



CAIRN
INVESTMENT
GROUP

COMPANY SPOTLIGHT:

PACCAR Inc.

COMPANY DESCRIPTION

Headquartered in Bellevue, WA, PACCAR is a global leader in the design and manufacturing of light, medium, and heavy-duty trucks. The trucks are sold worldwide under the Kenworth, Peterbilt, and DAF names. PACCAR also designs and builds engines and powertrain components for its own use, and for sale to third parties.

Ron Armstrong has been the CEO since 2014 and has spent over 20 years with the company.

COMPANY HIGHLIGHTS AND FINANCIALS

Originally founded in 1905 as a railway and logging equipment manufacturer, PACCAR became a heavy-duty truck manufacturer in 1945 with its acquisition of Kenworth. Since this transition over 70 years ago, PACCAR has become the global leader in truck manufacturing. Their high degree of product customization and brand name recognition has allowed them to maintain a strong competitive advantage. As an example, PACCAR controls over 30% of the heavy duty truck market share in the U.S. and Canada while generating operating margins in excess of the major competitors on a consistent basis. Over the last 18 months PACCAR has been focused on technological advancements with the opening of their Innovation Center in Northern

California. This group has partnered with chip maker, NVIDIA, to develop self-driving technologies for trucks, and has developed hydrogen-fuel-cell powered trucks which emits only water vapor at the tailpipe.

PACCAR's strong balance sheet, focus on operational efficiency, and consistent cash flow generation (over \$2 billion annually) allows them to invest in projects that will continue their leadership position in heavy duty trucks.

KEY POINTS

- :: Global leader in truck design and manufacturing
- :: Strong brand name and customer loyalty allows for higher profits compared to competition
- :: Strong history of paying and raising their dividend
- :: Excellent corporate governance with a low executive turnover and strong accounting practices
- :: Compelling valuations based on historical operating metrics and future growth projections

VALUATION AND RISKS

PACCAR is trading at attractive valuations compared to both historical operating performance and to free cash flow projections. PACCAR is trading at 1.09 times sales and 9 times operating cash flows which is over a 15% discount compared to its five and ten year averages. We expect the company to grow free cash flow along with overall economic growth which is averaging 2% after inflation. This is well below their historical growth rate as the economic cycle shifts towards the later stages of growth. If our conservative assumptions turn out to be overly optimistic, there is a margin of safety built into the current price based on the company's current valuation compared to its historical operating performance, and strong financial position.

Risks that we will monitor going forward surround market share strength and growth in the heavy truck market. Weighing both potential rewards and risks, we are optimistic PACCAR will be a good long-term investment.

—Patrick Mason, Investment Analyst, Cairn Investment Group



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