

Company	Cummins	Date	12/18/15
Prepared by	HARPER	Data taken from	BI Stock Data
Where traded	NYS	Industry	Diversified Industrials
Capitalization --- Outstanding Amounts	Reference		
Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	177.4	0.8	77.5
Debt (\$M)	1,653.0	% to Tot Cap	17.6
		% Pot Dil	0.2

Stock Selection Guide

Symbol: CMI

1 VISUAL ANALYSIS of Sales, Earnings, and Price



- | | | | |
|-----------------------------------|------|--|-------|
| (1) Historical Sales Growth | 7.0% | (3) Historical Earnings Per Share Growth | 15.8% |
| (2) Estimated Future Sales Growth | 7.0% | (4) Estimated Future Earnings Per Share Growth | 3.8% |

2 EVALUATING Management

Cummins

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Last 5 Year Avg.
Pre-tax Profit on Sales	8.0%	9.5%	9.0%	8.2%	5.9%	12.2%	14.8%	13.1%	12.2%	12.7%	13.0%
% Earned on Equity	29.1%	27.7%	22.0%	24.0%	11.6%	22.3%	35.2%	24.9%	20.8%	21.2%	24.9%
% Debt To Capital	42.3%	22.4%	16.5%	17.8%	15.2%	14.5%	11.1%	10.5%	18.8%	18.0%	14.6%

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

CLOSING PRICE 85.21 (12/18/15)

HIGH THIS YEAR 148.04

LOW THIS YEAR 85.18

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2010	111.9	44.8	5.28	21.2	8.5	0.88	16.6	2.0
2011	121.5	79.5	9.55	12.7	8.3	1.33	13.9	1.7
2012	129.5	82.2	8.67	14.9	9.5	1.80	20.8	2.2
2013	141.4	104.1	7.91	17.9	13.2	2.25	28.4	2.2
2014	161.0	122.6	9.02	17.9	13.6	2.81	31.2	2.3
AVERAGE		86.7		16.9	10.6		22.2	
CURRENT/TTM			9.34			3.90	41.7	
AVERAGE PRICE EARNINGS RATIO 13.8				CURRENT PRICE EARNINGS RATIO 9.1				

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 16.9 X Estimate High Earnings/Share 10.87 = Forecasted High Price \$ 183.6

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 9.1 X Estimate Low Earnings/Share 9.02 = Forecasted Low Price \$ 82.1

(b) Avg. Low Price of Last 5 Years 86.7

(c) Recent Market Low Price 85.2

(d) Price Dividend Will Support $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{2.81}{2.29\%} = 122.6$

Selected Forecasted Low Price \$ 82.1

C ZONING using 25%-50%-25%

Forecasted High Price 183.6 Minus Forecasted Low Price 82.1 = 101.5 Range. 25% of Range 25.4

Buy Zone 82.1 to 107.5

Hold Zone 107.5 to 158.3

Sell Zone 158.3 to 183.6

Present Market Price of 85.21 is in the **BUY** Zone

D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price}} = \frac{183.6 - 85.21}{85.21} = 1.14$
 $\frac{\text{Present Price} - \text{Low Price}}{\text{Present Price}} = \frac{85.21 - 82.1}{85.21} = 0.036$
 Ratio = $\frac{1.14}{0.036} = 31.7$ To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{183.6 - 85.21}{85.21} = 2.1552$ X 100 = 215.52 - 100 = 115.5 % Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{2.81}{85.21} = 0.0458 = 4.6\%$ Current Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{22.2\%}{16.90} = 1.3\%$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{22.2\%}{13.00} = 1.7\%$

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 16.6 %
 Average Yield 1.3 %
 Annualized Rate of Return 17.9 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 10.6 %
 Average Yield 1.7 %
 Annualized Rate of Return 12.3 %