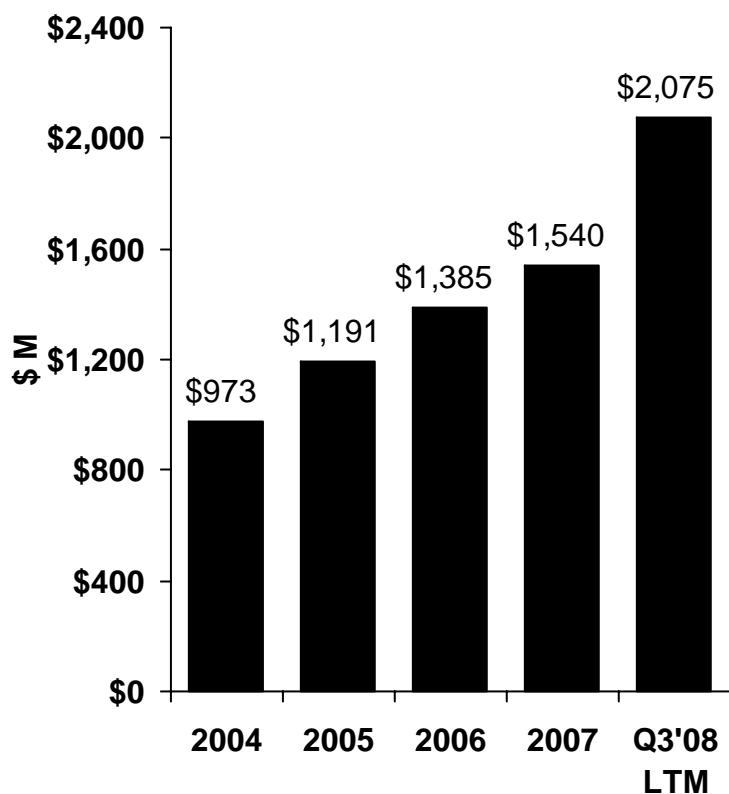
EBIT Margin: 11.3%



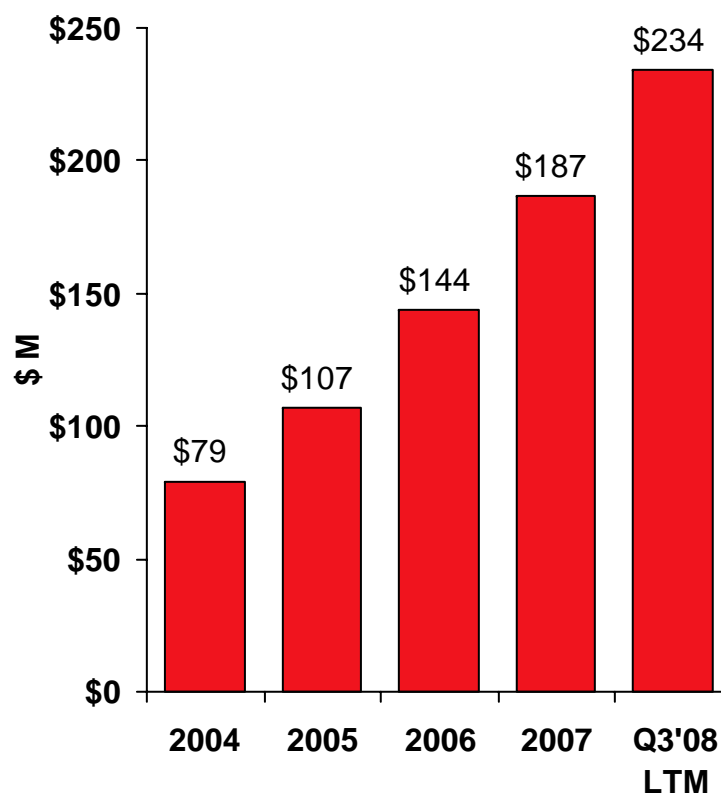


# Distribution - Historical Performance

### Sales



### Segment EBIT



# Non-GAAP Reconciliations





## Non-GAAP Reconciliation - EBIT

Millions	<u>Three Months Ended</u>		
	September 30, 2008	June 29, 2008	September 30, 2007
Segment EBIT	\$ 380	\$ 469	\$ 306
Less: Interest Expense	<u>\$ 10</u>	<u>\$ 12</u>	<u>\$ 14</u>
Earnings before income taxes and minority interests	\$ 370	\$ 457	\$ 292

We define EBIT as earnings before interest expense, provision for income taxes and minority 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 programs. The table above reconciles EBIT, a non-GAAP financial measure, to our consolidated earnings before income taxes and minority 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 to 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 - EBITDA

### Three Months Ended

Millions	September 30, 2008	June 29, 2008	September 30, 2007
Segment EBIT	\$ 380	\$ 469	\$ 306
Add back: Depreciation & Amortization	\$ 75	\$ 83	\$ 73
EBITDA	\$ 455	\$ 552	\$ 379

We define EBITDA as earnings before interest expense, provision for income taxes, minority interests in earnings of consolidated subsidiaries and depreciation and amortization expense. We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to financing methods, capital structure, income taxes or depreciation 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 – Net Assets

Millions	September 30, 2008	September 30, 2007
Net assets for operating segments	\$ 4,702	\$ 4,351
Liabilities deducted in computing net assets	4,102	3,842
Pension and other postretirement liabilities	(332)	(817)
Deferred tax assets not allocated to segments	488	630
Debt-related costs not allocated to segments	25	26
Total assets	\$ 8,985	\$ 8,032

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	September 30, 2008	September 30, 2007
Equity used for return on equity calculation	\$ 4,255	\$ 3,723
less Defined other postretirement benefits	3	9
less Defined benefit pension plans	360	519
Total shareholder's equity	\$ 3,892	\$ 3,195

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.