



The Notorious B.I.C.



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History



- 1919 - Company is established (Columbus, IN)
- Started by a self-taught mechanic and inventor, **Clessie Lyle Cummins**, & successful banker and investor, **William Glanton Irwin**
- C.L. Cummins saved company after an unsuccessful decade through marketing techniques
- 1933 - Released Model H
- 1950's - Development of highway system

Recent News



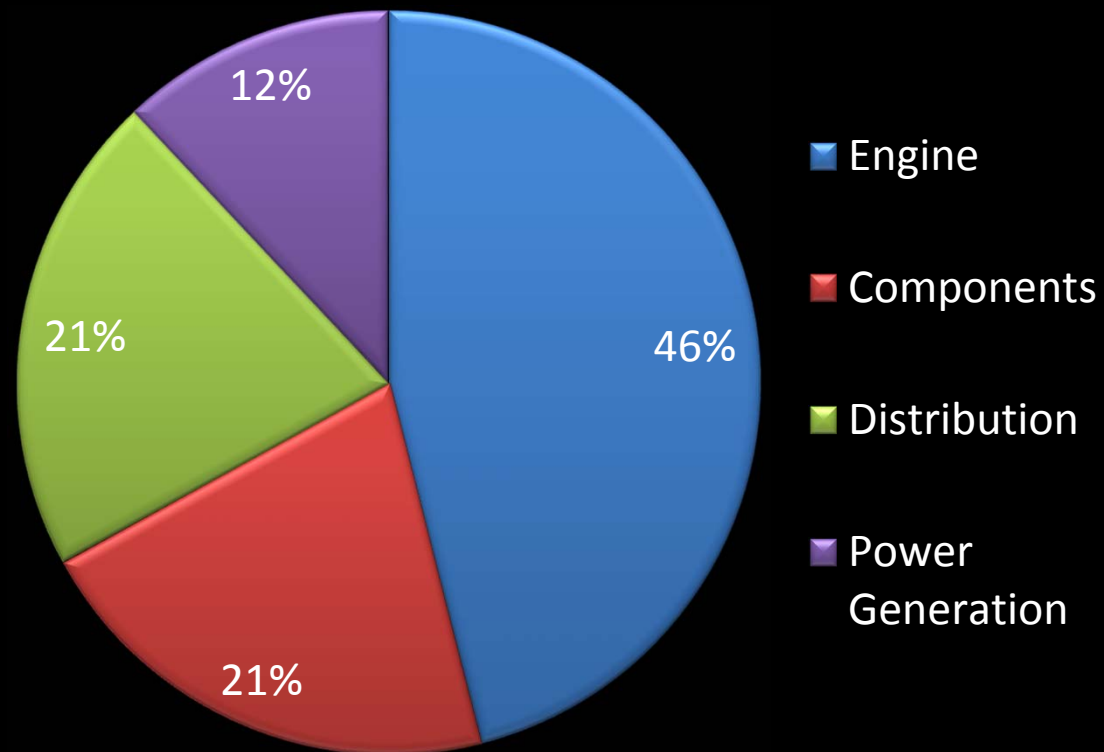
- Increased truck demand makes their continual success promising
- High focus on cutting costs
- Creation of Marine organization within Engine segment

Recent News



- Connected Diagnostics application
- Designed new 4-cylinder engines to comply with EPA regulations
- Started production of QSX15 Series for John Deere Tractors

Revenue by Segment



Engine



Markets served:

- Heavy-duty truck
- Medium-duty truck and bus
- Light-duty automotive and RV
- Industrial



Distribution



Products & services:

- Parts & filtration
- Power generation
- Engines
- Services

Components



Businesses served:

- Emission solutions
- Turbo technologies
- Filtration
- Fuel systems

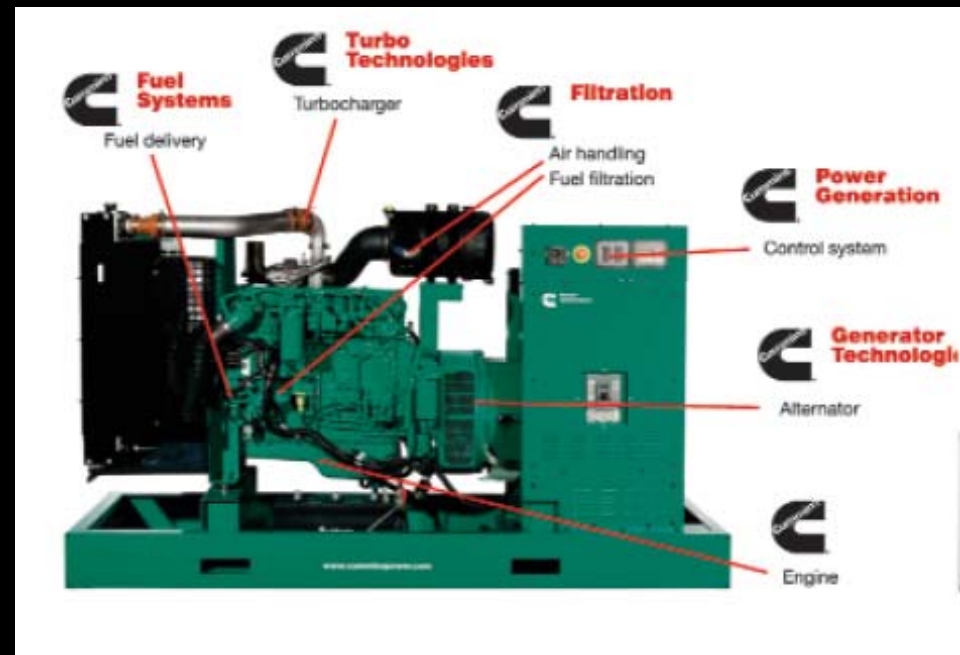


Power Generation



Businesses served:

- Power products
- Power systems
- Alternators
- Power solutions



Acquisitions



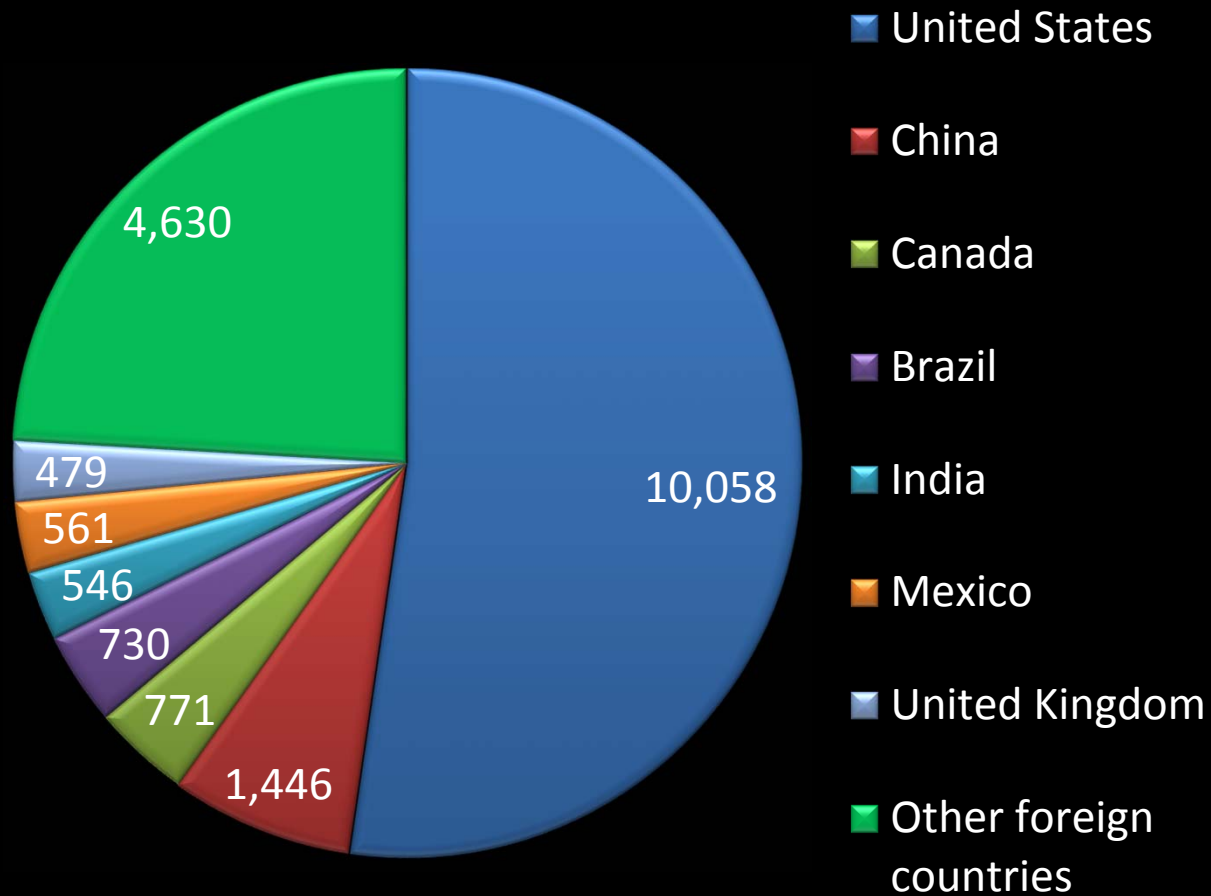
- Made 7 acquisitions in 2014
 - Accounted for 31% of the 58% revenue growth (Distribution) in Q4
- Looking to make 3 more in 2015

Competitive Advantages



- Globalization
- Customer Expectations
- Diversity
- Sustainability

Sales by Location (in millions)



Risk Factors



- Downturn of markets
- Unpredictability of emission standards
- Product recall
- Slowdown of infrastructure

Other Concerns



- Largest Customers
- Environmental Compliance
- Research and Development



Joint Ventures, Alliances, and Non-Wholly Owned Subsidiaries

- Distribution of Entities
 - North American
 - Komatsu Cummins Chile, Ltd
- Manufacturing Entities
 - Chongqing Cummins Engine Co. Ltd
 - Dongfeng Cummins Engine Co. Ltd
 - Beijing Foton Cummins Engine Co. Ltd
- Non-Wholly Owned Subsidiary
 - Cummins India Ltd.

Qualitative Review



What type of business is this: commodity or sustained competitive advantage?	Sustained Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	30%
Does it require heavy capital infusion?	Yes
Does it require lots of research and development?	Yes
Can inventory become obsolete?	No
Are there chronic "one time" write offs?	Yes
Is the company able to raise its prices to offset inflation?	Yes
Will the company be able to sell more in the future?	Yes
If I gave you \$1 billion could you develop a competitor? If the answer is "no" your business has a sustained competitive advantage.	No



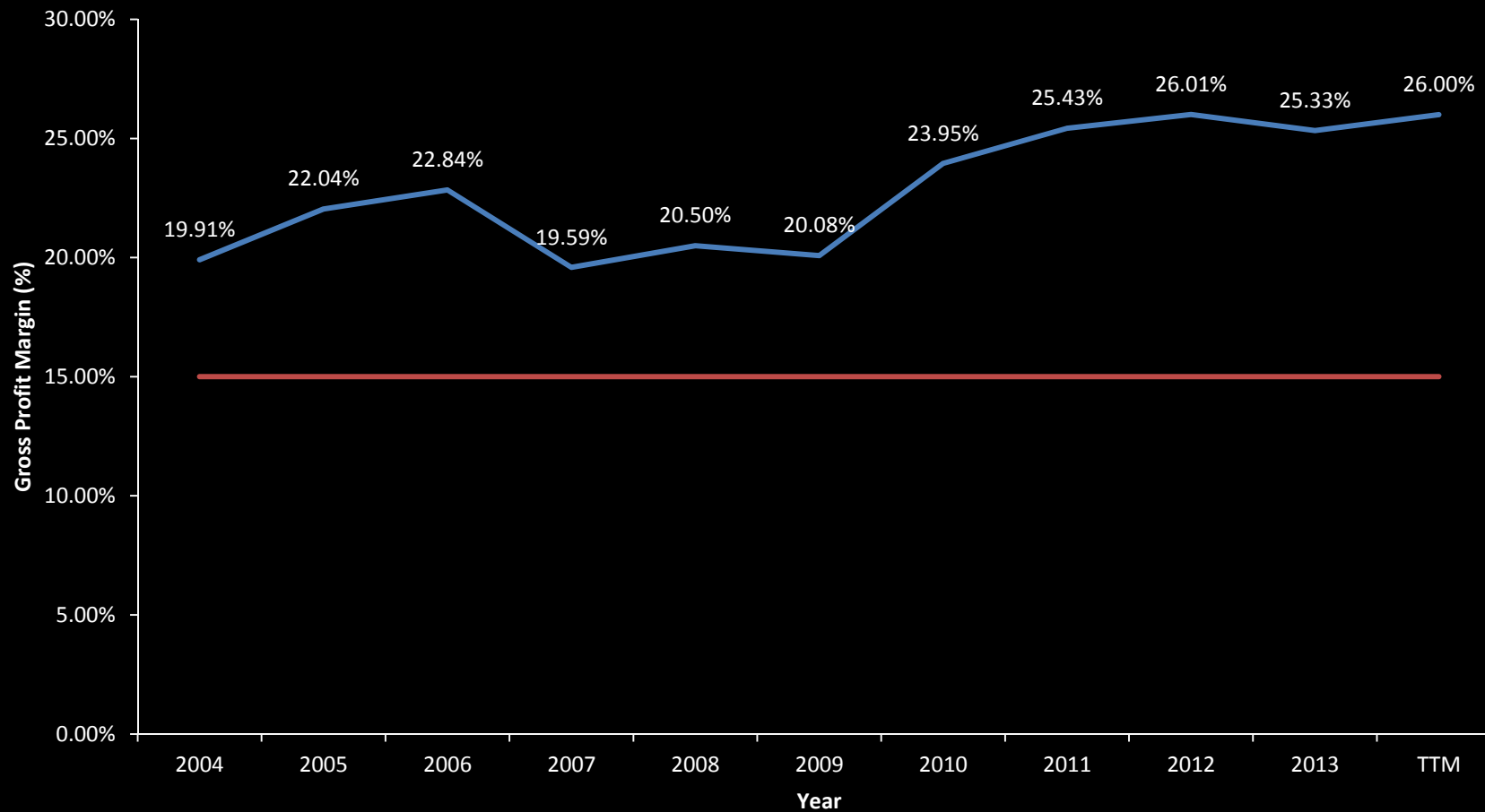
Quantitative Analysis

Interpretation of Financial Statements

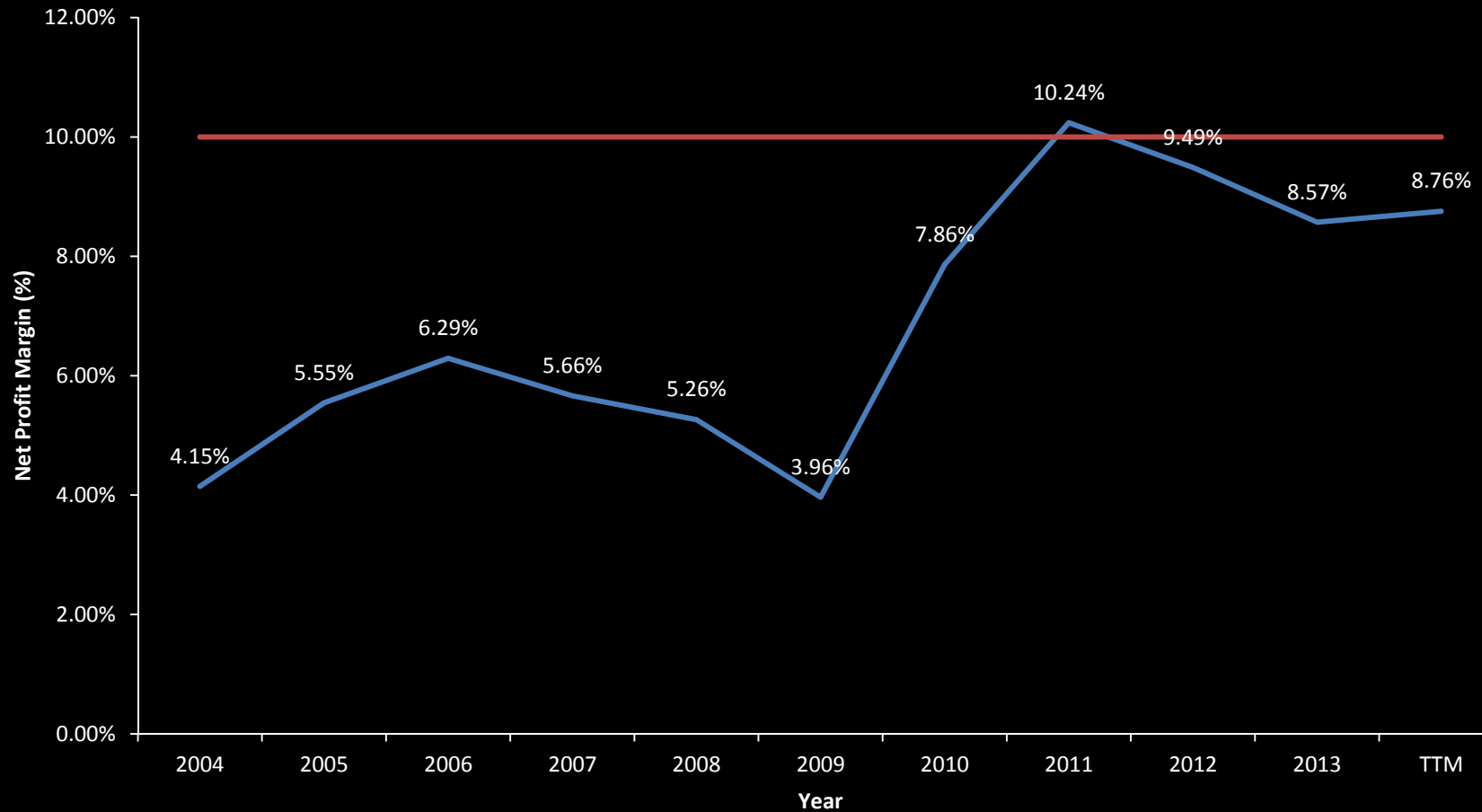


<u>TTM</u>	<u>Value</u>	<u>Low Threshold</u>	<u>Pass?</u>
Gross Profit Margin	26.00%	$\geq 20\%$	Yes
% SGA	44.00%	$\leq 80\%$	Yes
% R&D	15.00%	$\leq 10\%$	No
% Depreciation	8.80%	$\leq 10\%$	Yes
Interest % of OP	2.80%	$\leq 15\%$	Yes
Net Profit Margin	8.70%	$\geq 10\%$	No
Current Ratio	2.20	≥ 1	Yes
Obligation Ratio	0.05 years	< 5 years	Yes
Adj. Debt to Shareholder Equity	0.75	< 0.8	Yes
Return on Equity	21.15%	$\geq 15\%$	Yes
Return on Capital	17.56%	$\geq 15\%$	Yes
Dividend Payout Ratio	29.53%	$\leq 60\%$	Yes
Preferred Stock	None	None	Yes
Capital Expenditures	44.48%	$\leq 25\%$	No
Net Earning Trend	Up	Up	Yes
Retained Earnings Trend	Up	Up	Yes

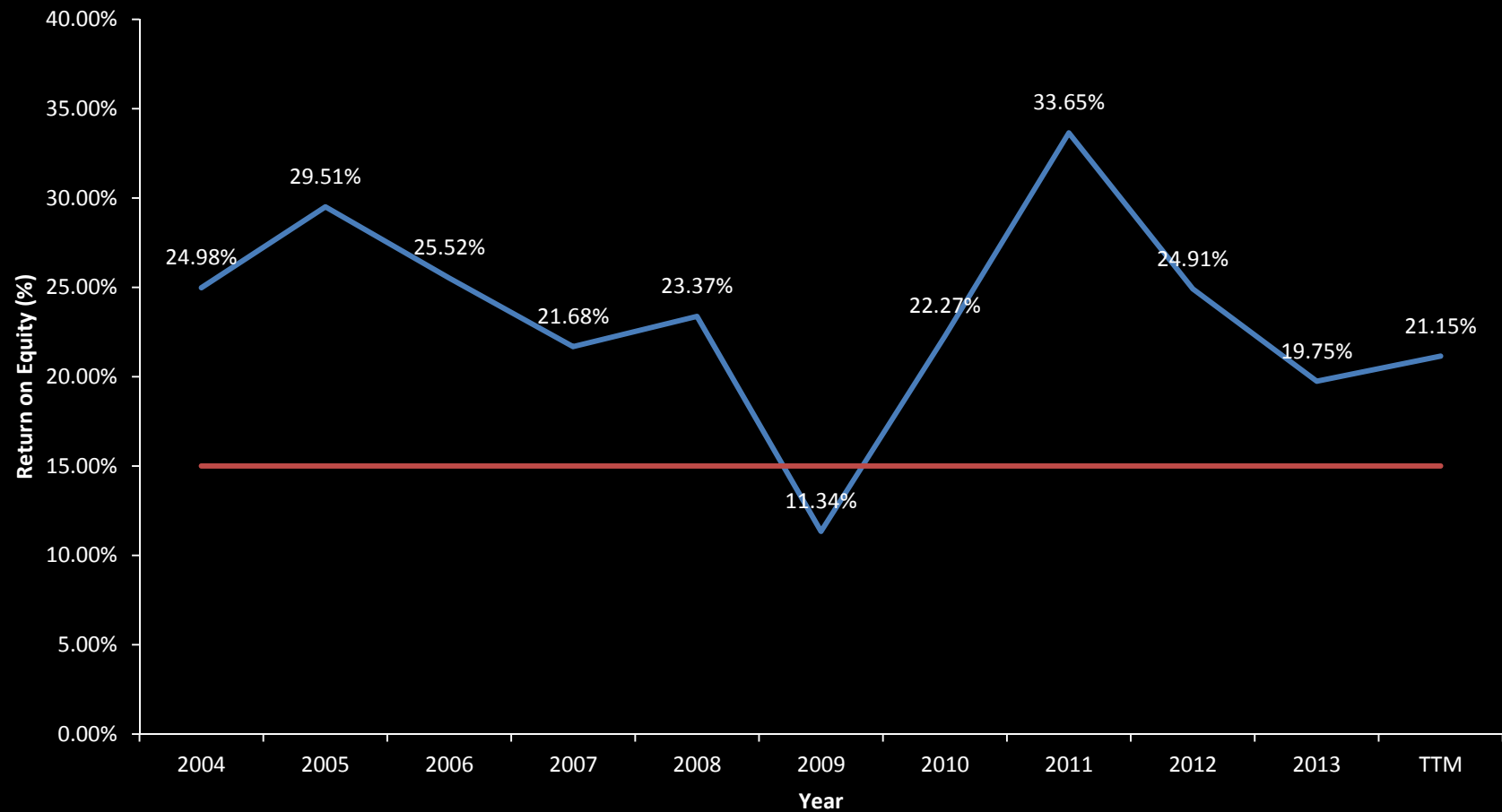
Gross Profit Margin



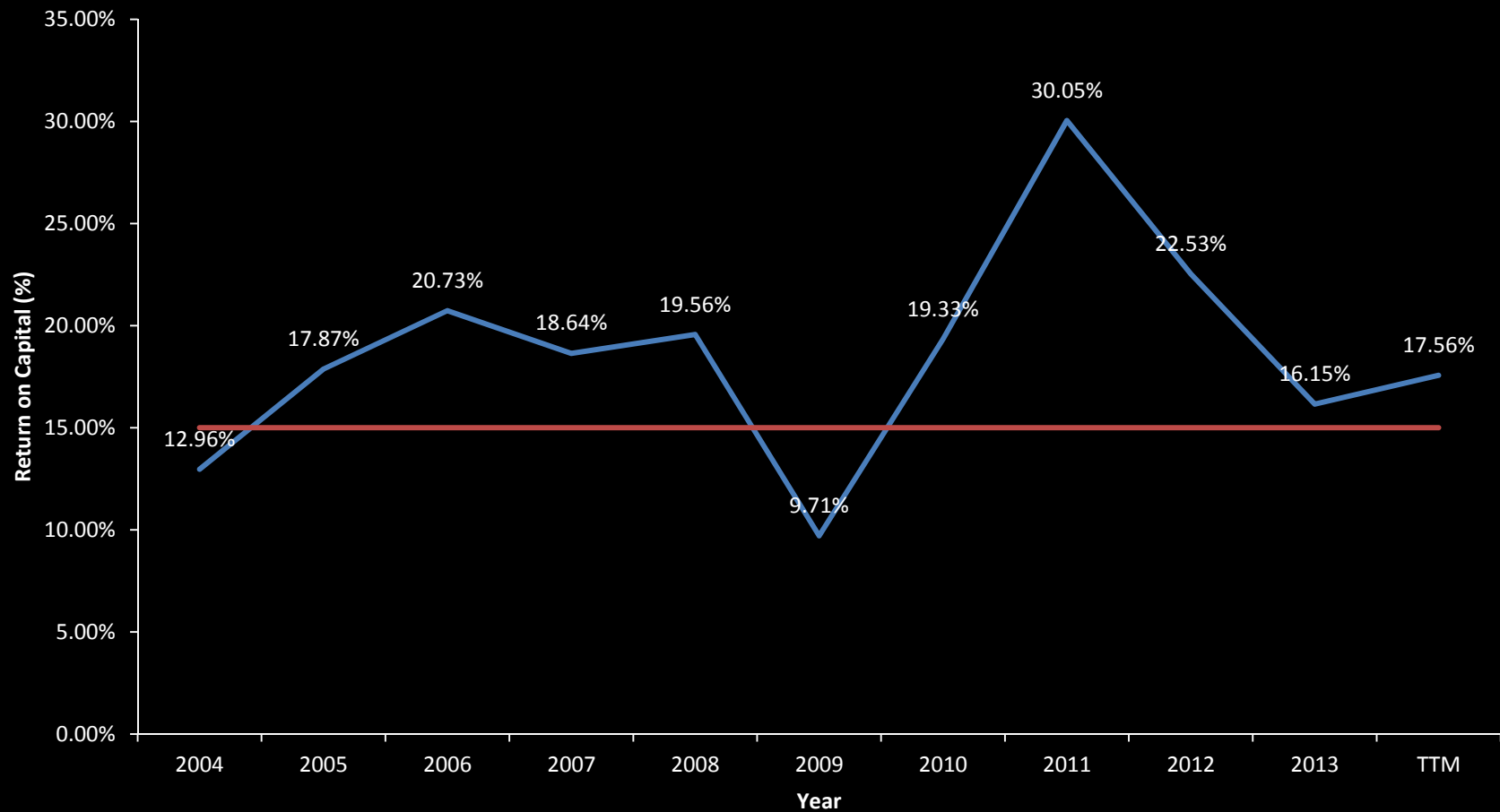
Net Profit Margin



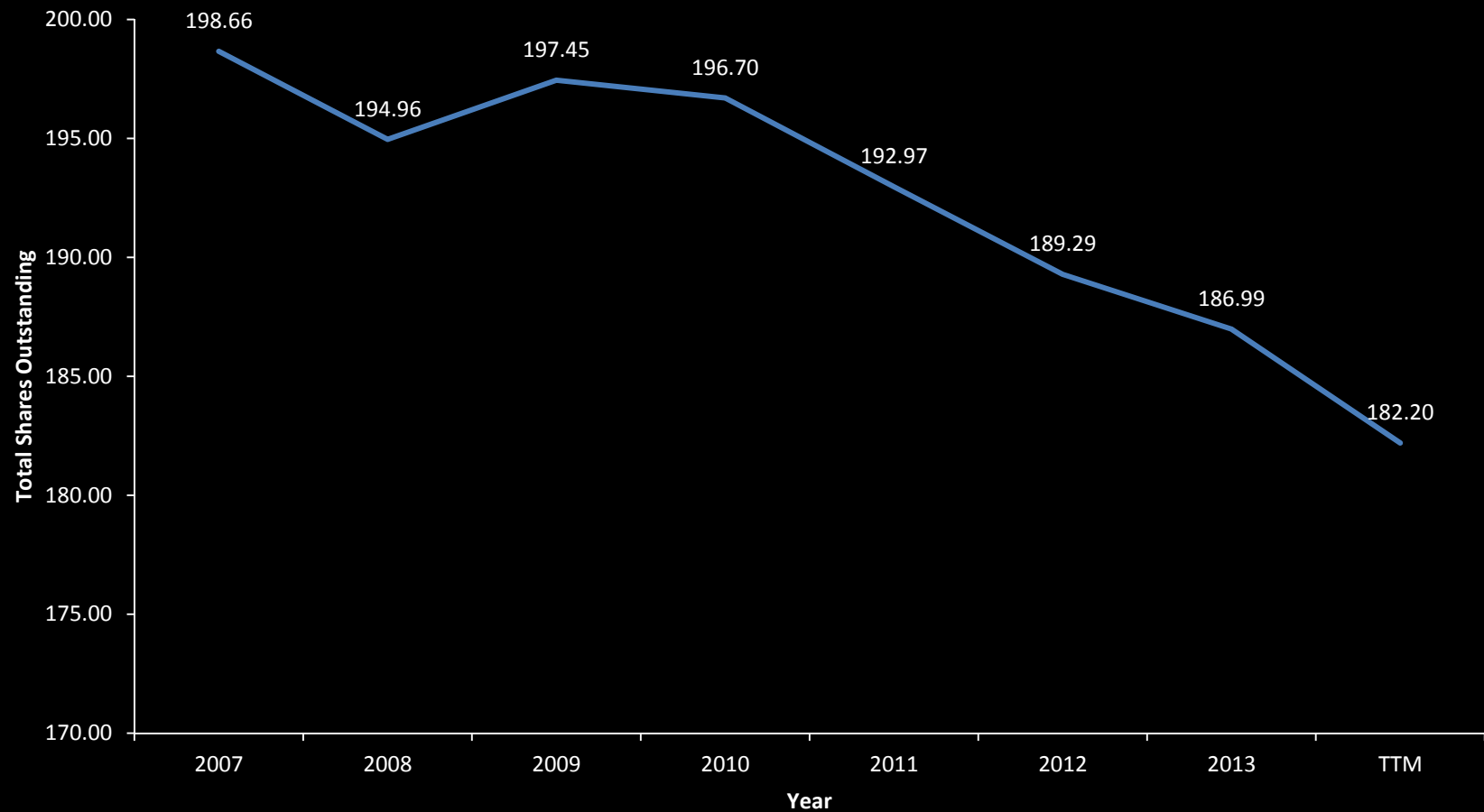
Return on Equity



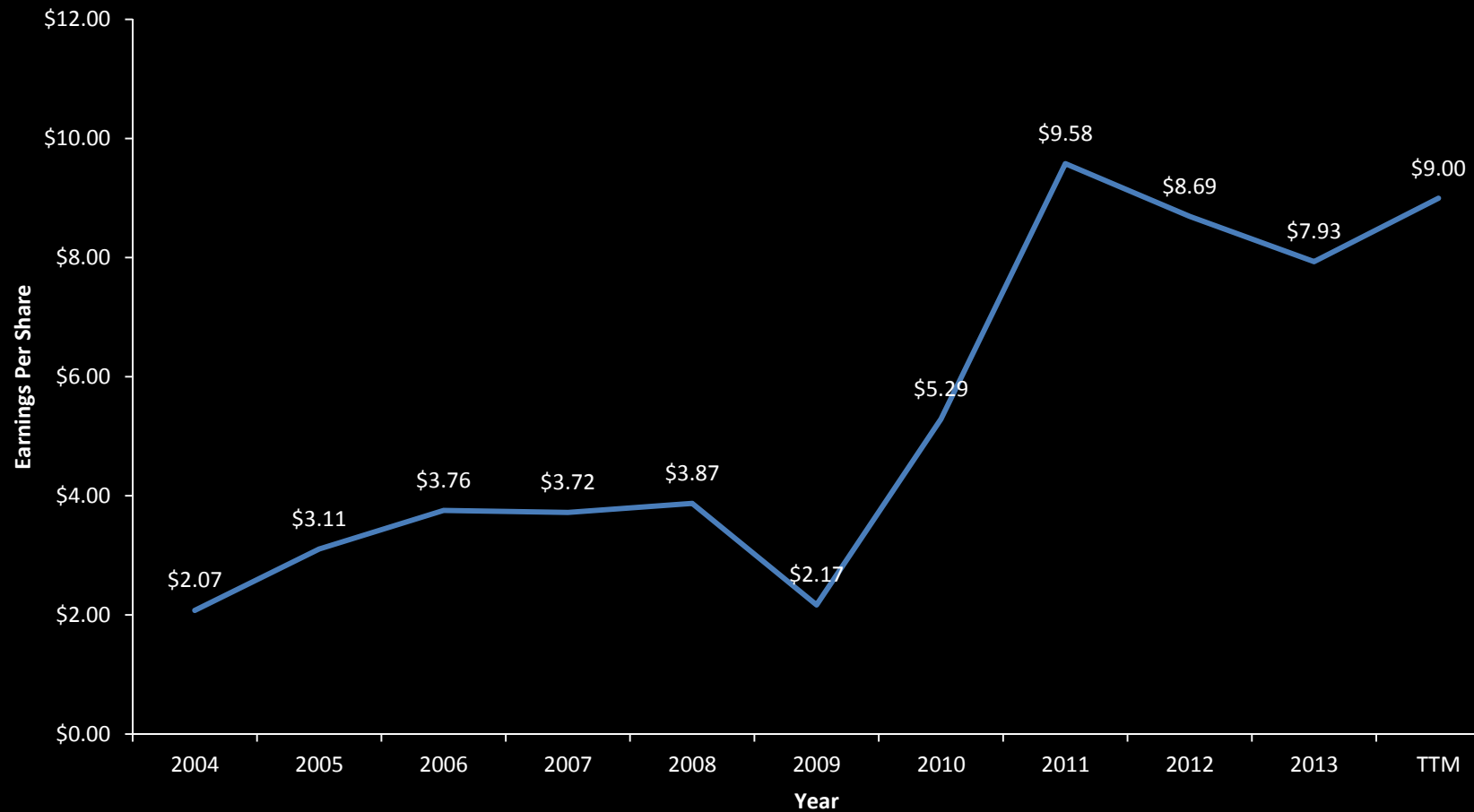
Return on Capital



Total Shares Outstanding



Earnings Per Share



Statistical Array Analysis

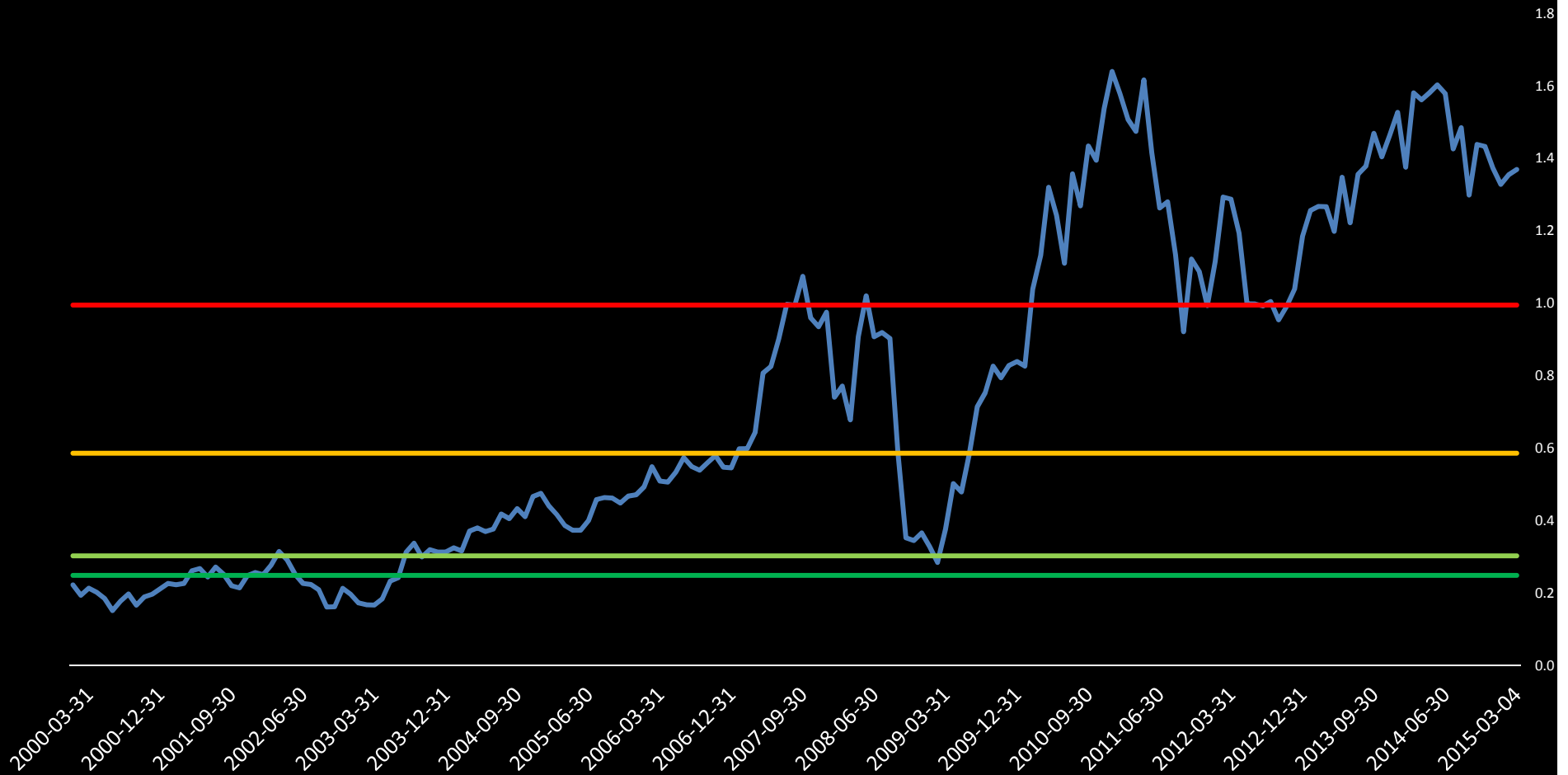


Increasing trends?	
Sales per Share	Increasing
Cashflows per Share	Increasing
Earnings per Share	Increasing
Dividends Declared per Share	Increasing
Capital Spending per Share	Increasing
Book Value per Share	Increasing
Revenues (Sales)	Increasing
Gross Profit Margin	Increasing
Operating Profit Margin	Increasing
Number of Stores	N/A
Net Profit	Increasing
Net Profit Margin	Increasing
Working Capital	Increasing
Shareholder's Equity	Increasing
Return on Total Capital	Stable
Return on Shareholder's Equity	Stable
Common Shares Outstanding	Decreasing
Long-Term Debt	Yes
LT Debt Payable in 5 years	Yes
All Dividends to Net Profit under 60%	Yes

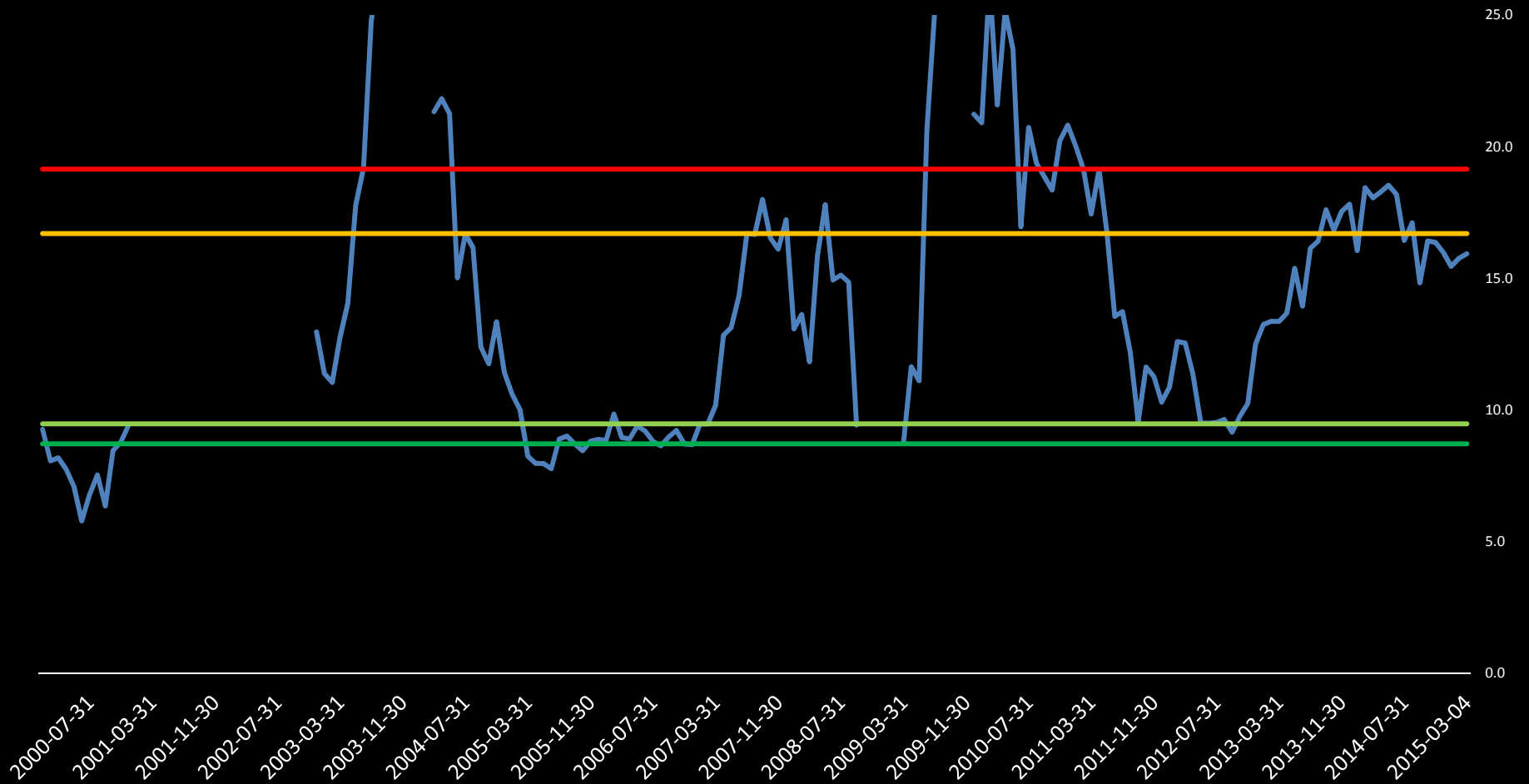


Van Den Berg Ratios

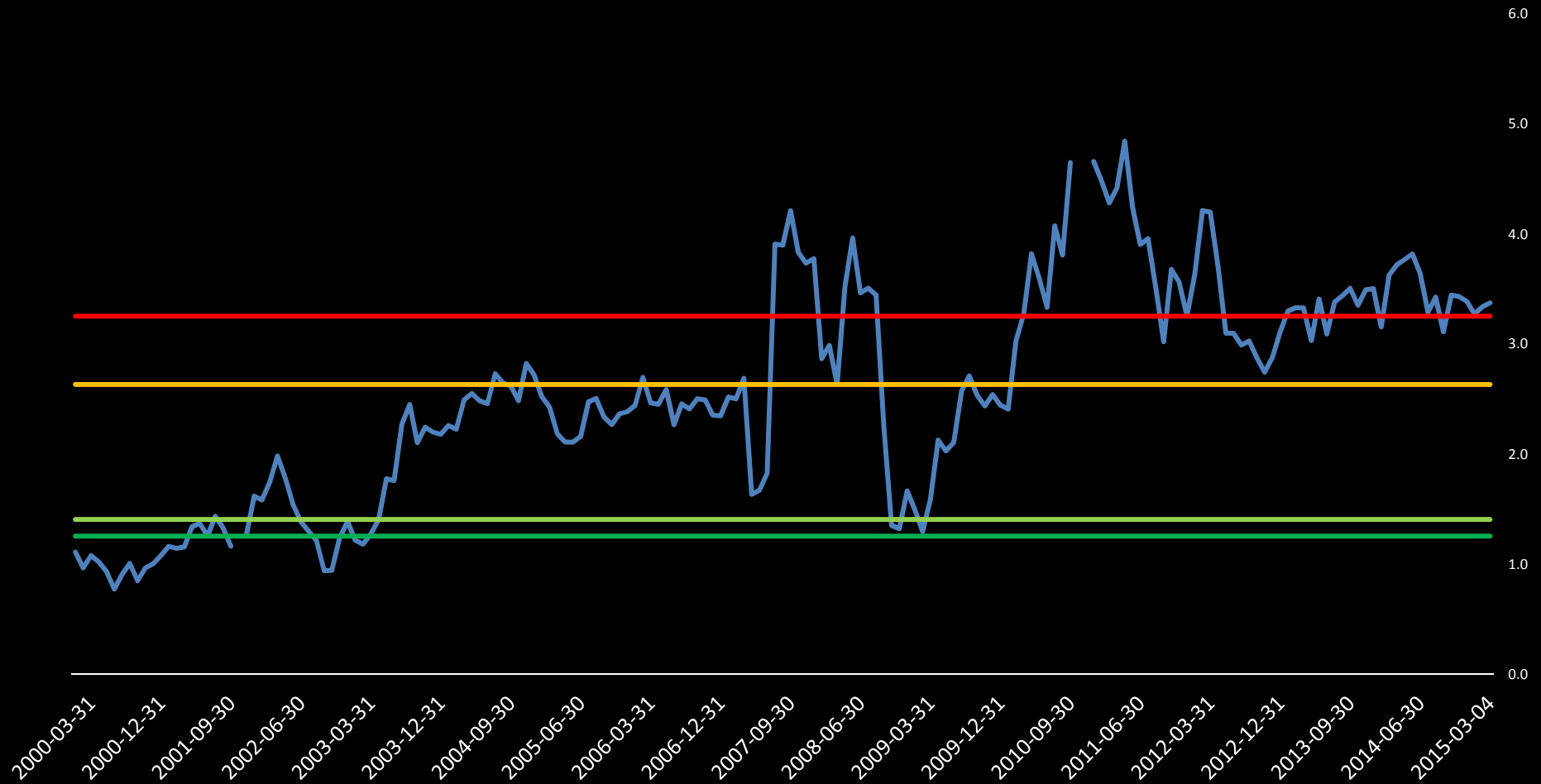
Price/Sales



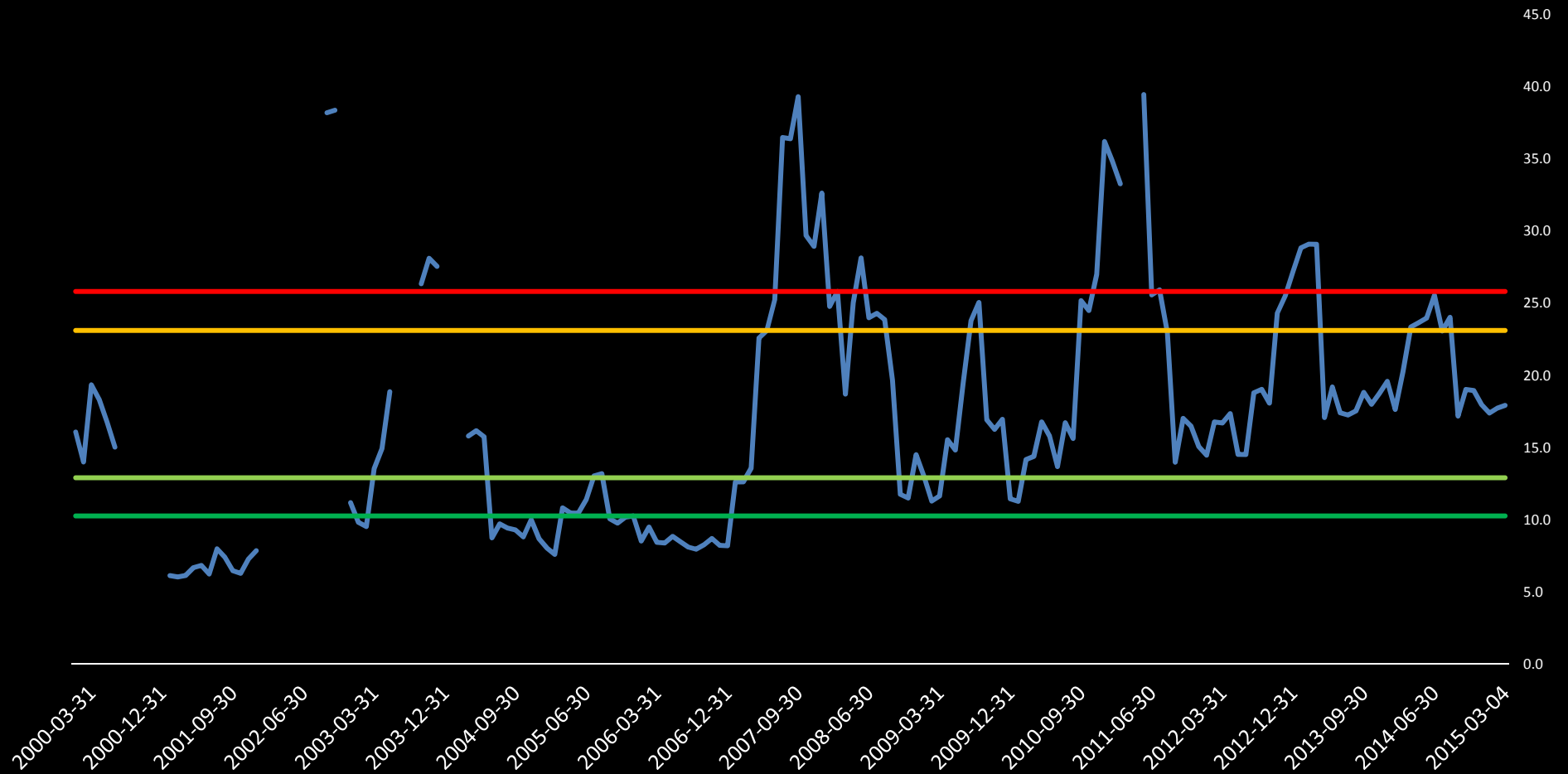
Price/Earnings



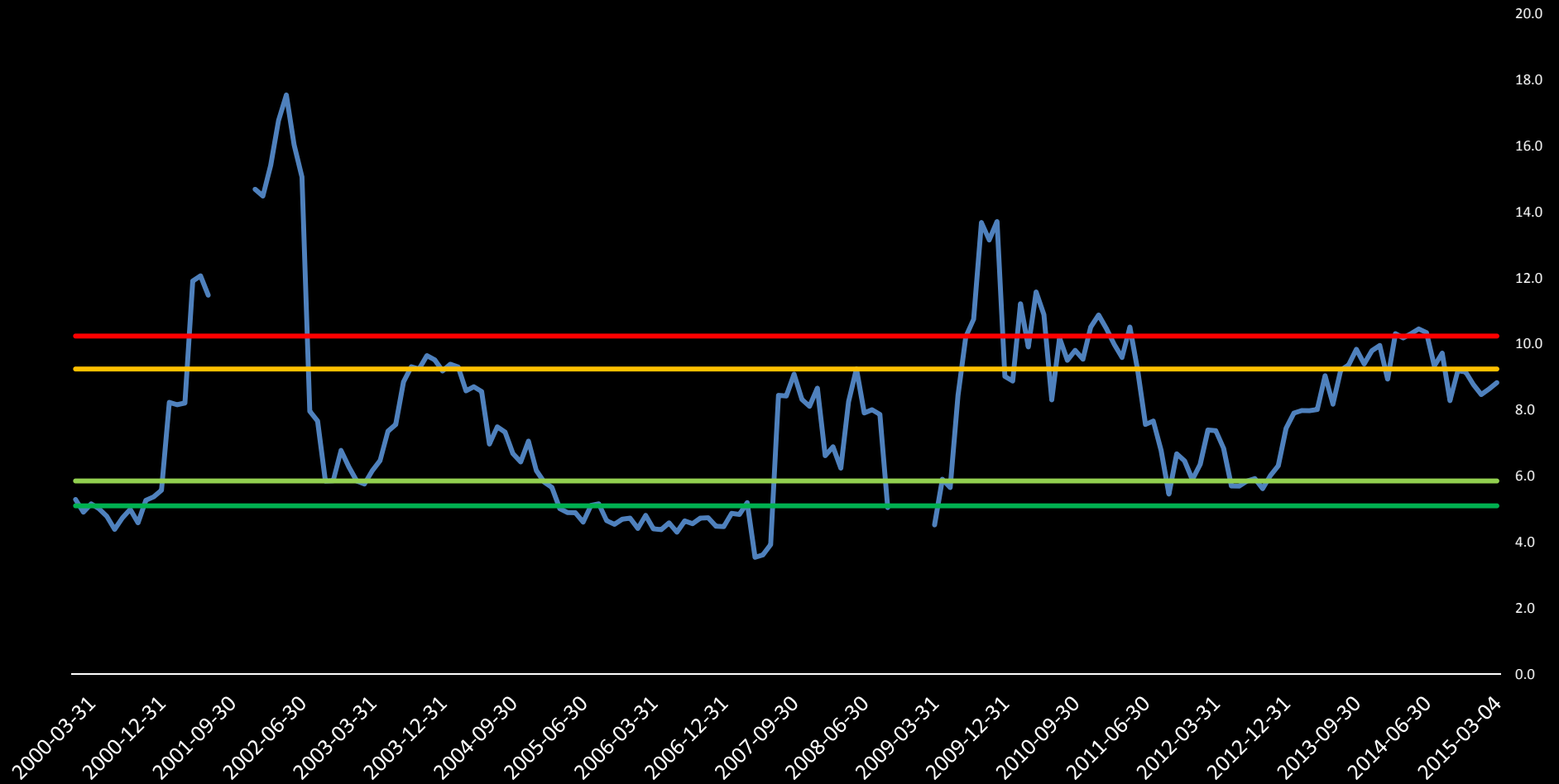
Price/Book



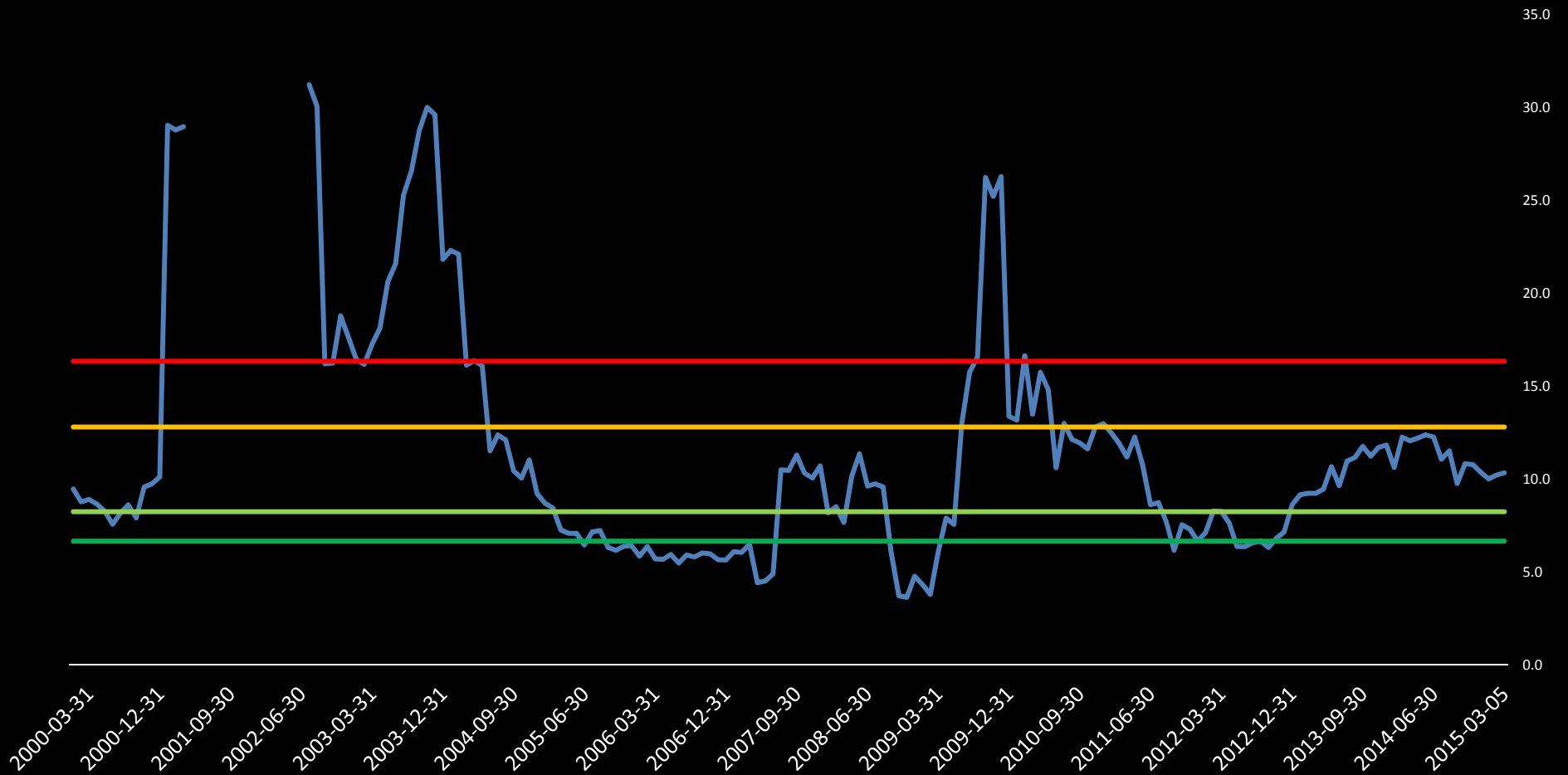
Price/Free Cashflow



EV/EBITDA



EV/EBIT



Valuation Summary



	Historical Rank	Current Multiple
P/S	92%	1.37
P/E	64%	15.94
P/B	84%	3.38
P/CFO	74%	11.62
P/FCF	55%	17.93
EV/Rev	94%	1.36
EV/EBITDA	65%	8.84
EV/EBIT	48%	10.45



Debt Schedule

Morningstar

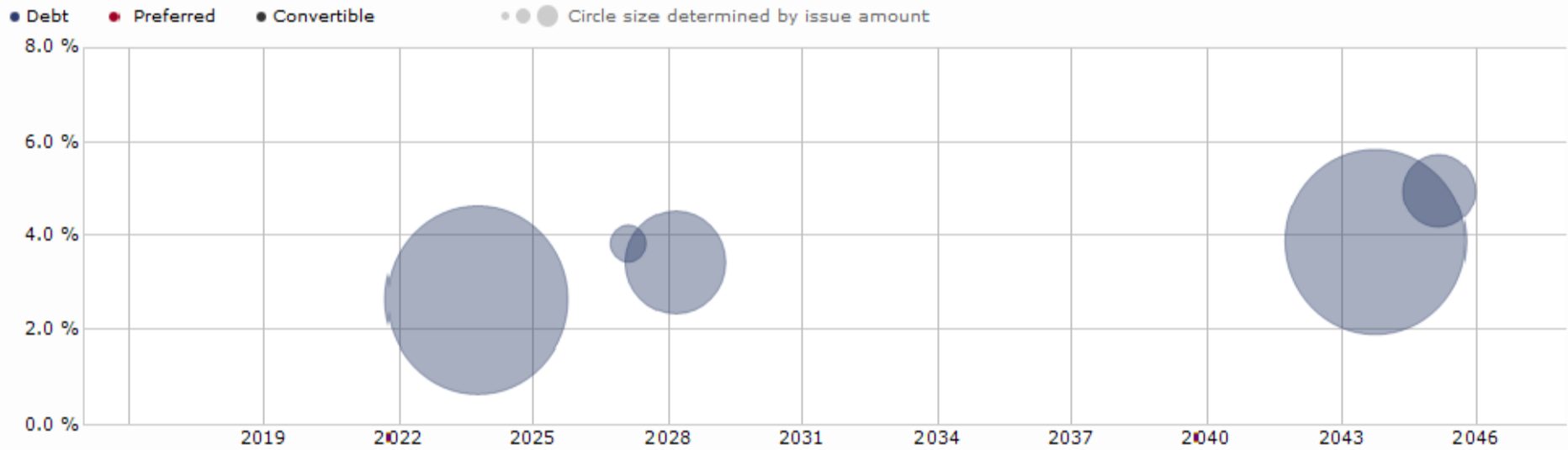


Name	Maturity Date	Amount \$(Mil)	Credit Quality	Price	Coupon %	Coupon Type (Fixed/Floating)	Callable	Rule 144A	Yield to Maturity %
CU 9.75%	04/01/2016	0.000	---	---	9.750	---	---	---	---
CU 3.65%	10/01/2023	500.0	---	107.0	3.650	Fixed	No	No	2.73
CU 6.75%	02/15/2027	58.0	---	127.9	6.750	Fixed	No	No	3.83
CU 7.125%	03/01/2028	250.0	---	141.6	7.125	Fixed	No	No	3.19
CU 4.875%	10/01/2043	500.0	---	118.2	4.875	Fixed	No	No	3.82
CU 5.65%	03/01/2098	165.0	---	113.5	5.650	Fixed	No	No	4.97

Morningstar



Yield to Maturity





Conscious Investor

Conscious Investor-6 Year



	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	EPSttm	Years	HGROWTH	STAEGR®
EPS (\$)	2.753	3.553	3.700	3.842	2.165	5.275	9.546	8.673	7.913	9.018	\$9.018	6	25.51%	70.48%
SPS (\$)	52.952	54.146	64.533	71.221	53.651	66.866	94.000	91.328	92.667	105.494		6	13.06%	92.32%

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	Current
NPM (%)	5.6	6.3	5.7	5.7	4.5	8.6	10.8	10.0	9.2	9.0	9.0%
ROE (%)	33.7	30.7	23.8	22.7	12.2	24.6	36.4	27.2	21.0	21.6	21.6%
Payout (%)	11.0	9.0	12.0	16.0	32.0	17.0	14.0	21.0	28.0	31.0	31.0%
Debt/Eq. (%)	73.3	28.9	19.8	21.6	17.9	16.9	12.5	11.7	23.2	21.9	21.9%

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	High/Low	Current
P/E High	8.53	9.79	19.39	19.78	23.86	21.21	12.73	14.93	17.87	17.86	17.86	15.77
P/E Low	5.77	6.24	7.61	4.61	8.47	8.50	8.33	9.48	13.07	13.60	13.78	
Price High	23.47	34.80	71.73	75.98	51.65	111.87	121.49	129.51	141.39	161.03	161.03	142.23
Price Low	15.90	22.17	28.16	17.70	18.34	44.84	79.53	82.20	103.41	122.64	124.30	

Conscious Investor- 6 Year



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET [®]
Default	142.23	\$9.018	14.26	25.51%	25.0%	20.82%

Conscious Investor- 10 Year



	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	EPSttm	Years	HGROWTH	STAEGR®
EPS (\$)	2.753	3.553	3.700	3.842	2.165	5.275	9.546	8.673	7.913	9.018	\$9.018	10	15.44%	75.59%
SPS (\$)	52.952	54.146	64.533	71.221	53.651	66.866	94.000	91.328	92.667	105.494		10	7.98%	89.74%

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	Current
NPM (%)	5.6	6.3	5.7	5.7	4.5	8.6	10.8	10.0	9.2	9.0	9.0%
ROE (%)	33.7	30.7	23.8	22.7	12.2	24.6	36.4	27.2	21.0	21.6	21.6%
Payout (%)	11.0	9.0	12.0	16.0	32.0	17.0	14.0	21.0	28.0	31.0	31.0%
Debt/Eq. (%)	73.3	28.9	19.8	21.6	17.9	16.9	12.5	11.7	23.2	21.9	21.9%

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	High/Low	Current
P/E High	8.53	9.79	19.39	19.78	23.86	21.21	12.73	14.93	17.87	17.86	17.86	15.77
P/E Low	5.77	6.24	7.61	4.61	8.47	8.50	8.33	9.48	13.07	13.60	13.78	
Price High	23.47	34.80	71.73	75.98	51.65	111.87	121.49	129.51	141.39	161.03	161.03	142.23
Price Low	15.90	22.17	28.16	17.70	18.34	44.84	79.53	82.20	103.41	122.64	124.30	

Conscious Investor- 10 Year



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	142.23	\$9.018	14.26	15.44%	25.0%	12.13%

Kill It



	Price	EPS _{ttm}	P/E Ratio	HGrowth	Payout	STRET [®]
Default	142.23	\$9.018	14.26	15.44%	25.0%	12.13%
Safety	142.23	\$9.018	12.83	7.64%	23.5%	5.12%
Saved	142.23	\$9.018	8.00	4.00%	23.5%	-0.04%

10 year safety:

Cut P/E by 10%

Cut earnings growth by
7.9%

10 year kill it:

Cut P/E by another 37.65%

Cut earnings growth by
another 3.64%



Discounted Cash Flow Model

Discounted Cash Flow Model



Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

➔

DCF Reverse DCF NEW

Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$?

Terminal Value: \$?

= Fair Value: \$?

Margin Of Safety: 33%

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	8.70	9.10	12.40
EBITDA Growth (%)	16.20	19.80	18.20
EBIT Growth (%)	26.10	22.10	-9.30
EPS without NRI Growth (%)	26.60	27.00	17.90
Free Cash Flow Growth (%)	27.30	24.50	8.90
Book Value Growth (%)	20.30	20.90	12.00

Safety



DCF Reverse DCF NEW ↵

Earnings Per Share : \$ 8.9 ?

Growth Rate In the Next: 10 Years : 15 % ?

Business Predictability ★★★★★ ?

Terminal Growth Rate: 4 % ?

Years of Terminal Growth: 10 ?

Discount Rate: 12 % ?

→

Tangible Book Value: \$ 37.97 Add to Fair Value ?

Growth Value: \$ 103.22 ?

Terminal Value: \$ 78.88 ?

= Fair Value: \$ 182.1 ?

Margin Of Safety: 21%

Cut EPS by 2.7%

Cut growth rate by 2%

Kill It



DCF Reverse DCF NEW ↵

Earnings Per Share : \$ 8 ?

Growth Rate In the Next: 10 Years : 13 % ?

Business Predictability ★★★★★ ?

Terminal Growth Rate: 4 % ?

Years of Terminal Growth: 10 ?

Discount Rate: 12 % ?

→

Tangible Book Value: \$ 37.97 Add to Fair Value ?

Growth Value: \$ 84.04 ?

Terminal Value: \$ 59.49 ?

= Fair Value: \$ 143.53 ?

Margin Of Safety: 0%

Cut EPS by another 10.11%

Cut growth rate by another 2%

Industry Breakdown



Company	Cummins	Volvo	Honeywell International	Emerson Co.
Market Cap (in millions)	26,191	24,043	80,716	39,797
Return on Equity (%)	21.85	6.80	23.34	20.35
Return on Assets (%)	10.93	1.58	9.24	8.77
Gross Profit Margin (%)	26.0	22.4	28.16	41.40
Net Profit Margin (%)	8.76	1.95	10.52	8.75
Dividend Yield (%)	2.10	3.90	1.9	3.10
Price/Earnings	16.0	36.2	19.5	19.10
Price/Sales	1.40	0.70	2.0	1.67
Price/Free Cash Flow	18.5	-	21.30	13.93
EV/EBITDA	8.91	11.81	11.53	9.72
Gurufocus Predictability	4.5	1	2	3.5
Number of Guru Holders	11	1	16	17

DuPont Analysis: Competition




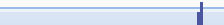
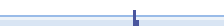
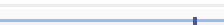
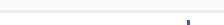
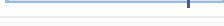
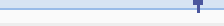

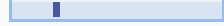
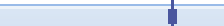
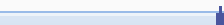
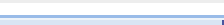


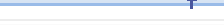
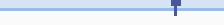
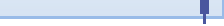
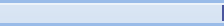
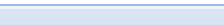
Company	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
Cummins	1.2	8.76%	2.02	21.85%
Volvo	0.78	1.96%	4.45	6.8%
Honeywell International	0.89	10.52%	2.56	23.97%
Emerson Co.	1.01	8.75%	2.37	20.94%



Intra-Portfolio Comparisons

52 Week Range



	Ticker	52-wk Range
▷	AAP	\$115.76  \$165.00
▷	AIG	\$48.27  \$58.79
▷	AIG-WT	\$18.70  \$27.14
▷	BBBY	\$54.98  \$79.64
▷	BRK.B	\$114.21  \$152.94
▷	CHRW	\$50.21  \$77.49
▷	CMI	\$124.30  \$181.03
▷	IBM	\$149.52  \$199.21
▷	KO	\$37.85  \$45.00
▷	LO	\$48.51  \$69.61
▷	MDT	\$55.85  \$79.45
▷	MSFT	\$37.49  \$50.05
▷	NSRGY	\$65.79  \$80.65
▷	ORCL	\$35.82  \$46.71
▷	PEP	\$78.85  \$100.76
▷	PETM	\$55.00  \$83.49
▷	WBA	\$57.75  \$83.77
▷	WMT	\$72.61  \$90.97
▷	WRLD	\$63.25  \$98.90

Price/Earnings



	Ticker	Price/Earnings
▷	AIG-WT	-
▷	WRLD	8.2
▷	IBM	10.3
▷	AIG	10.6
▷	BBBY	15.3
▷	CMI	15.9
▷	BRK.B	16.7
▷	WMT	17.6
▷	MSFT	17.7
▷	ORCL	18.4
▷	PETM	19.6
▷	LO	20.8
▷	NSRGY	22.1
▷	PEP	23.2
▷	AAP	24.8
▷	CHRW	25.5
▷	KO	27.1
▷	MDT	27.2
▷	WBA	39.3

Price/Sales



	Ticker	Price / Sales
▷	AIG-WT	-
▷	WMT	0.6
▷	CHRW	0.8
▷	WBA	1.0
▷	PETM	1.2
▷	AIG	1.3
▷	BBBY	1.3
▷	AAP	1.3
▷	CMI	1.4
▷	WRLD	1.4
▷	IBM	1.8
▷	BRK.B	1.8
▷	PEP	2.3
▷	NSRGY	2.4
▷	LO	3.5
▷	MSFT	3.9
▷	KO	4.2
▷	MDT	4.6
▷	ORCL	5.2

Price/Book



	Ticker	Price / Book
▷	LO	-
▷	AIG-WT	-
▷	AIG	0.7
▷	BRK.B	1.5
▷	WRLD	2.5
▷	CMI	3.4
▷	WMT	3.4
▷	NSRGY	3.4
▷	WBA	3.8
▷	MSFT	3.9
▷	MDT	4.0
▷	ORCL	4.1
▷	BBBY	4.4
▷	AAP	5.9
▷	KO	6.2
▷	PETM	6.7
▷	PEP	8.4
▷	CHRW	10.6
▷	IBM	13.4

Conclusion



- In the process of acquiring U.S. and Canadian distribution centers
- Strong competitive advantages
- Can easily pay off their debt

Recommendation



- Limit order at \$120
Price/Earnings: 13.45