Caterpillar
10/29/26 Q3 FY26 Earnings Conference Call Q&A
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ALEX KAPPER: Thank you, Audra. Good morning, everyone, and welcome to Caterpillar's third-quarter of 2026 earnings call. I'm Alex Kapper, Vice President of Investor Relations. Joining me today are Joe Creed, Chairman and CEO; Kyle Epley, Chief Financial Officer; Stephanie Baughman, Senior Vice President of the Global Finance Services Division; and Ryan Coleman, Senior Director of IR. During our call, we'll be discussing the third-quarter earnings release we issued earlier today. You can find our slides, the news release and a webcast recap at investors.caterpillar.com under "Events and Presentations."

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Moving to Slide 2, during our call today we'll make forward-looking statements, which are subject to risks and uncertainties. We'll also make assumptions that could cause our actual results to be different than the information we're sharing with you on this call. Please refer to our recent SEC filings and the forward-looking statements reminder in the news release for details on factors that, individually or in aggregate, could cause our actual results to vary materially from our forecast. A detailed discussion of the many factors that we believe may have a material effect on our business on an ongoing basis is contained in our SEC filings.

On today's call, we'll also refer to non-GAAP numbers. For a reconciliation of any non-GAAP numbers to the appropriate U.S. GAAP numbers, please see the appendix of the earnings call slides.

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For today's agenda, Joe will begin by sharing his perspectives about our results, and he will highlight key initiatives across our segments. Then he will discuss our full-year outlook and insights about our end markets. Kyle will provide a detailed overview of results and share key assumptions looking forward. We will conclude by taking your questions.

Now, let's advance to Slide 3 and turn the call over to Joe Creed.

JOE CREED: Thanks, Alex. Good morning, everyone, and thank you for joining us.

Our third-quarter results reflect the durability of our end markets, with our highest sales quarter ever, strong order rates and a record backlog. Our team continues to execute our strategic priorities in a dynamic environment, positioning us for a strong year.

Sales and Revenues were $20.7 billion dollars, up 17 percent versus the prior year, driven by strong end market demand. We delivered adjusted profit per share of 7 dollars and 20 cents, an increase of 45 percent versus last year. Strong order rates across all three of our primary segments drove backlog to a record $78 billion dollars. That is an increase of approximately $38 billion dollars, or 96 percent, from the third quarter last year, and marks the fourth consecutive quarter of sequential backlog growth in all three of our primary segments.

The quarter demonstrated the team's ability to execute in a high-growth environment. Specifically, our Power & Energy team continued to increase production of large reciprocating engines and turbines while simultaneously expanding capacity to meet demand. The team is effectively managing the operational challenges that come with this rapid growth. Bringing additional capacity online is still the top pacing factor for growth in Power & Energy, so we are working diligently to execute our plans and meet our customers' needs.

As I mentioned, sales and revenues were $20.7 billion dollars, and they were in line with our expectations. The increase from the prior year was primarily driven by strong growth in sales volume and favorable price realization in all three of our primary segments.

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Third-quarter adjusted operating profit margin was 20.6 percent. Excluding IEEPA tariff recoveries, adjusted operating profit margin was in line with our expectations.

In the quarter, we generated MP&E free cash flow of 3.8 billion dollars and deployed 2.0 billion dollars to shareholders through share repurchases and dividends.

Now, I will review third quarter retail statistics.

In Power & Energy, sales to users grew a robust 36 percent. Power Generation grew 75 percent, driven by continued very strong demand for turbines and large reciprocating engines used in data center applications.

Sales to users in Oil & Gas increased 5 percent and were driven by turbines and turbine-related services.

Industrial sales to users were down due to softness in the EAME region.

Now for Construction Industries. We have one of the broadest ranges of products, technology and services to support customers whether they prefer to own, lease or rent equipment. Combined with healthy construction activity, our unique position has allowed us to outpace the industry throughout the year. In the third quarter, total sales to users increased 20 percent marking the seventh consecutive quarter of year over year growth. In North America, sales to users grew a robust 27 percent, in line with expectations. Dealers' rental revenue in North America continued to grow, driving increased investment in their equipment fleets. We also saw strong customer interest in the Cat dealer-owned rental joint venture called Major Projects, which was launched last quarter. As a reminder, Major Projects will serve customers developing large scale infrastructure across North America, including transportation, energy, manufacturing and data center builds. It is a supplemental national rental solution to help deliver larger size-class construction equipment and capabilities where existing individual dealer rental fleets aren't sufficient to execute at scale. As a result, rental fleet loading was exceptionally strong in the third quarter, contributing significantly to sales to users growth compared with prior year when fleet loading was a slight headwind. Even

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excluding the positive impact from rental fleet loading, sales to users growth was strong driven by residential and non-residential construction activity.

Sales to users in EAME were above expectations, with growth driven by strength in Europe and Africa, partially offset by softness in the Middle East. In Asia-Pacific, sales to users outside of China were lower than we anticipated and declined slightly due to timing. China, however, continued to grow from a low base, as we expected. Latin America continued to grow but at a lower rate than we anticipated.

For Resource Industries, third-quarter sales to users increased 4 percent which was below our expectations. Sales to users were higher in Heavy Construction and Quarry & Aggregates, but lower in Mining due to delays in shipping and commissioning.

The Rail decrease was driven by lower international locomotive deliveries.

Turning to slide 4, I will cover a few highlights since our last earnings call starting with Power & Energy.

We serve customers across the power and energy value chain, and demand for our solutions remains strong. To ensure we can meet their needs and maintain operational excellence, we are continually evaluating opportunities to re-purpose underutilized facilities across our footprint.

In line with that approach, we plan to use a portion of our Winston-Salem, North Carolina facility, which currently produces locomotive engines, as a second assembly and test location for the 3600 series large reciprocating engine. The footprint will support our Oil & Gas customers to meet the growing need for natural gas compression.

The initiative directly supports previously announced plans to increase large reciprocating engine capacity to nearly three times the 2024 level by 2030. Utilizing our existing footprint and workforce is the most cost-effective and quickest way for us to bring additional capacity online.

In Construction Industries, we launched Cat Compact earlier this year, a key part of our strategy to reach more small contractors in the growing compact construction

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equipment industry. To support that growth and meet increasing customer demand, we announced a $1 billion dollar investment to expand manufacturing capacity in Sanford, North Carolina.

The investment will create a modern, technology-enabled manufacturing environment designed to improve safety, quality and operational performance while supporting long-term growth. The facility will incorporate advanced manufacturing technologies, automation, digital production systems and integrated logistics capabilities to create a more connected and efficient operation.

This demonstrates how we're aligning our investments to meet our 2030 targets and positioning Caterpillar for long-term profitable growth.

And in Resource Industries, we announced last month that we're working with Luck Stone to expand autonomous hauling technology across two additional Virginia operations.

The expansion follows a highly successful pilot at the Bull Run quarry, where autonomous trucks have hauled more than 3.5 million tons since going live in November of 2024.

These deployments also mark the first use of Caterpillar's autonomous technology on a Cat 775 truck, expanding our advanced autonomy capabilities beyond large mining applications and into quarry and aggregates.

Through this customer collaboration, we gained insights that are helping us refine and scale autonomous hauling solutions that deliver measurable value for operations at jobsites around the world.

This expansion marks another important step toward our goal of tripling the number of Cat autonomous trucks by 2030 compared with 2024.

Now, on slide 5, I'll provide an update on our outlook.

Our strong execution through the first nine months positions us well to meet our full year outlook.

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We continue to expect our full-year 2026 sales and revenues to grow in the mid-to-high teens. Strong order rates and a growing backlog reflect continued broad-based momentum across our business despite ongoing geopolitical uncertainty.

Excluding the favorable impact from IEEPA tariff recoveries, we continue to expect full-year adjusted operating profit margin to be near the bottom of the target range.

Our full-year margin expectation reflects the strategic investments we are making to execute our growth strategy as well as the ongoing impact of tariffs and higher freight costs due to elevated energy prices.

We remain focused on delivering long-term OPACC growth, and we aim to operate around the midpoint of our adjusted operating profit margin target range over time.

We are also maintaining our MP&E free cash flow expectations to be in the top half of our annual target range.

Kyle will provide additional details shortly.

I will now discuss our key end markets, starting with Power & Energy.

We continue to work closely with our customers, which allows us to understand and respond to their evolving needs. Customers' view of demand for both Oil & Gas and Power Generation remains strong. As I mentioned, backlog continues to grow due to strong order rates, and we are now taking some large reciprocating orders as far out as 2029 and turbine orders into 2030.

We continue to anticipate full year growth in Power Generation for both Cat reciprocating engines and Solar turbines, driven by increasing energy demand to support the data center build-out related to cloud computing and generative AI. Additionally, prime power demand continues to trend higher as customers look to Caterpillar's turbine and reciprocating engine products to support their need for power solutions.

After a record year for sales in 2025, Oil & Gas is expected to grow moderately again this year. Reciprocating engine sales are anticipated to increase, driven by strong

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demand in gas compression applications. We also see continued momentum in demand for reciprocating engine aftermarket parts. Solar Turbines' Oil & Gas sales are expected to grow, and the backlog remains healthy with solid order and inquiry activity.

Demand for products in Industrial applications is expected to grow moderately in 2026 as well.

For Construction Industries, we expect strong fourth-quarter and full-year sales to users growth supported by healthy end markets.

The outlook for North America remains positive with construction spending at healthy levels. Non-residential construction investment continues to be supported by the IIJA, critical infrastructure programs and data centers. We expect fourth-quarter dealer rental fleet loading to remain strong. However, it will contribute less to sales to user growth than in the third quarter due to lapping strong rental loading in the fourth quarter last year.

In EAME, Europe is expected to remain stable supported by non-residential construction, while construction activity in Africa is projected to remain strong. The Middle East continues to face challenges, and we currently anticipate only a limited impact on EAME sales to users.

In Asia Pacific, outside of China, stable economic conditions are expected. In China, we anticipate moderate conditions, with full-year growth in the above-10-ton excavator industry off low levels of activity.

We expect full-year growth in Latin America.

We are seeing continued positive momentum in Resource Industries with robust order rates driving strong backlog growth.

Customer product utilization is high, and the age of the fleet remains elevated. Most key commodities remain above investment thresholds, and customers are focused on the long-term.

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For full year 2026, we expect strong sales to users growth, primarily driven by rising demand for copper and gold; increasing activity in the Canadian oil sands; and positive dynamics in heavy construction and quarry & aggregates.

We expect the commissioning delays from the third quarter to catch up, which will contribute to strong sales to users growth in the fourth quarter.

We continue to expect rebuild activity to increase moderately compared with last year.

Rail services are anticipated to grow for the year. We now expect locomotive deliveries to be slightly lower year over year due to timing of deliveries.

And finally, earlier this month we announced that Derrick York will succeed Denise Johnson as Group President of Resource Industries.

I want to congratulate Denise on a remarkable career. Under her leadership, Resource Industries returned to profitability and positioned Caterpillar as an industry leader in mining autonomy and technology. I am deeply grateful for all she has done to strengthen our relationships with customers, develop our people and shape the future of our company. Her impact and influence will be remembered long after her retirement.

I've worked closely with Derrick for well over a decade, and I'm confident in his ability to lead the Resource Industries team into its next chapter of innovation, growth and customer success. He is a highly respected leader who understands our customers, our strategy and the industries we serve.

With that, I'll turn it over to Kyle.

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KYLE EPLEY: Thank you, Joe! Good morning, everyone. I am going to take a few minutes to walk you through our third quarter results, including details about segment performance as well as the balance sheet and cash flow. I will finish with remarks on our expectations for the fourth quarter, and current full-year assumptions.

Beginning on Slide 6, sales and revenues were 20.7 billion dollars, up 17 percent versus the prior year, which was in-line with our expectations.

Adjusted operating profit was 4.3 billion dollars, and our adjusted operating profit margin was 20.6 percent. Excluding the IEEPA tariff recoveries, both were in-line with our expectations.

Moving to Slide 7. The 17 percent increase in sales and revenues compared to the third quarter of 2025 was primarily driven by strong growth in sales volume and favorable price realization. The stronger sales volume was mainly driven by higher sales of equipment to end users, supported by healthy end market demand and strong execution by our team. Dealer inventory increased by 300 million dollars in Construction Industries compared to an increase of 600 million dollars in the third quarter of 2025. This created a modest headwind to sales volume in the quarter, and was in-line with our expectations.

Sales and revenues, both at a consolidated level and across all three primary segments, were in-line with our expectations.

Moving to operating profit on Slide 8.

Operating profit in the third quarter increased by 38 percent to 4.2 billion dollars. Adjusted operating profit of 4.3 billion dollars also increased by 38 percent versus the prior year.

The adjusted operating profit margin was 20.6 percent, which was an increase of 310 basis points compared to the prior year. Margin benefited from the profit impact of higher sales volume and favorable price realization. This was partially offset by higher manufacturing costs, mainly driven by higher freight and higher expenses related to our capacity expansions.

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In the quarter, we recognized 128 million dollars in IEEPA tariff recoveries. Nearly all of this amount is reflected in corporate items.

For tariffs introduced since the beginning of 2025 – and excluding IEEPA recoveries -- our third quarter tariff costs were approximately 600 million dollars, and about flat year-over-year, as we anticipated.

Moving to Slide 9, profit per share was 7 dollars and 13 cents in the quarter. Adjusted profit per share was 7 dollars and 20 cents.

Excluding discrete items, the provision for income taxes in the third quarter of 2026 reflected a global estimated annual effective tax rate of 23 percent.

Finally, the year-over-year impact from the reduction in the average number of shares outstanding, due to share repurchases, resulted in a favorable impact on adjusted profit per share of approximately 15 cents compared to the third quarter of 2025.

On Slide 10, I will now review the third quarter results of our segments, starting with Power & Energy.

For Power & Energy, sales of 8.8 billion dollars increased by 18 percent versus the prior year, which was in-line with our expectations. The sales increase versus the prior year was mainly due to higher sales volume and favorable price realization. Services revenues were also strong in the quarter, especially for sales into Oil & Gas applications.

Third quarter profit for Power & Energy increased by 31 percent versus the prior year to 2.1 billion dollars.

The segment's margin of 24.4 percent was an increase of 250 basis points versus the prior year. The increase was mainly due to the profit impact of higher sales volume. Favorable price realization was mostly offset by unfavorable manufacturing costs, driven by spend related to our capacity expansions, including higher depreciation, along with higher material and freight costs. Segment margin matched our expectations.

Now moving to Slide 11, Construction Industries sales increased by 18 percent in the third quarter to 8 billion dollars, as we anticipated. The sales increase versus the prior year was primarily due to higher sales volume and favorable price realization. Higher

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sales volume was mainly driven by sales of equipment to end users, which included strong contributions from both retail sales and rental fleet loading. Both residential and non-residential industries contributed to the growth.

Third-quarter profit for Construction Industries was 1.8 billion dollars, a 33 percent increase versus the prior year.

The segment's margin of 22.9 percent was an increase of 250 basis points versus the prior year, mainly driven by favorable price realization and the profit impact of higher sales volume. This was partially offset by unfavorable manufacturing costs, including the impact of [higher] freight and tariff costs (company clarified after the call). SG&A and R&D expenses related to our digital and technology investments also increased compared to the prior year. Segment margin was also consistent with our expectations.

Turning to Slide 12. Resource Industries sales which were broadly in-line with our expectations, increased by 15 percent in the third quarter to 4.6 billion dollars, primarily driven by higher sales volume. Price realization was also favorable versus the prior year, and slightly better than our expectations, primarily driven by positive geographic mix.

Third-quarter profit for Resource Industries increased by 14 percent versus the prior year to 622 million dollars.

The segment's margin of 13.5 percent was roughly unchanged versus the prior year. This was mainly driven by unfavorable manufacturing costs, primarily due to higher material costs, including tariffs, offset by the profit impact of higher sales volume and favorable price realization. Overall segment margin was about in-line with our expectations.

Moving to Slide 13. Financial Products revenues increased by 9 percent versus the prior year to 1.2 billion dollars, mainly due to higher average earning assets across all regions.

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Segment profit increased by 10 percent to 264 million dollars. This increase was primarily due to a favorable impact from higher average earning assets, partially offset by a higher provision for credit losses.

Our customers' financial health remains strong. Past dues were 1.31 percent in the quarter, down 16 basis points versus the prior year, and remains the lowest we have recorded since 1998. The allowance rate was 0.91 percent at the end of the third quarter.

Business activity within CAT Financial remains healthy. Retail new business volume grew by 6 percent versus the prior year. In addition, used equipment inventory levels continued to remain low and conversion rates remain above historical averages as customers continue to choose to purchase their equipment at the end of their lease term.

Moving on to Slide 14. MP&E free cash flow was 3.8 billion dollars in the quarter. This was an increase of roughly 600 million dollars versus the prior year, mainly driven by stronger profit.

Capex spend was about 700 million dollars in the quarter.

We deployed 2 billion dollars to shareholders in the third quarter, of which share repurchases accounted for 1.2 billion dollars, and nearly 750 million for our quarterly dividend payment. Earlier this year, we announced our 6th consecutive year of a high single digit quarterly dividend increase, and this year will mark 33 consecutive years of paying higher annual dividends to our shareholders.

Our balance sheet remains strong. We have ample liquidity, with an enterprise cash balance of 7.9 billion dollars. In addition, there is 1.6 billion dollars in slightly longer-dated liquid marketable securities to improve yields on our cash.

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Now for Outlook assumptions. Turning to Slide 15, I will start with the fourth quarter. End-user demand remains favorable across all three primary segments, and the team is working diligently to deliver on our commitments for the year. At the same time, we are aware of the potential headwinds presented by higher cost inflation, which we continue to monitor closely.

For the fourth quarter, we anticipate moderate sales growth versus the prior year. As a reminder, we are lapping a strong quarter last year, which creates a tougher comparison this year. Now, let me walk you through each of our three primary segments.

In Power & Energy, we anticipate moderate sales growth in the fourth quarter versus the prior year, as we lap a strong prior year fourth quarter, and continue to ramp capacity. Volume growth is expected to be driven by continued strength in Power Generation, modest growth in Oil & Gas and moderate growth in Industrial applications as it continues to recover. We also expect favorable price realization.

In Construction Industries, we expect sales to be similar to the prior year. We anticipate the typical seasonal dealer inventory reduction to be roughly 1.6 billion dollars, which compares to a decline of 600 million dollars in the fourth quarter of 2025. As a result, we expect the year-over-year impact to be about a one billion dollar headwind to sales volume in the fourth quarter against a backdrop of continued strong sales to users and industry growth. As a result, we expect sales volume in Construction Industries to be down modestly versus the prior year. However, we continue to expect favorable price realization in the fourth quarter. Despite the drawdown, we continue to expect dealer inventories at the end of the year to be higher than the prior year, in anticipation of strong sales to users in 2027.

In Resource Industries, we expect strong sales growth in the fourth quarter versus the prior year. Volume is expected to be driven by higher sales to users and services growth. We also anticipate favorable price realization.

I will now provide some color on our fourth quarter margin expectations versus the prior year.

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At the enterprise level, we expect higher adjusted operating profit margin versus prior year. This is primarily due to favorable price realization and the profit impact of higher sales volume. Excluding the impact of lower tariffs, we expect unfavorable manufacturing costs, driven by higher freight as well as expenses related to our capacity expansions. SG&A and R&D expenses are also expected to be higher, driven by our continued investment in the strategic initiatives aligned with our 2030 goals.

We anticipate tariff costs, excluding IEEPA recoveries, of around 600 million dollars, which is similar to what we incurred in the third quarter, but roughly 200 million dollars lower than what we incurred in the fourth quarter of 2025. We continue to expect about 50 percent of the tariffs to be incurred in Construction Industries and 25 percent in both Power & Energy and Resource Industries.

Now for our fourth quarter margin expectations in our three primary segments.

In Power & Energy, we anticipate favorable price realization and stronger volume to drive a higher margin percentage compared to the prior year. The higher margin compared to the prior year is expected to be partially offset by unfavorable manufacturing costs, including depreciation and expenses related to our capacity expansion projects, along with higher material and freight costs. We expect fourth quarter margin to be similar to the third quarter.

In Construction Industries, we anticipate a higher margin percentage compared to the prior year, primarily due to favorable price realization, which is partially offset by lower sales volume. Excluding the impact of lower tariffs, manufacturing costs are expected to be higher, driven by freight. We also expect higher SG&A and R&D related to our technology investments. Also, as a reminder, our Construction Industries fourth quarter margin typically has a sequential step-down from the third quarter. We expect this seasonality change to be slightly more than our typical average step down due to the expected lower sales volumes, higher SG&A and R&D related to our technology and digital investments, as well as higher freight costs.

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In Resource Industries, we anticipate a higher margin percentage compared to the prior year driven by favorable price realization and the profit impact of higher sales volume, partially offset by unfavorable manufacturing costs, including freight and material.

Now on Slide 16, let me provide a few comments on the full year.

As Joe mentioned, we continue to anticipate sales and revenues growth in the mid-to-high-teens for the full year 2026.

Our strong full year sales and revenues expectation is supported by:

Strong sales to users growth across all three primary segments, driven by healthy end markets; strong order rates across all three primary segments, driving our backlog growth; increased output from our capacity expansion plans, which remain on schedule; and a strong year of services growth.

Now for our adjusted operating profit margin for the full year.

Compared to last year, we expect a higher adjusted operating profit margin, which reflects profit impact of higher sales volume and favorable price realization, partially offset by unfavorable manufacturing costs, including spend related to our capacity expansions, which includes higher depreciation expense, as well as higher freight. We also expect higher SG&A and R&D.

Excluding IEEPA tariff recoveries, our full year adjusted operating profit margin is expected to be near the bottom of our target range.

Excluding our reported year to date IEEPA tariff recoveries of about 520 million dollars, we continue to expect full year 2026 tariff costs of around 2.2 billion dollars. Our outlook does not include any additional IEEPA tariff recoveries in the fourth quarter.

We now expect restructuring costs of about 300 million dollars in 2026, which is on the low end of our prior range. Our estimated global annual effective tax rate remains approximately 23 percent for 2026, excluding discrete items.

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We also continue to expect MP&E free cash flow to be in the top half of our annual target range of 6 to 15 billion dollars. Our capex spend for 2026 is now anticipated to be about 3.3 billion dollars, which is slightly below our prior expectation of 3.5 billion dollars.

So now turning to Slide 17, to summarize:

We delivered another very strong quarter, with year-to-date financial results tracking toward another record year for Caterpillar. Our end markets remain healthy, with strong order rates and a growing backlog. We continue to drive improved profitability in a dynamic operating environment. We will remain disciplined and committed to operational excellence and the O&E Model. We will continue to look for ways to invest efficiently. We will maintain a strong balance sheet, and continue to return substantially all of our MP&E free cash flow to our shareholders through dividends and share repurchases over time. And finally, we will continue to execute our strategy for profitable growth.

With that, we will take your questions.

Q&A

OPERATOR: Thank you. We will now begin the question-and-answer session if you would like to ask a question please press star one on your telephone keypad to raise your hand and enter the queue. If you would like to withdraw your question, simply press star one again. Please note, we are only allowing one question per analyst.

ROB WERTHEIMER: Thank you and good morning, I had a couple of questions around power gen. And two quarters ago you detailed some of the prime power projects you have done. I think you gave gigawatt numbers. Do you have any update there? Is prime power still expanding for you either in general if you have any update on gigawatts? And then you mentioned you are taking orders into '29. Does that imply that '28 is sold out? Are you selling out current capacity but leaving future capacity for future orders? Can you sort of talk about how you manage backlog there? Thank you.

JOE CREED: Good morning, Rob. We still continue to see trending higher prime power, both turbines and reciprocating gen sets. I've had a handful of discussions with customers for prime power, you know, just in this last quarter. It's a lot of quoting

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activity continuing to go on. And I think we will continue to see that trend as we move into the future. We are not seeing anything different in that space. When it comes to, you know, quarters and sort of backlog, if it's a significant order in gas or prime power we are probably looking at 2029. And maybe some, we will probably still roll some diesel backup orders in 2028 when we are not completely full. But we have frame agreements in the pipeline that kind of convert to orders as we move over time. So, again, we continue to have extended backlog. I'm happy that the backlog grew in all three segments. And, you know, what we are hearing from our customers is they still want more from us if we can get them more power. So we are trying to ramp as quickly as we can and still, you know, hit our customers' needs.

OPERATOR: We will go next to Tami Zakaria at JP Morgan.

TAMI ZAKARIA: Hi, thank you so much for taking my question. So, I just wanted to touch on the backlog comment. I think I heard Joe say that the engines and turbine orders are now going as far out as 2029, 2030. So, is it then the total orders you receive in the quarter are primarily for the out years? Or are the majority of the orders booked still for the next 12 months? And given the new capacity that will be coming online, when would you expect this record backlog to start stepping down or is it the new normal for the backlog management?

JOE CREED: Yeah, good morning, Tami. Thanks for the question. So I want to be clear. I mean, we are taking our orders into '29. We have some in '29 and 2030. We still have more to fill. And this is a bit of a complicated question because it's going to depend on the product, right? So for large reciprocating engines and turbines we are definitely extended out into late '28, into '29. Smaller gen sets, smaller engines, obviously, lead times are much shorter than that. And on the machine side of the business, the backlog grew in all three segments aside from a couple of products where we are ramping production and operationally trying to ramp production. And even in those we are not extended near as far. I would like to produce and get our production ramp closer to STU. So when we look at the backlog, we want to make sure we are looking at the backlog in the context of sales to users and order rates and the entire system and how it works. So if we can, sales to users stay healthy, which is what we are expecting and we can produce more product, we will continue to take orders. But I would like to see the backlog, if we can get it to even come in on the machine side because we can keep up that, would be a good thing. And I also think when you look at we've had a few quarters of backlog growth. I think we will continue to see some backlog growth. But it's going to really depend. I mean, customers have time to place orders, and sort of digest what we have. So I don't know that quarter to quarter it's going to be something we look at as a singular metric as we start to move out.

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Especially as we get extended. We are continuing to do long-term planning with our big data center customers and prime power customers. We are seeing demand for cloud compute and our backup power continue to be strong. And then AI, obviously, comes in on top of that, and the prime power number. So with those frame agreements we have line of sight past the backlog and continue to talk to our customers. And then on prime power, those are big projects and I think they get negotiated individually and those can come in lumpy in the backlog as can mining orders. So, I'm really pleased with the backlog growth we saw in this quarter. It was broad based, Oil and Gas, Power Generation, Resource Industries and in Construction Industries, so we have good momentum.

KYLE EPLEY: And just for reference we expect 58% of our backlog is expected to be sold within the next 12 months. That is comparative to 59% last quarter.

OPERATOR: We will move next to Jamie Cook at Truist Securities.

JAMIE COOK: Excuse, me good morning I guess my question, Joe, is just around your longer term margin framework that you guys have put out there. You guys have done an exceptional job, but the margins have been pushing towards the lower end. And, obviously, we have tariffs and inflationary pressures, et cetera. But like what do you think with, you know, sort of capacity coming online and price costs in the backlog, what is like a reasonable time for us to assume we can get back towards like the mid to high end of your longer term target range? And what would be the major drivers behind that? And then, last, is there any way you can help us frame how much incremental capacity is coming online in 2027 on a dollar basis or any way you can frame it? Thank you.

JOE CREED: Good morning, Jamie. You know, as far as the margin target range, I've said many times that I want to operate towards the middle of that range. The sales are growing at a really good clip, which is a good thing. And we have been able to, the best we can, keep up with customer demand, and it's a progressive target. So as our margins are going up, the target continues to increase so we are kind of skipping along the bottom. I would expect, and we will talk to you a lot more about 2027 in the next quarter, that we start to claw our way off the bottom of that margin target range as we go forward while we still are trying to keep up with demand. We also are trying to do this with the tariff headwind in a smart way where we are not slowing down investments that would impact the growth and the momentum we have in the business. So I'm happy with the progress we've made. Our margins continue to go up as our volume goes up. And over the next couple of years, we want to try to work our way back to the mid point.

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OPERATOR: Next we will move to David Raso at Evercore ISI.

DAVID RASO: Hi. Thank you for the time. I'm trying to figure out the revenue sequentially and what it means when we think about '27 revenue. If you look at the sequential revenue 3 to 4Q, let's use the guide for the full year, mid to high teens, let's call it 17%. It implies that the fourth quarter, even if I give you back the extra billion, right, the head wind of the dealer inventory, it implies the revenue is barely up sequentially. And over a long period of time fourth quarter is up 5 to 10%. I mean, it moves around. But a year where you're adding capacity to big focus and I mean, the demand is there. You speak to it in retail, even the backlog is still pretty solid. Just trying to understand is there some capacity issue, supplier issue? Why is the revenue growth so modest sequentially especially given the capacity adds and any implications on how to think about '27 top line would be appreciated as well, thank you.

JOE CREED: Good morning, David. As we said in prepared remarks, on Power and Energy it's really paced by capacity and timing customer delivery. So we're not seeing anything different in the business that we would say would impact the fourth quarter. But it is hand to mouth, right? The teams are working really hard. We had a test cell go down for a little bit in the third quarter. I don't know, we were able to overcome, but there is no slack in the system. Then as you mentioned, we kind of said, we're going to have the inventory draw down in Construction Industries, which seasonally is not unusual. It's going to be a little different than the patterns that we had last year. And then Resource Industries, we are, as we mentioned, we think operationally we are trying to ramp. So we are going to obviously get as much product out as we can on large mining trucks and some of those products. But I don't think there is -- other than typical seasonality and things that we talked about on trying to ramp production, we are pretty confident. And this is an in line. Our third quarter's results came in line as we expected. We haven't really changed our view from what we plan to do in the fourth quarter. As you think about how we're going to finish the year, again, we will talk to you more about 2027 in January, but our backlog continues to increase. We have a longer line of sight. We are drawing down Construction Industries' inventory, $1.6 billion. We are going finish the year with almost $700 million more of inventory in place than we finished 2025, heading into 2026. So we feel good about where we sit right now.

KYLE EPLEY: And, David, this is Kyle, I will just remind you, and I said in my prepared remarks, when we talk about the growth, it's off a really tough comparison versus our 4Q last year just from a consolidated level, and then especially from a Power and Energy standpoint. But going in 2027, you know, the dealer inventory and increase in

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Construction Industries, we still expect really strong STU's across all three primary segments in 4Q going into 2027.

OPERATOR: We will take our next question from Michael Feniger at Bank of America.

MICHAEL FENIGER: Hey, everyone. Thanks for taking my question. And just kind of following up on David Raso's question, the Q4 implying the moderate sales growth, you guys talked about the dealer destock. I know your target is 6 to 9% CAGR on the revenue growth side, some years higher, some years lower to get to that average. Just with the backlog where it is, the framework agreements, and I understand there is a quarter dynamic with destocking, but why would set up for 2027, should we be thinking that we are above that 6 to 9% CAGR at the higher end based on where retail sales are and where we are seeing it? What would hold us back to be in that line? I'm just kind of curious what the set up and the building blocks would look like for next year on that.

JOE CREED: Yeah, so 2027, again, we -- it's not much different than how I answered David's question, right? I mean, we are finishing the year strong. As Kyle mentioned, a really strong fourth quarter last year. So when we say moderate growth year over year, some of that is a comp issue. We are paced on capacity on Power and Energy. We think we will continue to increase capacity. It's not a cliff event, as we've said. So every quarter we try to get more and more product out. We expect to continue that. When it comes to the dealer inventory draw down, one, dealers are independent businesses, just to remind you. We do work with them. And we want to make sure we have the right inventory in right place in right regions of the world with the right products. And we do feel like we are in a good position heading into 2027, finishing the year with more dealer inventory in Construction Industries than we finished last year. So Resource Industries' orders continue to go up. We've had three really strong quarters in a row of orders in Resource Industries. Having some operational challenges and inefficiencies as we ramp. But I think we will continue to work those and get those behind us. So we are pretty confident and bullish where we sit right now as we watch things. We are focused on delivering a strong fourth quarter and a strong finish to the year, and we will talk to you guys more about '27 in January.

OPERATOR: Next we will go to Chad Dillard at Bernstein.

CHAD DILLARD: Hey, good morning, guys. Just want to spend some time on the mining business. I recall from the beginning of this year you talked about, you know, orders being the highest, I think since 2012. So I was wondering if I could get an update how that is trending. Talk about, you know, what is driving it more, refurbishment

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versus replacement. And if you can just give a little more color on some of the ramping challenges that you're seeing and if you have a line of sight to seeing that being resolved in the quarter?

JOE CREED: Yeah, good morning. We've had three really good order quarters in a row for Resource Industries, which we are really happy about. We mentioned in prepared remarks, driven a lot by mining and, you know, both heavy construction, but in Mining in particular. Copper and gold we are starting to see activity in the Canadian oil sands. Services are continuing to grow. So customers are using the fleet and we are seeing aftermarket rebuilds continue to happen. And customers are starting to order equipment. So that's all a really good sign. We, as we try to ramp, particularly in large mining trucks, is where we have been actually increasing capacity at some of our factories where we can inside our four walls and working with the supply base to get ramped up. They are just sort of I would say is normal growing pains and operational challenges when you are increasing capacity and trying to get product out of the door. So we will continue work to work those. I think we will get them behind us as we move forward. But it's a great sign that we've had this strength in orders as we have been waiting for orders to kind of pick up in mining for quite a while. So really happy with what we have seen in the first three months or in the first three quarters of this year.

OPERATOR: We will go next to Jerry Revich at Wells Fargo Securities.

JERRY REVICH: Hi. Good morning, everyone. And congratulations to Denise and Derrick. Hi. Joe, Kyle, one thing I ask in terms of as you think about production slots and lead times out to '29 and '30 for turbines and large reciprocating engines, as you folks look at the permit requirements out that far and the counter parties given some angst about credit in the market, can you just talk about if you have seen any shifts in timing and backlog? And I don't know if you can share what proportion of those production slots are backed by hyperscalers, just to build comfort around the moving pieces given all of the use on the permitting side?

JOE CREED: Yeah. I mean, I don't think we would quantify hyperscalers verses colo's versus others or IPP's. But we work with all of them. Typically when we roll orders from pipeline into backlog and working with other customers, we generally have line of sight to the project that they are working on. Our teams are working closely with customers. We continue to see strong Oil and Gas activity as well for large engines. So, as we think of this, we have always tend to move, if we can, some slots around to meet customer needs to deliver on their projects. And we have been doing that the last couple of years because we want to make sure we meet our customers' timeline and also no need to get product there early, it allows us to meet more customer demand if

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we are getting it when they need it. We haven't seen really any significant change in how we are working with our customers to deliver projects and product to get their project timelines. So we continue to talk to our customers. We stay close to them. We will follow their lead, but we are not seeing, you know, significant changes. But, as I said earlier, as we are extended pretty far out, right, I mean, this is going to be -- this is unusual for us. Typically we only had 12 months or less line of sight to our backlog, and now in particularly this situation the customers are placing orders pretty far out there. We have a lot of quoting activity in '29, '30. We have some quoting activity even beyond as we talk to customers. But I think they have time to firm up those orders and place the firm orders and move them into our backlog. So we will see our backlog kind of move in a lumpy way moving forward. But we will continue to watch sales to users and continue to watch order rates, our backlog, all in conjunction together, and stay close to our customers as we move into the end of this year and into next year.

OPERATOR: We will move to our next question from Mig Dobre at Baird.

MIG DOBRE: Yeah, thank you. Good morning.
And just to follow-up on these last comments, you know, if we are kind of looking at backlog progression or maybe looking at it from the perspective of book to bill, there was 1.7 earlier this year, decelerated to about 1.3 in the quarter here. As you look at the fourth quarter, based on what you know, how should we think about book to bill here? And given that you're taking now orders into '29, maybe even '30 for Solar, is there some kind of slippage in terms of bookings given how, you know, constraint from a capacity we seem to be? Thank you.

JOE CREED: Yeah. I mean, one of the things you have to look at book to bill is we continue to increase production as well. So our sales are continuing to go up. And, as I mentioned, for certain products when you look at our backlog, all three segments are in there and all three have been growing. There are some of them we would like to actually bring in in increased production. And so as we continue to ramp, book to bill will sort of move around. And then in Power and Energy, again, we are extended way longer than we have ever been. And so we continue to talk to our customers. That is why it's great to have frame agreements and sort of the pipeline view beyond what is in the backlog. That is what we are using to plan with customers. And those orders are rolling in the backlog at different times as we continue to move forward. Resource Industries and prime power projects, as I mentioned earlier, will also probably come in in not a smooth, sequential fashion. They will be lumpy depending on when those orders get placed, because they are typically big orders. So I think we will continue to talk to our customers. And again, you can't just look at one metric like backlog growth in a quarter or book to bill in a quarter as we take it into context with continued momentum

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and sales to users, our ability to produce more and get more product out the door. There are a lot of things we are watching on the health of the business, more than just book to bill and a singular backlog number.

OPERATOR: Our next question comes from Kyle Menges at Citi.

KYLE MENGES: Great. Thanks for taking my question. I would love to hear from you guys how the landscape might be changing a little bit as far as the demand you are seeing in the data center market. Maybe talk a little bit about how you're seeing things evolve in demand for turbine versus nat gas recips and then for diesel backup. Then also just, as you're booking into the latter part of this decade and having a lot of discussions, it sounds like, a lot of quoting activity to 2030 and even beyond, I would love to get just some sense of how you could see your next shifting maybe that mix of prime versus backup, where you have been versus maybe where that mix is heading as you look to 2030.

JOE CREED: Yeah. As we talk to our customers, we have not seen really any change since the last quarter in our discussions with customers. We continue to see momentum in standby diesel backup, which has been the growing base of our business for quite a while. Before even really AI started to accelerate the growth even more. Driven by a lot of demand for cloud compute. And AI has obviously accelerated that. When it comes to prime power versus diesel, that's one of the things that is good about the capacity to put in place. It's pretty fungible as long as we have line of sight to those orders. If you get the largest 3520 that one they are probably a little more extended on the gas 3520K. But keep in mind as well the capacity we have in place and the momentum we have, you know, it's more than just Power Generation. We continue to see the momentum there. Oil & Gas and I think we will move a lot of natural gas in the next few years and we are really strong in gas compression both in solar turbines and in our reciprocating engine business. Demand is there for that. It's for marine. And large engines also go into our mining products as well. So as the mining picks up, we are excited about, you know, making sure that we can serve those customers. And really when you talk about, aside from diesel standby, all these other applications, as the field population grows, we need to be able to support customers in the aftermarket and growth services, so the capacity is all aligned to what we plan to have in place to meet our goals in 2030.

OPERATOR: We will go next to Kristen Owen at Oppenheimer.

KRISTEN OWEN: Hi, good morning. Thank you for the question. You know, we've talked a lot about the synchronous growth within the portfolio, but I'm hoping you can

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maybe double click for us on the construction side. You call that the tough comps here in the fourth quarter, but backlog growth in construction, can you maybe help us understand or give us some color on the underlying demand, how much of the growth is going into rental for your own fleet versus third parties? And maybe some of those other sources of demand outside of rental and mega projects? Thank you.

JOE CREED: Yeah. Good morning, Kristen. Yeah, we have seen really strong order rates, strong STUs continue in construction. So we are really excited about the progress we have there and the initiatives that we've announced. I think it's the 7th consecutive STU growth quarter. And we will see as we move forward, but our goal and our strategy really is to get customers in the cabs of Cat machines, whether they want to rent or lease or buy. And we are seeing customers do all three. We are really excited and heavy in the fleet load in the Major Projects fleet in the third quarter. And basically as soon as we can get fleet on the ground, they are moving to projects, so I think that is going to be a great initiative for us to continue to drive Rental. And the point of that is to supplement, if you think of the strategy, the Major Projects, JV, it supplements the local dealer where they wouldn't be able to get on, have the scale to get to projects before, so it drives not only Major Projects but allows each of the individual dealers to be in more Rental deals as they move forward as well. So we are seeing great progress there. We are excited about Cat Compact and how we are taking care of customers and the growing compact equipment industry. And, in particular, we have seen, it's the large infrastructure projects. IIJA spending still has a lot of money left to be spent in projects left to be completed. I'm confident we will continue to prioritize critical infrastructure as we move forward. Data centers, obviously, have a little bit of a rollover into Construction Industries as well. And so we are seeing really good momentum with the Construction Industries team. We are getting closer to customers than we ever have. And that's showing in their results. And we are seeing strength in all three of our segments right now which is real exciting.

OPERATOR: And today's final question comes from the line of Stephen Volkmann from Jefferies.

STEVE VOLKMANN: Good morning. Thanks for sneaking me in. Joe, I'm just wondering any update on the ten megawatt MaK restart you are doing and how we should think about that kind of ramping going forward?

JOE CREED: Good morning, Stephen. Yeah, we plan to ship our first units here in the fourth quarter. And we will continue to ramp as we go through next year on restarting the ten megawatt MaK engine and using it in Power Generation. I think that's going to

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be a great opportunity for us as we move into, you know, we will get started here in the fourth quarter, but as we move into 2027. So everything is on track with that program.

JOE CREED: All right. Well, that was the last question. So I just want to say thanks for joining us today. We really appreciate your questions. And I'm really proud of our team, the Caterpillar team's strong performance in what has been a pretty dynamic environment as we try to ramp production, add capacity, and take care of our customers. We are well positioned to deliver a strong year and will continue creating long-term value for our customers and shareholders. So, thank you. And I will turn it back to Alex.

ALEX KAPPER: Thank you, Joe, Kyle, Stephanie, and everyone who joined us today. A replay of the call will be available online later this morning. We will also post a transcript on our investor relations website as soon as it's available. You will also find a third quarter results video with our CFO and an SEC filing with our sales to users data. Visit investors.caterpillar.com and then click on financials to view those materials. If you have any questions, please reach out to me or Ryan Coleman. The investor relations general phone number is 309-675-4549. Now let's turn it back to Audra to conclude our call.

OPERATOR: Thank you. And that concludes our call. Thank you for joining and you may all disconnect.

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