

CUMMINS INC
Form 8-K
October 31, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: October 31, 2017

CUMMINS INC.
(Exact name of registrant as specified in its charter)
Indiana 1-4949 35-0257090
(State or other Jurisdiction of (Commission File Number) (I.R.S. Employer Identification No.)
Incorporation)

500 Jackson Street
P. O. Box 3005
Columbus, IN 47202-3005
(Principal Executive Office) (Zip Code)

Registrant's telephone number, including area code: (812) 377-5000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

Emerging growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition.

On October 31, 2017, Cummins Inc. (“Cummins,” “the Company,” “the registrant,” “we,” “our,” or “us”) issued the attached press release reporting its financial results for the third quarter of 2017, which is furnished herewith as Exhibit 99.

The information furnished pursuant to this Item 2.02, including Exhibit 99, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Exchange Act.

Item 9.01. Financial Statements and Exhibits.

(d) The following exhibit is furnished pursuant to Item 2.02 herewith:
99-Press Release dated October 31, 2017

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 31, 2017

CUMMINS INC.
/s/ CHRISTOPHER C. CLULOW
Christopher C. Clulow
Vice President - Corporate Controller
(Principal Accounting Officer)

CUMMINS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited) (a)

| In millions, except per share amounts | Three months ended | |
|---|--------------------|-----------------|
| | October 2017 | October 2, 2016 |
| NET SALES | \$5,285 | \$ 4,187 |
| Cost of sales | 3,946 | 3,108 |
| GROSS MARGIN | 1,339 | 1,079 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 624 | 513 |
| Research, development and engineering expenses | 213 | 157 |
| Equity, royalty and interest income from investees | 95 | 74 |
| Loss contingency | — | 99 |
| Other operating income (expense), net | 32 | — |
| OPERATING INCOME | 629 | 384 |
| Interest income | 4 | 6 |
| Interest expense | 18 | 16 |
| Other income (expense), net | 7 | 8 |
| INCOME BEFORE INCOME TAXES | 622 | 382 |
| Income tax expense | 165 | 82 |
| CONSOLIDATED NET INCOME | 457 | 300 |
| Less: Net income attributable to noncontrolling interests | 4 | 11 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$453 | \$ 289 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$2.72 | \$ 1.72 |
| Diluted | \$2.71 | \$ 1.72 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 166.3 | 167.8 |
| Diluted | 167.0 | 168.2 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$1.08 | \$ 1.025 |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited) (a)

| In millions, except per share amounts | Nine months ended | |
|---|-------------------|-----------------|
| | October 1, 2017 | October 2, 2016 |
| NET SALES | \$14,952 | \$13,006 |
| Cost of sales | 11,236 | 9,674 |
| GROSS MARGIN | 3,716 | 3,332 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 1,757 | 1,527 |
| Research, development and engineering expenses | 545 | 478 |
| Equity, royalty and interest income from investees | 301 | 234 |
| Loss contingency | — | 138 |
| Other operating income (expense), net | 55 | (2) |
| OPERATING INCOME | 1,770 | 1,421 |
| Interest income | 11 | 18 |
| Interest expense | 57 | 51 |
| Other income (expense), net | 45 | 34 |
| INCOME BEFORE INCOME TAXES | 1,769 | 1,422 |
| Income tax expense | 466 | 362 |
| CONSOLIDATED NET INCOME | 1,303 | 1,060 |
| Less: Net income attributable to noncontrolling interests | 30 | 44 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$1,273 | \$1,016 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$7.62 | \$5.99 |
| Diluted | \$7.60 | \$5.99 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 167.0 | 169.5 |
| Diluted | 167.6 | 169.7 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$3.13 | \$2.975 |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited) (a)

| In millions, except par value | October 1, 2017 | December 31, 2016 |
|--|--------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,290 | \$ 1,120 |
| Marketable securities | 154 | 260 |
| Total cash, cash equivalents and marketable securities | 1,444 | 1,380 |
| Accounts and notes receivable, net | 3,810 | 3,025 |
| Inventories | 3,146 | 2,675 |
| Prepaid expenses and other current assets | 656 | 627 |
| Total current assets | 9,056 | 7,707 |
| Long-term assets | | |
| Property, plant and equipment | 7,901 | 7,635 |
| Accumulated depreciation | (4,085) | (3,835) |
| Property, plant and equipment, net | 3,816 | 3,800 |
| Investments and advances related to equity method investees | 1,213 | 946 |
| Goodwill | 1,036 | 480 |
| Other intangible assets, net | 964 | 332 |
| Pension assets | 912 | 731 |
| Other assets | 995 | 1,015 |
| Total assets | \$ 17,992 | \$ 15,011 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable (principally trade) | \$ 2,486 | \$ 1,854 |
| Loans payable | 64 | 41 |
| Commercial paper | 514 | 212 |
| Accrued compensation, benefits and retirement costs | 674 | 412 |
| Current portion of accrued product warranty | 462 | 333 |
| Current portion of deferred revenue | 528 | 468 |
| Other accrued expenses | 968 | 970 |
| Current maturities of long-term debt | 62 | 35 |
| Total current liabilities | 5,758 | 4,325 |
| Long-term liabilities | | |
| Long-term debt | 1,615 | 1,568 |
| Postretirement benefits other than pensions | 319 | 329 |
| Pensions | 328 | 326 |
| Other liabilities and deferred revenue | 1,411 | 1,289 |
| Total liabilities | \$ 9,431 | \$ 7,837 |
| EQUITY | | |
| Cummins Inc. shareholders' equity | | |
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued | \$ 2,198 | \$ 2,153 |
| Retained earnings | 11,791 | 11,040 |
| Treasury stock, at cost, 56.4 and 54.2 shares | (4,849) | (4,489) |
| Common stock held by employee benefits trust, at cost, 0.6 and 0.7 shares | (7) | (8) |

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| | | | |
|---|-----------|-----------|---|
| Accumulated other comprehensive loss | (1,504 |) (1,821 |) |
| Total Cummins Inc. shareholders' equity | 7,629 | 6,875 | |
| Noncontrolling interests | 932 | 299 | |
| Total equity | \$ 8,561 | \$ 7,174 | |
| Total liabilities and equity | \$ 17,992 | \$ 15,011 | |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (a)

| In millions | Nine months ended | |
|---|-------------------|--------------|
| | October 2017 | October 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | \$1,303 | \$ 1,060 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities | | |
| Depreciation and amortization | 433 | 391 |
| Deferred income taxes | 26 | 60 |
| Equity in income of investees, net of dividends | (166) | (94) |
| Pension contributions in excess of expense | (63) | (92) |
| Other post retirement benefits payments in excess of expense | (4) | (16) |
| Stock-based compensation expense | 34 | 28 |
| Restructuring payments | — | (53) |
| Loss contingency | — | 138 |
| Translation and hedging activities | 61 | (39) |
| Changes in current assets and liabilities, net of acquisitions | | |
| Accounts and notes receivable | (722) | (112) |
| Inventories | (401) | (150) |
| Other current assets | (28) | 138 |
| Accounts payable | 567 | 101 |
| Accrued expenses | 369 | (279) |
| Changes in other liabilities and deferred revenue | 177 | 188 |
| Other, net | (115) | 45 |
| Net cash provided by operating activities | 1,471 | 1,314 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (282) | (312) |
| Investments in internal use software | (59) | (42) |
| Proceeds from disposals of property, plant and equipment | 104 | 11 |
| Investments in and advances to equity investees | (71) | (29) |
| Acquisitions of businesses, net of cash acquired | (600) | (1) |
| Investments in marketable securities—acquisitions | (106) | (447) |
| Investments in marketable securities—liquidations | 218 | 291 |
| Cash flows from derivatives not designated as hedges | 9 | (64) |
| Other, net | 1 | 3 |
| Net cash used in investing activities | (786) | (590) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 4 | 111 |
| Net borrowings of commercial paper | 302 | 273 |
| Payments on borrowings and capital lease obligations | (38) | (156) |
| Net borrowings under short-term credit agreements | 19 | 25 |
| Distributions to noncontrolling interests | (29) | (42) |
| Dividend payments on common stock | (522) | (505) |
| Repurchases of common stock | (391) | (745) |
| Other, net | 55 | (6) |

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| | | |
|--|---------|----------|
| Net cash used in financing activities | (600) | (1,045) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 85 | (139) |
| Net increase (decrease) in cash and cash equivalents | 170 | (460) |
| Cash and cash equivalents at beginning of year | 1,120 | 1,711 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$1,290 | \$ 1,251 |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

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CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

| In millions | Engine | Distribution | Components ⁽¹⁾ | Power Systems | Total Segment | Intersegment Elimination ⁽²⁾ | Total | |
|--|---------|--------------|---------------------------|---------------|---------------|---|---------|---|
| Three months ended October 1, 2017 | | | | | | | | |
| External sales | \$1,783 | \$1,748 | \$1,139 | \$615 | \$5,285 | \$ — | \$5,285 | |
| Intersegment sales | 553 | 5 | 394 | 441 | 1,393 | (1,393) | — | |
| Total sales | 2,336 | 1,753 | 1,533 | 1,056 | 6,678 | (1,393) | 5,285 | |
| Depreciation and amortization ⁽³⁾ | 47 | 29 | 42 | 30 | 148 | — | 148 | |
| Research, development and engineering expenses | 83 | 6 | 63 | 61 | 213 | — | 213 | |
| Equity, royalty and interest income from investees | 58 | 11 | 12 | 14 | 95 | — | 95 | |
| Interest income | 1 | 2 | — | 1 | 4 | — | 4 | |
| EBIT | 229 | 91 | 217 | 81 | 618 | 22 | 640 | |
| EBIT as a percentage of total sales | 9.8 | % 5.2 | % 14.2 | % 7.7 | % 9.3 | % | 12.1 | % |
| Three months ended October 2, 2016 | | | | | | | | |
| External sales | \$1,357 | \$1,497 | \$824 | \$509 | \$4,187 | \$ — | \$4,187 | |
| Intersegment sales | 502 | 7 | 319 | 347 | 1,175 | (1,175) | — | |
| Total sales | 1,859 | 1,504 | 1,143 | 856 | 5,362 | (1,175) | 4,187 | |
| Depreciation and amortization ⁽³⁾ | 42 | 28 | 32 | 29 | 131 | — | 131 | |
| Research, development and engineering expenses | 56 | 3 | 54 | 44 | 157 | — | 157 | |
| Equity, royalty and interest income from investees | 38 | 19 | 9 | 8 | 74 | — | 74 | |
| Loss contingency | 99 | — | — | — | 99 | — | 99 | |
| Interest income | 3 | 1 | 1 | 1 | 6 | — | 6 | |
| EBIT | 89 | 96 | 148 | 59 | 392 | 6 | 398 | |
| EBIT as a percentage of total sales | 4.8 | % 6.4 | % 12.9 | % 6.9 | % 7.3 | % | 9.5 | % |

(1) The 2017 disclosures include Eaton Cummins Automated Transmission Technologies joint venture results consolidated during the third quarter of 2017. See "ACQUISITION," footnote for additional information.

Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses.

(2) There were no significant unallocated corporate expenses for the three months ended October 1, 2017 and October 2, 2016.

(3) Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense."

CUMMINS INC. AND SUBSIDIARIES
 SEGMENT INFORMATION
 (Unaudited)

| In millions | Engine | Distribution | Components ⁽¹⁾ | Power Systems | Total Segment | Intersegment Eliminations ⁽²⁾ | Total | |
|---|---------|--------------|---------------------------|------------------|------------------|---|----------|---|
| Nine months ended October 1, 2017 | | | | | | | | |
| External sales | \$4,951 | \$ 5,101 | \$ 3,183 | \$1,717 | \$14,952 | \$ — | \$14,952 | |
| Intersegment sales | 1,715 | 19 | 1,148 | 1,238 | 4,120 | (4,120) | — | |
| Total sales | 6,666 | 5,120 | 4,331 | 2,955 | 19,072 | (4,120) | 14,952 | |
| Depreciation and amortization ⁽³⁾ | 137 | 90 | 117 | 87 | 431 | — | 431 | |
| Research, development and engineering expenses | 200 | 14 | 170 | 161 | 545 | — | 545 | |
| Equity, royalty and interest income from investees | 186 | 35 | 40 | 40 | 301 | — | 301 | |
| Interest income | 4 | 4 | 1 | 2 | 11 | — | 11 | |
| EBIT | 735 | 287 | 586 | 199 | 1,807 | 19 | 1,826 | |
| EBIT as a percentage of total sales | 11.0 | % 5.6 | % 13.5 | % 6.7 | % 9.5 | % | 12.2 | % |
| Nine months ended October 2, 2016 | | | | | | | | |
| External sales | \$4,350 | \$ 4,493 | \$ 2,654 | \$1,509 | \$13,006 | \$ — | \$13,006 | |
| Intersegment sales | 1,487 | 18 | 1,005 | 1,076 | 3,586 | (3,586) | — | |
| Total sales | 5,837 | 4,511 | 3,659 | 2,585 | 16,592 | (3,586) | 13,006 | |
| Depreciation and amortization ⁽³⁾ | 122 | 85 | 95 | 87 | 389 | — | 389 | |
| Research, development and engineering expenses | 166 | 10 | 161 | 141 | 478 | — | 478 | |
| Equity, royalty and interest income from investees | 120 | 56 | 29 | 29 | 234 | — | 234 | |
| Loss contingency | 138 | — | — | — | 138 | — | 138 | |
| Interest income | 8 | 3 | 3 | 4 | 18 | — | 18 | |
| EBIT | 492 | 270 | 501 | 195 | 1,458 | 15 | 1,473 | |
| EBIT as a percentage of total sales | 8.4 | % 6.0 | % 13.7 | % 7.5 | % 8.8 | % | 11.3 | % |

The 2017 disclosures include Eaton Cummins Automated Transmission Technologies joint venture results (1) consolidated during the third quarter of 2017. See "ACQUISITION," footnote for additional information.

Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. (2) There were no significant unallocated corporate expenses for the nine months ended October 1, 2017 and October 2, 2016.

Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and (3) deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense." The amortization of debt discount and deferred costs was \$2 million for both of the nine months ended October 1, 2017 and October 2, 2016.

A reconciliation of our segment information to the corresponding amounts in the Condensed Consolidated Statements of Income is shown in the table below:

| In millions | Three months ended | | Nine months ended | |
|----------------------------|--------------------|-----------------|-------------------|-----------------|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Total EBIT | \$ 640 | \$ 398 | \$1,826 | \$ 1,473 |
| Less: Interest expense | 18 | 16 | 57 | 51 |
| Income before income taxes | \$ 622 | \$ 382 | \$1,769 | \$ 1,422 |

CUMMINS INC. AND SUBSIDIARIES
 SELECT FOOTNOTE DATA
 (Unaudited)

EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES

Equity, royalty and interest income from investees included in our Condensed Consolidated Statements of Income for the reporting periods was as follows:

| In millions | Three months ended | | Nine months ended | |
|--|--------------------|-----------------|-------------------|-----------------|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Distribution entities | | | | |
| Komatsu Cummins Chile, Ltda. | \$ 8 | \$ 8 | \$23 | \$ 26 |
| North American distributors | — | 7 | — | 18 |
| All other distributors | (1) | 1 | (1) | 2 |
| Manufacturing entities | | | | |
| Beijing Foton Cummins Engine Co., Ltd. | 24 | 19 | 79 | 59 |
| Dongfeng Cummins Engine Company, Ltd. | 15 | 10 | 56 | 32 |
| Chongqing Cummins Engine Company, Ltd. | 11 | 11 | 30 | 28 |
| All other manufacturers | 27 | 8 | 78 | 40 |
| Cummins share of net income | 84 | 64 | 265 | 205 |
| Royalty and interest income | 11 | 10 | 36 | 29 |
| Equity, royalty and interest income from investees | \$ 95 | \$ 74 | \$301 | \$ 234 |

ACQUISITION

In April 2017, we entered into an agreement to form a joint venture with Eaton Corporation PLC (Eaton), which closed on July 31, 2017 (the acquisition date). We purchased a 50 percent interest in the new venture named Eaton Cummins Automated Transmission Technologies for \$600 million in cash. In addition, each partner contributed \$20 million for working capital. The joint venture will design, assemble, sell and support medium-duty and heavy-duty automated transmissions for the commercial vehicle market, including new product launches. We consolidated the results of the joint venture in our Components segment as we have a majority voting interest in the venture by virtue of a tie-breaking vote on the joint venture's board of directors. We do not expect this new venture to have a significant impact on our consolidated results in 2017.

ENGINE SYSTEM LOSS CONTINGENCY

During 2017, the CARB and U.S. EPA began selecting certain of our pre-2013 model year engine systems for additional emissions testing. We have been notified that a portion of the CARB and EPA selected engine systems have failed emissions testing due to the unexpected degradation of an aftertreatment component. Although we have no official notice from the CARB or EPA on these engine systems to date, we are working with the agencies on a resolution of these matters. We are developing and testing solutions to address the technical issues, which could include a combination of calibration changes, service practices and hardware changes. We recorded a charge of \$29 million to "cost of sales" in our Condensed Consolidated Statements of Income in the third quarter of 2017 for the expected cost of field campaigns to repair some of these engine systems.

In addition, we are currently evaluating other engine systems for model years 2010 through 2015 that could potentially be subject to similar degradation issues. At this point in time, we have not yet determined the impact to other model years and engine systems or the percentage of the engine system populations affected.

Because this remains under review with a number of yet unresolved variables, we are not yet able to estimate the outcome for these matters. It is possible, however, that they could have a material effect on our results of operations in the periods in which the uncertainties are resolved.

We do not currently expect any fines or penalties from the EPA or CARB related to this matter.

CUMMINS INC. AND SUBSIDIARIES
SELECTED FOOTNOTE DATA
(Unaudited)

SUBSEQUENT EVENT

On October 12, 2017, we entered into an asset purchase agreement with Brammo Inc., an engineer and manufacturer of lithium ion batteries primarily related to the utility vehicle markets, for approximately \$70 million to be paid in cash at closing. In addition to the closing consideration, the agreement contains an earnout based on future results of the acquired business, which could result in a maximum additional \$100 million payment to the former owners. The majority of the purchase price will likely be assigned to intangible assets and goodwill. We expect the transaction to close in the fourth quarter of 2017.

CUMMINS INC. AND SUBSIDIARIES
 FINANCIAL MEASURES THAT SUPPLEMENT GAAP
 (Unaudited)

Earnings before interest, income taxes and noncontrolling interests

We define EBIT as earnings before interest expense, income tax expense and noncontrolling interests in income 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. This measure is not in accordance with, or an alternative for, accounting principles generally accepted in the United States and may not be consistent with measures used by other companies. It should be considered supplemental data. Below is a reconciliation of "Net income attributable to Cummins Inc." to EBIT for each of the applicable periods:

| In millions | Three months ended | | Nine months ended | |
|--|--------------------|--------------|-------------------|-----------------|
| | October 2017 | October 2016 | October 1, 2017 | October 2, 2016 |
| Net income attributable to Cummins Inc. | \$453 | \$ 289 | \$1,273 | \$ 1,016 |
| Net income attributable to Cummins Inc. as a percentage of net sales | 8.6 % | 6.9 % | 8.5 % | 7.8 % |
| Add | | | | |
| Net income attributable to noncontrolling interests | 4 | 11 | 30 | 44 |
| Consolidated net income | 457 | 300 | 1,303 | 1,060 |
| Add | | | | |
| Interest expense | 18 | 16 | 57 | 51 |
| Income tax expense | 165 | 82 | 466 | 362 |
| Earnings before interest expense and income taxes | \$640 | \$ 398 | \$1,826 | \$ 1,473 |
| EBIT as a percentage of net sales | 12.1 % | 9.5 % | 12.2 % | 11.3 % |

CUMMINS INC. AND SUBSIDIARIES
 BUSINESS UNIT SALES DATA
 (Unaudited)

Engine Segment Sales by Market and Unit Shipments by Engine Classification

Sales for our Engine segment by market were as follows:

2017

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|---------------------------|---------|---------|---------|-----|---------|
| Heavy-duty truck | \$620 | \$714 | \$776 | \$— | \$2,110 |
| Medium-duty truck and bus | 544 | 701 | 625 | — | 1,870 |
| Light-duty automotive | 423 | 429 | 452 | — | 1,304 |
| Off-highway | 436 | 463 | 483 | — | 1,382 |
| Total sales | \$2,023 | \$2,307 | \$2,336 | \$— | \$6,666 |

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|---------------------------|---------|---------|---------|---------|---------|
| Heavy-duty truck | \$631 | \$622 | \$625 | \$565 | \$2,443 |
| Medium-duty truck and bus | 549 | 600 | 517 | 606 | 2,272 |
| Light-duty automotive | 433 | 394 | 345 | 409 | 1,581 |
| Off-highway | 363 | 386 | 372 | 387 | 1,508 |
| Total sales | \$1,976 | \$2,002 | \$1,859 | \$1,967 | \$7,804 |

Unit shipments by engine classification (including unit shipments to Power Systems and off-highway engine units included in their respective classification) were as follows:

2017

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-------------|---------|---------|---------|----|---------|
| Heavy-duty | 19,200 | 24,100 | 28,100 | — | 71,400 |
| Medium-duty | 60,300 | 71,600 | 68,500 | — | 200,400 |
| Light-duty | 63,100 | 65,600 | 66,300 | — | 195,000 |
| Total units | 142,600 | 161,300 | 162,900 | — | 466,800 |

2016

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-------------|---------|---------|---------|---------|---------|
| Heavy-duty | 19,700 | 20,700 | 20,100 | 18,500 | 79,000 |
| Medium-duty | 55,400 | 62,300 | 53,400 | 58,000 | 229,100 |
| Light-duty | 61,700 | 57,100 | 49,800 | 60,000 | 228,600 |
| Total units | 136,800 | 140,100 | 123,300 | 136,500 | 536,700 |

CUMMINS INC. AND SUBSIDIARIES
 BUSINESS UNIT SALES DATA
 (Unaudited)

Distribution Segment Sales by Product Line

Sales for our Distribution segment by product line were as follows:

2017

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|---------|---------|---------|-----|---------|
| Parts | \$745 | \$759 | \$768 | \$— | \$2,272 |
| Service | 319 | 320 | 326 | — | 965 |
| Power generation | 306 | 329 | 317 | — | 952 |
| Engines | 275 | 314 | 342 | — | 931 |
| Total sales | \$1,645 | \$1,722 | \$1,753 | \$— | \$5,120 |

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|---------|---------|---------|---------|---------|
| Parts | \$648 | \$642 | \$643 | \$694 | \$2,627 |
| Service | 299 | 297 | 299 | 320 | 1,215 |
| Power generation | 275 | 326 | 291 | 347 | 1,239 |
| Engines | 241 | 279 | 271 | 309 | 1,100 |
| Total sales | \$1,463 | \$1,544 | \$1,504 | \$1,670 | \$6,181 |

Component Segment Sales by Business

In the first quarter of 2017, our Components segment reorganized its reporting structure to move an element of the emission solutions business to the fuel systems business to enhance operational, administrative and product development efficiencies. Prior year sales were reclassified to conform with this change.

In the third quarter of 2017, we completed the Eaton Cummins Automated Transmission Technologies joint venture (ECJV), which was consolidated and included in our Components segment as the automated transmissions business.

Sales for our Components segment by product line were as follows:

2017

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|-------------------------|---------|---------|---------|-----|---------|
| Emission solutions | \$616 | \$674 | \$696 | \$— | \$1,986 |
| Turbo technologies | 287 | 307 | 297 | — | 891 |
| Filtration | 277 | 291 | 287 | — | 855 |
| Fuel systems | 164 | 182 | 184 | — | 530 |
| Automated transmissions | — | — | 69 | — | 69 |
| Total sales | \$1,344 | \$1,454 | \$1,533 | \$— | \$4,331 |

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|--------------------|---------|---------|---------|---------|---------|
| Emission solutions | \$589 | \$603 | \$522 | \$524 | \$2,238 |
| Turbo technologies | 265 | 276 | 241 | 254 | 1,036 |
| Filtration | 252 | 262 | 244 | 252 | 1,010 |
| Fuel systems | 131 | 138 | 136 | 147 | 552 |
| Total sales | \$1,237 | \$1,279 | \$1,143 | \$1,177 | \$4,836 |

2015

| In millions | YTD |
|--------------------|---------|
| Emission solutions | \$2,449 |
| Turbo technologies | 1,141 |
| Filtration | 1,010 |

| | |
|--------------|---------|
| Fuel systems | 572 |
| Total sales | \$5,172 |

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CUMMINS INC. AND SUBSIDIARIES
 BUSINESS UNIT SALES DATA
 (Unaudited)

Power Systems Segment Sales by Product Line and Unit Shipments by Engine Classification

In the first quarter of 2017, our Power Systems segment reorganized its product lines to better reflect how the segment is managed. Prior year sales were reclassified to reflect these changes.

Sales for our Power Systems segment by product line were as follows:

2017

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------|-------|---------|---------|-----|---------|
| Power generation | \$526 | \$570 | \$580 | \$— | \$1,676 |
| Industrial | 275 | 353 | 385 | — | 1,013 |
| Generator technologies | 81 | 94 | 91 | — | 266 |
| Total sales | \$882 | \$1,017 | \$1,056 | \$— | \$2,955 |

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------|-------|-------|-------|-------|---------|
| Power generation | \$518 | \$602 | \$543 | \$593 | \$2,256 |
| Industrial | 215 | 236 | 235 | 255 | 941 |
| Generator technologies | 75 | 83 | 78 | 84 | 320 |
| Total sales | \$808 | \$921 | \$856 | \$932 | \$3,517 |

2015

| In millions | YTD |
|------------------------|---------|
| Power generation | \$2,588 |
| Industrial | 1,121 |
| Generator technologies | 358 |
| Total sales | \$4,067 |

High-horsepower unit shipments by engine classification were as follows:

2017

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|-------|-------|-------|----|--------|
| Power generation | 1,900 | 2,100 | 2,200 | — | 6,200 |
| Industrial | 1,300 | 1,700 | 1,600 | — | 4,600 |
| Total units | 3,200 | 3,800 | 3,800 | — | 10,800 |

2016

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|-------|-------|-------|-------|--------|
| Power generation | 1,800 | 2,200 | 2,000 | 1,900 | 7,900 |
| Industrial | 1,000 | 1,100 | 1,000 | 1,300 | 4,400 |
| Total units | 2,800 | 3,300 | 3,000 | 3,200 | 12,300 |