



Structuring a Partnership for Success

August 14, 2007



Partnership Success Rate

- McKinsey study found:
 - More than 5000 joint ventures launched in past five years
 - Largest 100 JVs represent more than 350 Billion in revenue
 - Joint ventures face many challenges and few truly succeed
 - Only 51% achieved returns greater than the cost of capital (hardly a **real** success)
 - Truly profitable and successful JVs are elusive



Agenda Topics

- Why Consider a Partnership?
- Cummins Experience with Partnerships
- Cummins MerCruiser Diesel Success
- Key Alliance Success Factors
- Alliance Review Process
- Lessons Learned



Why Consider a Partnership?

- Access new markets
- Access new technologies
- Create new products through joined technologies
- Reduce and/or share risks
- Access alternative path to market
- Create “New” value proposition in existing market
- Share significant capital and/or investment costs
- Financial opportunity

- Etc.



Cummins Experience

- Cummins 2006 sales 11.4 Billion
- Cummins involved in more than 50 partnerships
 - Manufacturing for both engines and components
 - Technology exchange or licensing
 - Distribution
 - Market access
 - Full Business Ventures
- Q2 2007 earnings
 - Nearly 25% represented by joint ventures
 - 52M of 214M earnings



Cummins MerCruiser Diesel Structure

- 50-50 Ownership with Mercury Marine
- Governed by a 4 member board of directors
- Headquartered in Charleston, SC
- Approximately 220 employees worldwide
 - Engineering, Manufacturing, Marketing/Distribution and Customer Service and Support functions
- Marine Technology Center
 - Engineering development and production test capability
- Started Operations in April 2002



Cummins MerCruiser Diesel

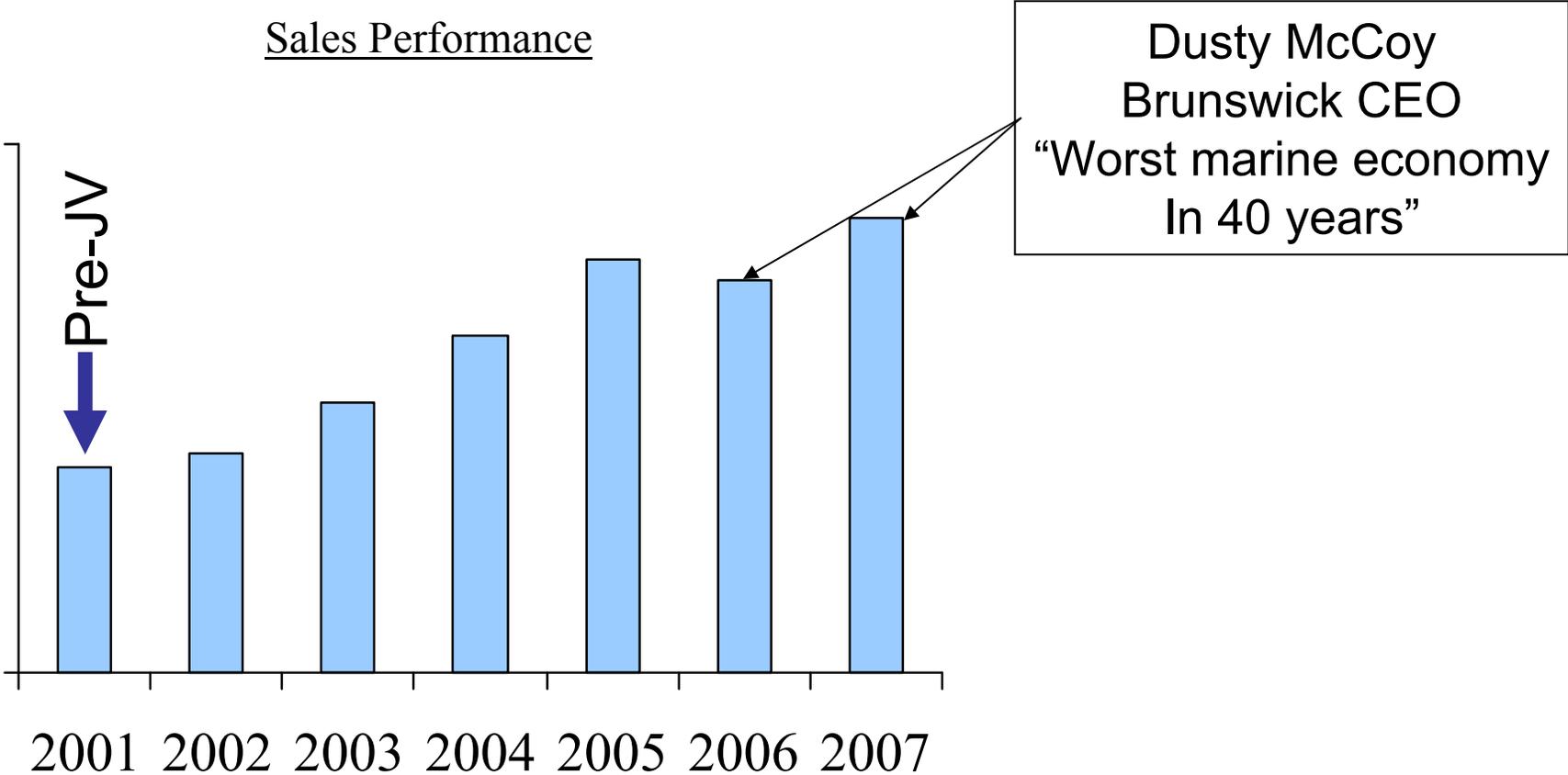
- Market Leader in Diesel Marine Propulsion System
 - #1 North American Recreation Market
 - #1 North American Commercial Market
 - #1 South Pacific Recreational Market
 - #1 Latin America Stern Drive Market

- Market defined as 115 – 715 hp Recreation Market
- Market defined as 75 – 600 hp Commercial Market



Cummins MerCruiser Diesel

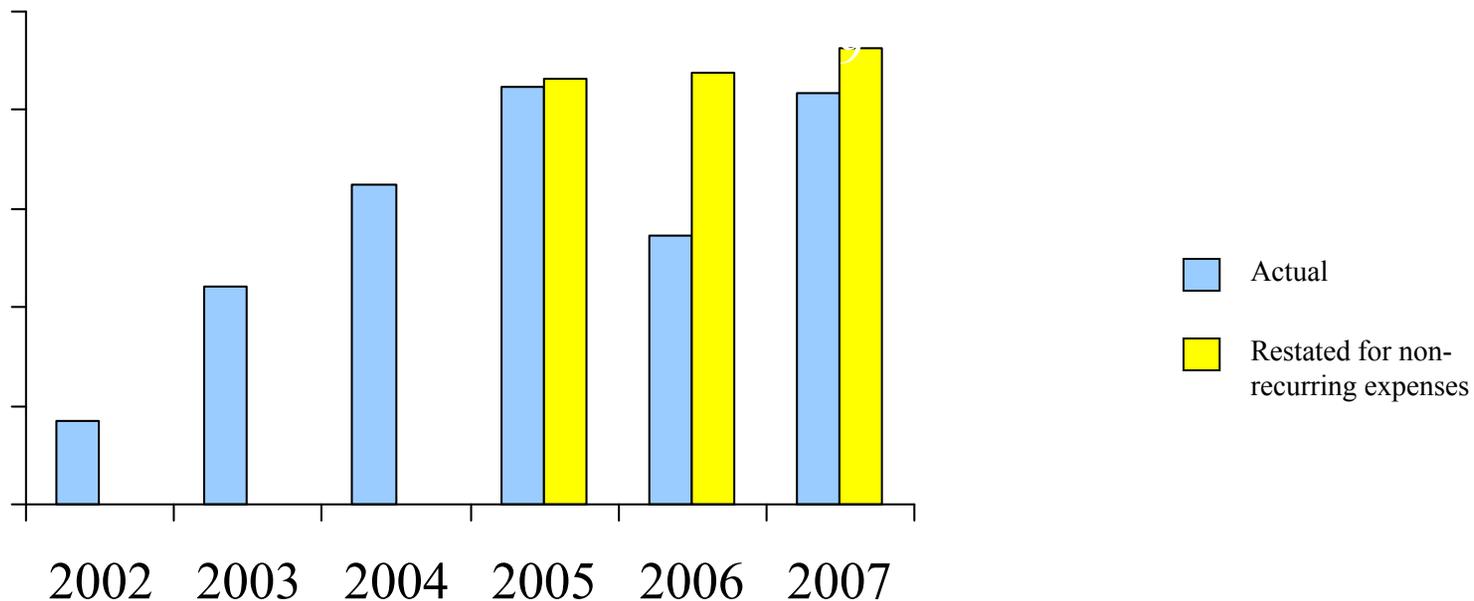
Sales Performance



Sales doubled in four year period
CAGR of 14%



Pre-Tax Earnings



Pre-tax earnings have grown by more than 3.5 X since the start of the JV (2002 Annualized vs 2007 Restated)

CAGR of Pre-tax earnings nearly 30% from 2002 to 2007 projected

2nd for all Cummins JVs in terms of Profit contributions



Key Alliance Success Factors

- McKinsey study of international alliances empirically identified 11 key structural elements that were characteristic of successful long-term JVs



Key Alliance Success Factors

1. Entering new market

Alliances have proven to be more successful in penetrating new geographical markets, whereas acquisitions work well in expanding within an existing market

2. Strong partner

Functionally and financially strong partners increase chances for an alliance's success.

3. Partner's functional strengths

Partners should either share or have complementary functional strengths which are critical to the success of the alliance.



Key Alliance Success Factors

4. **Product market swap**

Ideally, the partners complement one another in terms of their product line and their existing geographic market.

5. **Partner compatibility**

There needs to be basic trust between the partners and ideally the partners have similar operating and management styles as well as investment, growth and profitability goals. One of the partners having a relationship with a competitor is a big watch out.

6. **50/50 asset ownership**

Equal ownership of the assets has proven to be the most successful arrangement for alliances. This does not necessarily mean that management control is equally shared.



Key Alliance Success Factors

7. Flexible alliance

The goals and business conditions of the partners changes with time, thus it is important to consider needed flexibility in the front end design of the alliance.

8. Venture autonomy

Constant interference by two parents reduces the effectiveness of the alliance.

9. Financial Returns

Partners expectations should be aligned with regard to the expectations of the alliance.



Key Alliance Success Factors

10. Product fit to market

Do the anticipated services and/or products of the alliance meet the needs of the market? Failure to understand this basic question clearly has doomed many JVs.

11. Acceptable country/market risk

Senior management from both partners must fully understand all the inherent risks of the alliance, not simply the financial risks.

Collectively these key success factors constitute an
Alliance Checklist



How do you ensure partnership discussions
lead to a successful Alliance?

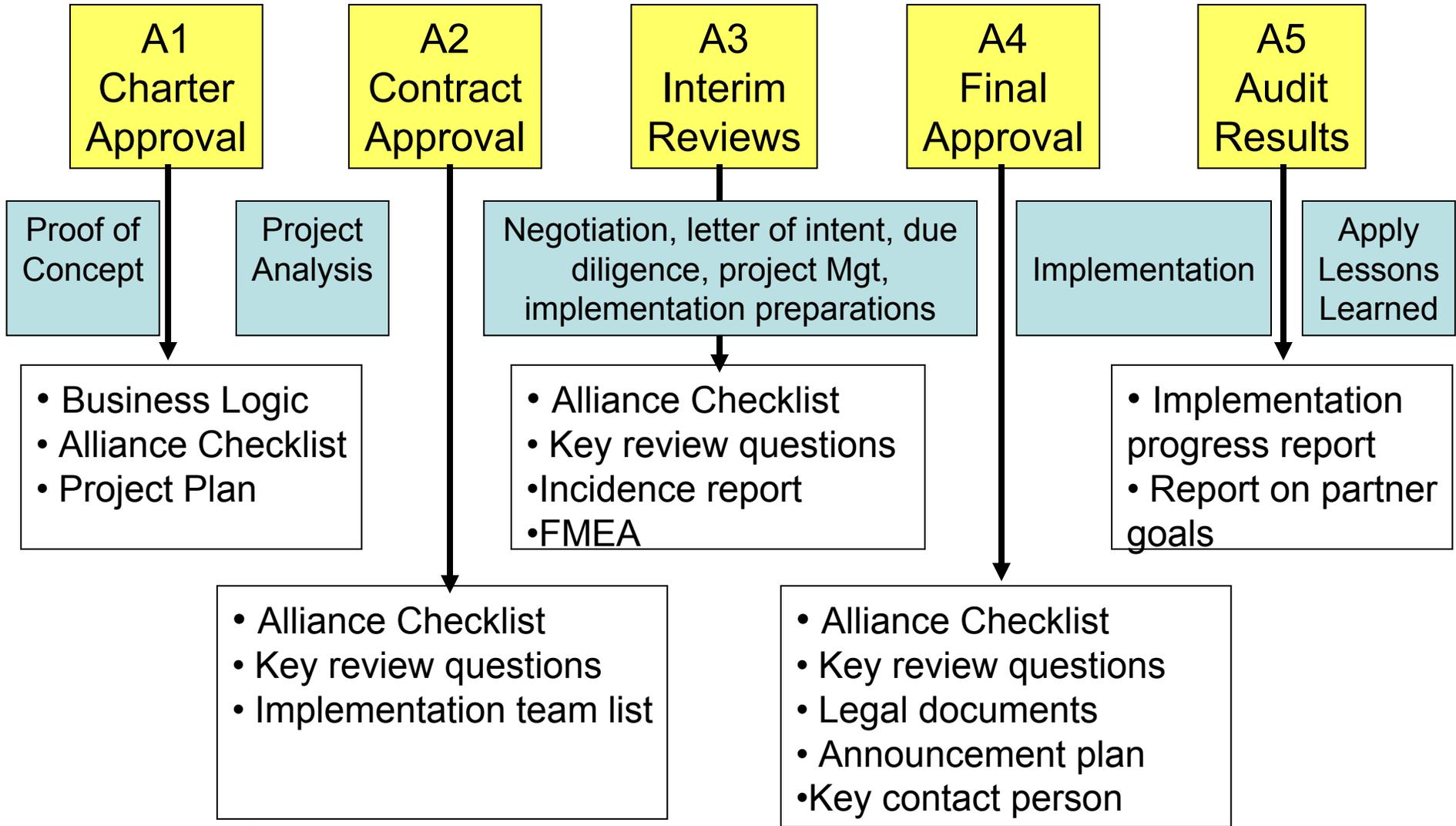


Alliance Review Process

- Phase Gate Review Process
- Structured / Consistent Approach
- Utilizes Alliance FMEA (Failure Modes and Effects Analysis)
- Ensures Organizational Understanding and Alignment
- Ensures Senior Management Oversight and Involvement
- Builds on Lessons Learned



Alliance Review Process





Lessons Learned

- **Partnership compatibility**
 - Enables partners to bridge the tough times (Distribution)
 - Allows for trust to react quickly and decisively knowing the parties will reach an equitable resolution (React to competitive threat)
 - Ensures strategic alignment with regard to the JV (Prop-to-helm)
- **50/50 ownership**
 - Critical so that one partner does not feel disadvantaged relative to the other.
- **Venture autonomy**
 - Essential to ensure the JV leadership can effectively manage
 - Failure is certain if the board or partners try to micro manage or if decisions are made by committee



Lessons Learned

- **Deal with Detractors**
 - Either or both partner organizations will have detractors. JV leadership should ensure facts are visible to senior partnership leaders. Partnership leaders must help manage their organizations.
- **Variable bonus aligned with JV results**
 - It is in the interest of the partners to ensure the JV has its own bonus schemes tied to its results. Critical to ensure behavioral alignment.
- **Strong JV Leadership**
 - JV Leadership must be empowered and have the fortitude to manage cultural as well as potentially divergent partner views and/or objectives.



Thank You