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EDITED TRANSCRIPT

CAT - Q1 2013 Caterpillar Inc. Earnings Conference Call

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OVERVIEW:

CAT announced 1Q13 sales and revenues of $13.2b and profit per share of $1.31. Management reduced 2013 expectations to sales and revenue of $57-61b and profit per share of $7.00 at the middle of the sales and revenue range.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Caterpillar first-quarter 2013 earnings results conference call. At this time, all lines have been placed on a listen-only mode, and we will open the floor for your questions and comments following the presentation. It is now my pleasure to turn the floor over to your host, Mr. Mike DeWalt. Sir, the floor is yours.

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Thank you and good morning, everyone, and welcome to our first-quarter earnings call. I am Mike DeWalt, Caterpillar's Corporate Controller. On the call today, I'm pleased to have our Chairman and CEO, Doug Oberhelman, and Group President and CFO, Brad Halverson.

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Now, this morning, we will be discussing forward-looking information that involves risks, uncertainties and assumptions that could cause our actual results to differ materially from the forward-looking information. A discussion of some of the factors that individually or in the aggregate could make actual results differ materially from our projections can be found in our cautionary statements under Item 1A -- that's Risk Factors -- of our Form 10-K, filed with the SEC on February 19 of this year, and also in the forward-looking statements language contained in today's release.

In addition, there is a reconciliation of non-GAAP measures, and it can be found in our financial release, which is also being posted on our Caterpillar.com website.

Before we start this morning the Q&A, I'll begin by covering three topics. The first will be a summary of our first-quarter results. Then I will take a few minutes to discuss the outlook for 2013. And then the third topic will be our announcement this morning that we will be repurchasing stock in the second quarter.

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Let's start with results. Without a doubt, it was a challenging first quarter. When we started 2013, we expected it would be a tough quarter, and that is why we had a specific section in our year-end financial release that addressed the quarter. At that time, we suggested that sales and revenues would be down more than $2 billion in the first quarter, and that is what has happened. Sales and revenues were $13.2 billion, and that is a $2.8 billion or about a 17% decline from sales and revenues of $16 billion in the first quarter of 2012.

Profit was $1.31 a share, $1.06 lower than $2.37 per share from the first quarter of 2012.

Now in terms of the sales, the majority of the year-over-year decline was a result of dealer inventory changes. Last year in the first quarter, dealers bought more machines from Caterpillar than they sold, and as a result, their new machine inventories rose about $875 million.

In the first quarter of 2013, it was the reverse. Dealers bought less from us than they sold to their customers, and their inventories of new machines declined about $700 million versus year-end 2012.

In combination, the impact of the changes in dealer machine inventories was negative by almost $1.6 billion quarter-over-quarter.

In addition to dealer machine inventory, dealers also have engine inventories. And while the amount is much less than for machines, and as a result we don't usually discuss it, there was some negative impact in the quarter from dealer inventory changes for engines.

When we started the year and in our year-end financial release, we expected dealer inventory changes would be a substantial negative in the quarter, and they were.

Now, in addition to the dealer inventory impact, end-user demand was also lower for both machines and for Power Systems. Sales of aftermarket parts were also down versus the first quarter of 2012. Part sales were relatively high during the first half of last year, trended down during the second half of 2012, but have started to move up now in the first quarter of 2013.

For part sales though compared with the first quarter of 2012, almost all of the decline we saw was in North America, where coal mining has been down and we've had some tailing off of part sales for on-highway trucks. And we had two fewer workdays than in the first quarter of 2012.

From a price realization perspective, overall, the first quarter was about 1% for the Company. That's about what we expected and consistent with our outlook for the full year.

So that's a summary of sales. Let's turn to profit. The decline in profit was largely a result of the drop in sales, plus $317 million of higher manufacturing costs, almost all of which was the result of cost absorption impacts related to lower production and inventory changes.

Inventory -- and by this, I'm talking about Caterpillar inventory, not dealer inventory -- increased about $2 billion in the first quarter of 2012 and came down about $0.5 billion in the first quarter of 2013; again, that is compared with the year-end. A portion of our cost of goods sold is relatively fixed in the short-term, and as a result, significant changes in production and inventory does have an impact on profit. In this case, it was negative year-over-year roughly $300 million.

Now on profit, there were other plusses and minuses, but sales volume and cost absorption were the main operating points in the quarter.

Below operating profit, we also had a favorable tax item. But while favorable, it wasn't a surprise. In our year-end financial release, we said we expected a favorable tax item related to changes in the US tax law that were enacted in January of 2013, but related to 2012. And in our January conference call, we said it would be in the first quarter. It was. It was $87 million.

Okay, that's a quick review on sales and profit. Let me change gears for a moment and talk a little bit about China. Sales in China, while not a significant portion of our total, has been a concern by many of you over the past year. There has been quite a bit of focus in particular on construction equipment sales in China. And from an end-user standpoint, our dealers reported deliveries in January and February that were below the same months in 2012.

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March, on the other hand, was better, with dealer deliveries of construction equipment about the same as March of 2012. And while that is a move in the right direction and we are encouraged by it, it is probably still a little too soon to call it a trend that will continue. We'll wait and see how the rest of the year shapes up.

On a more positive note, though, about China, our sales -- this is Caterpillar sales, not dealer sales -- were up in the quarter. All-in, including machines, power systems and parts, we were higher than the first quarter of 2012.

Inventory in China -- and this is both Caterpillar inventory of finished machines and dealer machine inventory -- has also been pretty topical over the past year. I'm pleased to report this morning that we, along with our dealers, have made quite significant progress in lowering inventory. Dealer machine inventories declined throughout 2012 and are currently at reasonable levels relative to sales.

In terms of our inventory -- that's Caterpillar finished inventory in China -- as expected, it declined during the first quarter. While inventory reduction is expected to continue into the second quarter, we do expect to begin increasing production in China during Q2.

All right, that's a quick update on China. Two final points on the quarter -- that's order backlog and cash flow. For the first time since the first quarter of 2012, our order backlog increased from the prior quarter-end. At the end of the first quarter of 2013, our backlog was $20.4 billion, and that is up from about $20.2 billion at year-end 2012. The increase in Power Systems and Construction backlog more than offset declines for Resource Industries, which is mostly mining.

For cash flow, our Machinery and Power Systems operating cash flow was about $900 million better than the first quarter of 2012, and that is despite lower profit. Cash flow improved despite lower profit. And the changes in inventory had quite a lot to do with it. We began reducing inventory in the fourth quarter of 2012 and came down about $2 billion. And it continued with another $0.5 billion reduction in the first quarter of 2013.

We lowered production schedules, we've had rolling plant shutdowns in a number of facilities during the fourth quarter, and continued that in many facilities in the first quarter of 2013. While we do anticipate some additional inventory reduction in 2013, we are expecting to increase production levels in the second quarter.

Okay, that's the first quarter. Let's move on to the outlook. From an economic standpoint, our view of the world in 2013 hasn't really changed much. In our previous outlook -- and this is the one that we provided with our year-end financial release back in January -- we were expecting world economic growth of about 2.5%, a small improvement from 2012.

Our expectations for the year haven't changed much, and we're still expecting world economic growth of about 2.5%. Again, that's a little better than 2012, but from a historical standpoint, pretty weak.

While our economic expectations haven't changed much, our outlook for sales and profit have come down. We now expect sales and revenues in a range of $57 billion to $61 billion, with profit of about $7.00 a share at the middle of that sales and revenues range. Our previous outlook was sales and revenues in a range of $60 billion to $68 billion and profit in a range of $7.00 to $9.00 a share. Mining is the primary reason for the decline in the outlook.

Previously, we expected that after depressed order levels for Mining during the second half of 2012 that we'd begin to see some improvement as 2013 unfolded. Unfortunately, that hasn't happened. Overall, Mining orders have remained depressed. As a result, we've significantly reduced our expectation for Mining sales in 2013.

We expect sales of traditional mining machines -- this would be large trucks, large loaders, large bulldozers and the like -- in the aggregate to be down about 50% from 2012, and mining machines from our Bucyrus acquisition to be down about 15%. Because the decline in the outlook is largely Mining, and that is generally more profitable than Construction and Power Systems, the impact on the outlook is not just sales volume; it's been also negative to product mix.

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However, cost flexibility and accountability are key elements of our strategy and we're aggressively reducing cost to mitigate the impact of lower sales. As a result, our profit outlook is $7.00 a share at the middle of the sales and revenues range.

In addition to cost reduction, we've lowered our forecast for 2013 capital expenditures, and now expect it to be less than $3 billion for the year. The lower spending on CapEx is a good lead-in to the final discussion point today before we move on to the Q&A portion of the call, and that is cash deployment.

Our priorities for cash deployment haven't changed. Our first priority is maintaining a strong balance sheet and our Machinery and Power Systems debt-to-capital ratio in a band from 30% to 45%. After that, we fund growth, organic growth and acquisitions that fit our business model. Next is appropriate funding of employee benefit plans, funding our dividend and increasing it over the business cycle. And when those cash needs are met, share repurchase.

We announced this morning that we are repurchasing about $1 billion of Caterpillar stock. We believe it's an opportune time to do it. We have a strong balance sheet, cash flow is improving, CapEx needs are lower and we think the stock price is attractive.

So with that, let's move to the question-and-answer portion of the conference call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jamie Cook.

Jamie Cook - *Credit Suisse - Analyst*

Credit Suisse. First question on Mining, and then second on share repurchase. On the Mining side, you are assuming -- just why, Mike, your core Mining down 50 and Bucyrus only down 15%. And then I guess assuming sort of down 50% Mining this year, how do you put that into context versus sort of normalized levels going forward? Because obviously, everyone is trying to figure out what 2014 could potentially be.

And then I guess, Doug, my question to you on sort of the change in thought process behind sort of share repurchase. Before, that didn't seem like a focus for you. And how do we think about normalized CapEx? And then do you assume any share repo in your guidance? Thanks.

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Jamie, I tell you what. I'll start with the first part of that, and I'll let Doug do the second part.

The first part on Mining, I just want to clarify, we are not looking for our total Mining sales to be down 50%. Aftermarket is going to be, certainly in our outlook, a lot closer to flat. The Bucyrus piece of it is down about 15%.

So in the aggregate, it is not down 50%; it is just the new machines, big trucks, loaders, bulldozers and the like.

In terms of what is normal, man, if I look back over the last few years in Mining, it is a little tough to decide actually what is normal. I think this year is a year where our sales are certainly being impacted by dealer inventory reductions. Last year, in addition to the end-user demand; dealers built some inventory in Mining. So that is a factor certainly in 2013, as well as kind of the demand levels from customers.

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Jamie Cook - *Credit Suisse - Analyst*

I know, Mike, but just to clarify -- I didn't phrase the question right. I understand it was more new machines down 50%, and I assumed aftermarket would be better. But why is Bucyrus only down 15%? You know what I mean? I would assume (multiple speakers) --

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Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

I think if you look at the traditional Cat machines, you do have a dealer inventory impact that you don't really see with the Bucyrus machines. So -- and I think the Bucyrus machines are more specific -- I mean, they are not -- they order them in smaller quantities and more specific to products individually that are maybe being retired in a mine.

Historically, this has been the case. We saw this -- when we looked to acquire Bucyrus, we saw that even in the 2009 downturn, the decline in that type of product was less than we saw in trucks and bulldozers and such.

I do want to get back to one other point that you made, too, and that is on 2014. And I'm sure we will, over the course of the next couple of months, get a lot of questions about, well, what does this mean for 2014. And that is a really hard question to answer at this juncture. Certainly, we don't have an outlook for 2014, so we are not going to go out with new assumptions about that or assumptions about that today.

And what I would caution everybody to think about just a little bit is if we go back a year ago, when we put ourselves in April of 2012, whatever predictions we made a year ago about 2013, the market has certainly changed since then. It may change between now and the end of the year. It may not. It is just too soon, I think, to make a call on 2014.

Other than just a couple points, that -- in fact we made this in our release today -- dealer inventory changes are impacting this year's sales. So the real end-user demand level is not quite as bad as our production and sales levels. And once you kind of get through that, it stops being a drag.

Secondly, commodity demand overall has held up reasonably well, and our machines are being used in the field. Most of what we sell is for replacements, and at some point here, that's going to have to perk back up.

So sorry I can't be more specific on 2014. With regard to the second question on share buyback, I will turn it over actually to Brad.

Brad Halverson - *Caterpillar Inc. - Group President, CFO*

It's a good question. The fact is our priorities, as Mike has talked about, have not changed. We think stock repurchase is an important way to reward shareholders and we've done it in the past and it has been part of the things that we look at. So the question is why now.

And our balance sheet is very strong. We think with the drop in the stock price recently and where our PE is, the fact we believe we have a slow-growing economy but one that is stable, if you look at our debt-to-cap in the mid-30s, you know we've got enterprise cash of around $6 billion and a pretty strong net-debt-to-cap. We had a good cash flow quarter. We have plans for a good cash flow year. And we think, again, this is an opportunistic time here in the short term to reward our shareholders with a $1 billion stock buyback.

Jamie Cook - *Credit Suisse - Analyst*

But Brad, is anything assumed in the guide?

Brad Halverson - *Caterpillar Inc. - Group President, CFO*

Say that again.

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Jamie Cook - *Credit Suisse - Analyst*

What do you -- do you assume in the guide a level of -- do you assume the $1 billion in share repurchase. Is that in the guidance or not?

Brad Halverson - *Caterpillar Inc. - Group President, CFO*

Yes, it is. $0.06 or $0.07 a share, something like that.

Jamie Cook - *Credit Suisse - Analyst*

Okay, thanks.

Doug Oberhelman - *Caterpillar Inc. - Chairman, CEO*

I would just add a couple of footnotes on this, Jamie. Doug here. We have been intensely focused on investing in the Company the last 4.5, 5 years since the recession. But the thing that has probably been the overriding objective is to get our -- to make our balance sheet rock solid impenetrable.

And the first quarter, we saw -- and the fourth of last year -- the inventory reduction really came through to levels that we were expecting, that we wanted, that we liked. The organization has responded in cost control. First-quarter cash flow was outstanding. That all coupled with, again, a debt-to-equity -- debt-to-cap ratio of upper 30s, and if you factor in the cash, it is below 30. We contrast that back to the middle of 2008, or this time in 2008, we were much more fragile on the balance sheet, coupled with, as Brad said, the multiple, it is an attractive use of our cash right now. And it is really that simple and I think makes a lot of sense. And frankly, should send a signal about how we look at 2013 and the longer-term.

Because I know we have a lot of questions around Mining and where is all that going, and I still firmly believe long-term -- and long-term being the next generation of management and beyond -- we'll view our moves into Mining and what we've done the last few years as really changing our Company for the better. We are used to cycles here, no question about it.

Steve Wunning and that Resource Industries group right now is doing everything in their command to structure that business for the cycle. They have OPACC targets that they are exceeding. And I'm confident no matter what the cycle, we are going to like that business. It is just right now, it is down from where it was and it will come back. Particularly if worldwide growth, even as slow as it is, at 3%, over time and growing construction industries around the world, they are going to require what comes out of the earth. So we're definitely in a down cycle right now, but long-term, it is a great business for us.

Probably more than you wanted to hear, but I wanted to throw that in, Jamie.

Jamie Cook - *Credit Suisse - Analyst*

No, that's great. Thank you.

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Let's move on to the next question, please.

Operator

Stephen Volkmann.

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Stephen Volkmann - *Jefferies - Analyst*

Jefferies. Mike, a couple quick ones, Mike, just to follow up on your inventory comments. You said that inventory reduction would probably continue into the second quarter. Just order of magnitude there, if you might have it. And I'm curious if you break that out between Mining and the Construction businesses. And then I have a quick follow-up for Doug.

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Okay, actually I'm going to go slightly beyond what you just asked. Frequently when we talk about inventory, sometimes if you're not careful, you can get some confusion between Company inventory and dealer inventory. So I really want to address both.

From a dealer inventory standpoint, our projections have it coming down again in the second quarter. And historically, that is -- it didn't happen last year, but historically, that is the usual pattern. Dealers normally build inventory in the first quarter and it comes down in the selling season, when sales to end-users are a lot higher in the second quarter.

I think our view is that -- at least the selling down part of it in the second quarter in the selling season is likely to happen. I won't put an order of magnitude on it, because I think to a large degree it depends upon what happens to end-user demand. But it is probably more than a couple hundred million dollars; otherwise, we wouldn't have mentioned it. So a reasonable decline.

And I think probably in the second quarter it will be split between Mining and Construction. It is a big selling season for Construction. Plus, we have this sort of march down of dealer inventory in Mining that, to some degree, will probably occur throughout much of 2013.

For Cat inventory, we do expect a little bit more decline for the year. We would not expect to do three more quarters of $0.5 billion a quarter. So over the course of the rest of the year, we would see reduction, but a little bit lower than the pace we had in the first quarter.

Stephen Volkmann - *Jefferies - Analyst*

Okay, great. And then if I could, Doug, when we were out visiting in December -- correct me if I've put the wrong words in your mouth -- but I think you had mentioned that you were willing to run with a little higher expense than you might otherwise, because you did believe that things were going to recover fairly soon and you didn't want to kind of cut into muscle and not be able to take advantage of any upturn that might come.

And I think you sort of said that you would reevaluate that as we got through the spring. And I'm curious now whether you think there is more you need to do on the cost side, whether you might have changed that view, or whether you still think that is the right stance here.

Doug Oberhelman - *Caterpillar Inc. - Chairman, CEO*

Sure, Steve. I'd say the answer is split. In the case of Construction, we are seeing an uptick. We have been watching relatively flat but slightly increasing sales to users for a number of months. We saw that in March... saw it in the first quarter, you saw the backlog number. So we have been reluctant to go to the bone in Construction and have not.

Now, we've got a number of restructurings occurring around the world in that, but it's unrelated to volumes. It's related to structural cost; I'm talking about Europe.

In Mining, yes, we are doing absolutely everything required to get the cost structure in line with where we are in the cycle, and the Resource Industries Mining people have done a great job on that so far.

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Where are we on all of that? Hard to say. But certainly, the number of temporary layoffs we have, both in production and office staff around the world, are of the temporary nature. We've had a few announcements of something more permanent, fairly on the minor side. But basically, we will go as far as we need to go to generate the OPACC targets we want and to deliver the goals we've stated.

So so far, it is a pretty mixed bag though, Steve, and I can give you a nice ambiguous answer because that's exactly the way we are operating -- Mining deep, Construction Industries is growing.

Brad Halverson - *Caterpillar Inc. - Group President, CFO*

I might add just one comment. This is Brad. When we look at 2013 for the full year, we have strong confidence in our ability to execute. If you look at the pullthrough kind of on a decremental rate for the year, it is around 25%. And it's around 25% despite the fact that we had two decent headwinds, and that is the Mining mix in terms of where the sales are coming out of, as well as the period cost absorbs impact that Mike has talked about.

So our plans, our trough plans, the flexible workforce, the things we're doing to control cost here, have put less pressure on things like R&D and capital that would have been in the past. So we are comfortable with the year.

Stephen Volkmann - *Jefferies - Analyst*

Thanks, guys.

Operator

Joel Tiss.

Joel Tiss - *Bank of Montreal - Analyst*

Bank of Montreal. And just two things. One, can you give us an idea by the end of 2013 how big Mining is going to be as a percent of total Company revenues and operating profits? Just so we can start to -- as Mining shrinks faster than the Company, it becomes less and less of a factor driving the whole Company. So I just wanted to get a sense of where we are.

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

I think as a percent, it will be down a little bit from last year. If you -- I don't have a percent to give you, Joel, but if you look at our results from last year, essentially almost all of the decline in year-over-year sales are out of Mining -- or out of Resource Industries; not quite 100%, but almost.

So if -- you can calculate at least the sales numbers, presuming that most all of the year-over-year decline is in Resource. I think in terms of profit, Resource Industries is still a very good-margin segment. And as Brad said, and Doug both, we're doing a lot of work on getting cost out of Resource Industries. So that will mitigate some of the impact of the decline from sales. Hope that helps some.

Joel Tiss - *Bank of Montreal - Analyst*

Okay. And then free cash flow expectation for all of 2013, roughly?

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Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

We don't actually go out with a forecast of cash flow that we talk about externally. Suffice to say that inventory was a drag from last year. This year, it should be a help. So that is quite a turnaround, I think, in cash flow, from inventory being a contributor rather than a user.

And then in terms of free cash flow, our CapEx requirement is likely to be down as well year-over-year, sort of $400 million or $500 million.

Doug Oberhelman - *Caterpillar Inc. - Chairman, CEO*

Yes and while we don't put out a number with where we are in inventory, with our outlook on PPS, we will have a substantially better picture in 2013 than 2012. I think we could say that and be safe and pretty confident about it.

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Yes.

Joel Tiss - *Bank of Montreal - Analyst*

Okay, thanks.

Operator

Andrew Casey.

Andrew Casey - *Wells Fargo Securities - Analyst*

Wells Fargo Securities. Good morning, everybody. Just wanted to make sure I understood the broader implications of the guidance change, specifically the 13% reduction to earnings outlook, after not much change in the sequential backlog or the global economic outlook.

With respect to your Mining views, clearly, you made some changes, but what I wanted to ask was related to the customers. Does this suggest the current global capacity is sufficient to support their demand levels, or do you think this is really a reset related to some of the management transition that's going on at your customers?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

I think to some degree, it is probably both. There has been quite a bit of management change with some of our big customers. And I think it is clear they are -- the new management is much more focused on operating costs, short-term cash flow, sweating their assets a bit. And that is kind of stacked up against the last few years, where they were very focused on growth, a lot of new mine work. So I think it is just probably both management and the fact that they've actually bought quite a bit of equipment over the last couple of years. So I think it is both.

And I think if you look at our sales, you also have to throw in dealer inventory. We actually produced more last year than customers bought. Customers will buy more this year than we will produce, just the opposite. So the swing between those two is sort of an extra negative on us that our customers aren't seeing.

If you look at our thinking around aftermarket for the full year, part sales, that's a decent proxy, at least in our world, for production levels with customers and how they are behaving. And our view is that, with the exception again of US coal mining, that part sales in that mining kind of

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business will be pretty flat. So that says that customers are using the equipment that is out there and they are repairing the equipment that is out there. It's not a great economic climate, but it is good enough to keep commodity production going.

Andrew Casey - *Wells Fargo Securities - Analyst*

Thanks, Mike. And just one follow-up on that, is based on what you are seeing on the customer CapEx trends, has this happened for a while or is this more similar to something we've got to go back 20, 30 years to see?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

I've not seen it quite like this in my time. I don't know. And I'm one of the oldest guys sitting around this table. Actually, Doug is a couple years older than me.

But in my time, I've not seen this. The reduction in the purchase of new equipment is substantially more than certainly the decline in commodity consumption would suggest, you know. So that is, again, making it pretty tough on us.

We'll be at a point this year, if you look at our -- let's take Mining truck production as an example -- we've taken the forecast down to a point where we are likely to be for large mining trucks only a couple hundred above 2009, which was a terrible year for the world economy, a big down year, financial crisis, kind of freeze-up in a lot of markets. So it is pretty dramatic what we are seeing right now.

Doug Oberhelman - *Caterpillar Inc. - Chairman, CEO*

I would answer that a little bit more broadly, and that is just addressing cycles. And I have been here the longest in this room anyway, and I've seen cycles from Argentina to Alberta to the Great Crash of 2009. The one thing, I guess if there is any silver lining in it since 2001 really, is this is -- about '97, probably the fourth or fifth major cycle for this company. And I'd like to think as kind of negative and perverse as it is, we are getting pretty good at it.

And while I don't like a three-year cycle, that is from 2009 to 2012 or from 2008 to 2012, I guess 3, 4 years, if that is what we are living with, we are going to learn how to manage it. And the Resource Industries group led by Steve Wunning and his crew right now are doing everything they know what to do to size that for the cycle. We will take that right on through any other of the businesses we have as well, and that is very hard on our people. It's very hard on our shareholders. It's hard on everybody, but if you look at our performance through 2009, so far I'm very happy with where we are.

Brad mentioned that pull-through decrement in this case is kind of what we would expect that we have been enjoying on the upside. Unfortunately, we're getting pretty good at these cycles and when it comes back, we will even be I think better at pulling that through on the other side of this. So that is maybe the perverse reality of what we are seeing here, Andy.

Andrew Casey - *Wells Fargo Securities - Analyst*

Okay. Thank you very much, Doug and Mike.

Operator

Andrew Kaplowitz.

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Andrew Kaplowitz - *Barclays - Analyst*

Barclays. Good morning, guys. Mike, you talk about backlog already. It did improve sequentially. You mentioned this was really a result of Construction and Power Systems offsetting Resource Industries. Do you think this was an inflection point in these other businesses?

And what's hard for us is we see, at least in the first quarter, Construction and Power Systems were pretty weak. Some of that was inventory. And so how do we look at those businesses versus the backlog increase offset by the weakness in the first quarter?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Andy, I don't know if it's an inflection point. I think that given what we have in our outlook for Mining, I suspect that the backlog for Mining will probably inch down.

But what we saw in the first quarter was actually pretty strong order rates out of construction. Order rates for construction were -- for example, were better than the first quarter a year ago. Our production was down. Dealers were cutting inventory. So we had a pretty decent build in construction backlog.

I don't know if that's an inflection point. Our predictions around end-user demand for construction, as Doug said, are kind of stable to moderately better this year. So it's not like we're expecting a big increase year over year. We're just not seeing the kind of declines that you're seeing in Mining.

But all that said, it was a pretty strong quarter for orders outside of Mining, better than a year ago, and that is a good thing. Hopefully, it is signaling a trend. We'll see.

Doug Oberhelman - *Caterpillar Inc. - Chairman, CEO*

I would just throw in some maybe further clouding of the tea leaves to your question of whether this is an inflection point or not. Many of you are aware, and some of you were at bauma last week in Munich. I was there for an extended period of time. Some interesting statistics out of the bauma show -- record attendance by a long shot; record exhibitors; record waiting list of exhibitors to come in; and record machine sales by our dealer, anyway, inside Germany. And you wouldn't think you would hear that in Europe in this day and age.

And so while all that was great news, off the chart news, there's other stories in Europe that lead us to indicate that there is no end in sight in Europe either. But it is just a tough time to read the tea leaves, and I'd like to think this quarter -- or last quarter or this quarter, whatever, might be an inflection point, but it's just too hard to say. We're taking it day to day. We like what we saw in the first quarter in terms of our backlog. We like what we see around the world in sales to users, but it is certainly not a boom.

Andrew Kaplowitz - *Barclays - Analyst*

That is good to hear, Doug. Mike, maybe if I could switch back to Resource Industries in the margin sense. Decrementals in the quarter were expectedly high. You talked about how you are going to mitigate that going forward.

Could you talk about price competition within the segment? Are you finding -- have you had to bundle equipment more against competition? Is there any discounting going on in Mining right now? Maybe you can just talk about pricing within Resource Industries.

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

I think whenever the subject of pricing comes up, whether it's Resource Industries or construction or impacts of the yen at 100 or something close to 100, the reality of the real world is it is not instantaneous. It doesn't usually change by big amounts.

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Our first quarter with Resource Industries, Power Systems, Construction, all of them were plus, minus pretty close to a 1% increase for the year. That is what we said four months ago for the outlook for the year. The first quarter was, I mean, spot on our internal plan for pricing.

So, you know, it is less than last year. If you look at Construction -- or I'm sorry -- Resource Industries last year, pricing was up a bit more than that for this year. It is definitely in positive territory, but not as big as last year. So I think it is -- I'm not trying to suggest that low volume has no impact, but certainly in our business and probably for a lot of our competitors, a lot of the pricing that we have are under long-term agreements that we have with customers. So during times when demand is really high, and maybe otherwise you would go out and get more, or would at least have the ability to, those long-term agreements kind of mitigate a little bit on the upside and mitigate a little bit on the down side. And so pricing doesn't seem to be -- doesn't swing in big increments from plus to minus.

Heck, even in 2009, when sales dropped like 40% in total, price realization ended up being a positive for the year. And in this first quarter, our sales and revenues down 17%; we are a positive 1% on price, about as we thought.

So I think realistically, it is not that there aren't competitive pressures. There are big competitive pressures all the time. But I think the net impact is probably less volatility than most people think.

Andrew Kaplowitz - *Barclays - Analyst*

Thank you. Take care, guys.

Operator

David Raso.

David Raso - *ISI - Analyst*

ISI. On the Resource Industries, the sales guidance for the year seems to be implied around down 20%. If I look at the first quarter revenues and just run that out flat sequentially -- which, given the backlog is down sequentially, that is not necessarily a layup -- that would give me, though, revenues down for the year 31%.

So I'm just trying to understand what gets better sequentially in Resource Industries to get you back to full year down 20%? I guess maybe less inventory destock. I'm just trying to square those two numbers up. What gets better sequentially in Resource Industries to get the full year to down 20%, not to 31%, if it is just flat sequentially?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

David, we didn't give a down 20% for Resource Industries. I think kind of what we've been saying is last year, our total sales and revenues were about 65; certainly at the midpoint of this year's outlook, we are looking -- or the new outlook, we are looking at 59. Essentially, all that is -- the down is Resource Industries.

So I think it will be more than 20%.

I think if you look at the first quarter and then the second, third and fourth quarter, kind of the movement through the year and what is likely to happen there, I think the negative impacts from dealer inventory build last year kind of continued throughout the year, or actually positive for last year, absence of and further declines this year on dealer inventory, will probably start tailing off. The fourth quarter, for example, we didn't have the same kind of dealer inventory builds.

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From just a production standpoint, from orders we've received, orders on hand, kind of the production trend for the year, if you were to look inside our production schedules, we are not presuming any big upturn in order rates. We -- our forecast doesn't mean that. It is not that we are forecasting no new orders, but it is very modest.

So much of the year is in the order book already for big machines. So I guess in answer to your question, dealer inventories and impact, plus the full year decline is probably more than the 20% you are thinking.

David Raso - *ISI - Analyst*

That's an important distinction, Mike. Obviously, people want to own the stock want to say, I want as much negative Mining news baked already into the guidance. So just to be clear --

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Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

There's quite a bit baked in.

David Raso - *ISI - Analyst*

I hear you. But if Construction is up only 3% and Power is flat and others going to be down with the logistics gone --, but also just say core down a little, it is not a big business -- Resource Industries needs to be down only 20% to hit your revenue number. If you are saying it is down larger than that, you are implying better from Construction and Power, which given the mix that people are looking for, again, they want as negative Resource Industries in the guidance as possible.

But to help us understand the math -- because the math is, Mike, basically down 20% in Resource Industries for the full-year number -- can you maybe give us a little more clarity on how you're thinking about Construction Industries and Power Systems on the revenue then?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Yes, so I'll go back. We have about a $6 billion decline from actual 2012 to midpoint of the guidance. That $6 billion is essentially all out of Resource Industries, which is mining. So I think that is more than 20% (multiple speakers).

David Raso - *ISI - Analyst*

So the bump-up sounds a little Construction Industries, Power being down 12% for the quarter, getting the full year flat, initially looked challenging. But you did cite the backlog is up in Power sequentially. Did I hear that correctly?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Yes, and Construction.

David Raso - *ISI - Analyst*

And construction. And last quick one. The loss on that Power project in the first quarter, can you quantify it for us so we have some better understanding of the underlying Power Systems' margin for the quarter? And is that loss completed, done, it is in the first quarter and there is no lingering going forward?

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Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Yes, well, we weren't specific to a customer. We certainly have confidentiality agreements with customers. But it was a big, a quite large project. It hasn't been delivered yet. It is our expectation that the first quarter contains whatever -- we don't expect any continuing losses as a result of that project throughout the year. So the loss in that context is contained in the first quarter.

And I think in the scheme of our total results, and probably in the scheme of the size of profit for Power Systems, it is not a big, material item certainly for the Company. But you know, in the scheme of the profit change, it was -- as we looked at all the changes, it rose to a level that we felt like we needed to mention it.

David Raso - *ISI - Analyst*

Okay. Thank you for the detail. I appreciate it.

Operator

Steven Fisher.

Steven Fisher - *UBS - Analyst*

UBS. Wondering how you're thinking about EPS ranges at the high end and low end of your sales guidance range. And if you can't give any kind of point estimates, I guess with the narrower sales range, should we assume that your EPS range is going to be narrower than $2.00 a share, or is the margin impact such that it could still be $2.00?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

I would say it is not likely to be that wide. If you think about our profit -- and Brad kind of talked about our expectations for incremental and decremental margins -- order of magnitude in and around 25%. Now, in the first quarter, it was worse than that because we had a sizable impact from inventory absorption.

I think if I were looking at our range, that is probably, from an operating profit standpoint, thinking about a, roughly speaking, 25%-ish up and down is probably a reasonable change -- or I mean a -- kind of a reasonable assumption to do. And that would give you a profit range less than $2.00 certainly.

Steven Fisher - *UBS - Analyst*

Okay. And then you mentioned that order rates in Construction improved. Can you maybe just give a little more color on that by geography, and I guess by country, is what I'm thinking? And then maybe within North America, is there any way to kind of give some color on end market, be it sort of highway versus housing versus commercial or anything else?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

I think -- it was actually fairly widespread, but I think the better way to think of it is order rates in the fourth quarter were quite low as dealers were trying to lower inventory. So they really dropped order rates quite a bit in the fourth quarter, really to get us to produce and ship less to them, so they could take inventory down, which happened in the first quarter.

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During the first quarter, then, dealers raised order rates -- and I'm going to say largely kind of across-the-board -- because what they had already done to lower inventories for the most part has kind of been played in.

There will be more inventory reduction, I think, come in the second quarter in Construction a bit. But order rates have moved back up to be certainly more in line. Remember, too, that the second quarter is a pretty high quarter seasonally for dealer deliveries, sales to end-users, so they are ordering more pretty much across the board for that.

If I could think of exceptions by country, I would tell you. But I think for Construction, it was pretty widespread.

Steven Fisher - *UBS - Analyst*

Okay, thank you.

Operator

Jerry Revich.

Jerry Revich - *Goldman Sachs - Analyst*

Goldman Sachs. Doug, you've ramped up CapEx earlier in this cycle than what we've seen from Cat in the past. I'm wondering if you can talk about how we should think about CapEx beyond 2013, as we get past Tier 4 final. And if you could touch on what type of projects you are trimming in the CapEx guidance this year, as that has implications throughout your CapEx, that would be helpful. Thank you.

Doug Oberhelman - *Caterpillar Inc. - Chairman, CEO*

I'd say we will see how the cycle goes here, but I'd like to -- we've seen $4 billion-ish at the high end. We are down now under $3 billion, I guess, for this year. That is going to cycle with where we are.

The good news -- and I would say for 2013 and 2014 and maybe into 2015 -- is that the modernization we've done with our plants, the investment we've put in, the restructuring around the world should get us through here for a couple years, regardless of whatever comes to us. And even minimal growth, we are well poised for. We are concentrating on market share. If things pick up a bit, we can serve the market.

So we are in really good shape when it comes to CapEx, but I would see it cycling up a bit if we see recovery kind of across-the-board the next few years, kind of in line with where we've been.

Jerry Revich - *Goldman Sachs - Analyst*

Okay. And Mike, in Power Systems, can you flesh out for us what you are seeing in the first-quarter orders? It doesn't sound like you saw the order pressure that you saw in locomotives, but maybe you can add some color there and touch on what you're seeing for bookings in electric power. Thank you very much.

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Actually the Industrial business has improved some, so the order rates for Industrial are up. Electric power has remained pretty weak. The oil and gas business has been kind of mixed. The drilling and fracking piece has been down, compression has been pretty good. Solar has actually a very good order book for the year.

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So I think if what you are trying to do is kind of gauge how the year is shaping up for electric power, I think we have -- we are probably most pessimistic on electric power, particularly the small end of that. Fairly neutral to positive on the oil and gas business and solar as well, the big end of that.

There are some signs that marine and industrial are starting to do a little bit better. And to your point, rail actually overall in the first quarter was, certainly from a sale standpoint, fairly similar to a year ago. They have a pretty decent order backlog in rail. That is a business that we've done pretty well in. We worked pretty hard on the cost structure. Customers are buying more from us.

I saw here just recently where GE is scaling back some production. So I think all in all, we've done pretty well in rail.

So in the context of a full-year business that is relatively neutral in our outlook with 2012, you've got industrial that is starting to look a little better, marine maybe a little bit better, electric power down, oil and gas, flat to up.

Jerry Revich - *Goldman Sachs - Analyst*

Thanks, Mike.

Operator

Seth Weber.

Seth Weber - *RBC - Analyst*

RBC. I was wondering if you could just circle back on the Mining business again. The sequential increase in the parts business in the quarter, I mean, you kind of touched on that US coal is soft, but can you tell us where the increase is coming from, where you're seeing some relative strength?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

Yes, and I think coal is actually a good market to look at. If you look at coal versus the first quarter a year ago, it is down; but production has been edging up. It looks like utility output is up a bit. It looks like coal's percentage of utility production is up a bit. You've got record coal exports from the US.

So while it is still a little bit below where it was a year ago, coal production is kind of trending up a little bit. And that has been, I think, a little bit of a positive certainly in the Mining piece of it.

Seth Weber - *RBC - Analyst*

Any of the other commodities, any color there?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

On aftermarket, I don't know. The numbers -- once you get outside of the US, the overall parts numbers are plus/minus. They are not dramatically different. So it would be hard to get a read from it.

I think if you look at commodity production generally, it is by and large up a little, but not dramatically. So I'm just guessing here when I say this, but I would suspect outside of US coal, there is probably not a lot of change.

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Seth Weber - *RBC - Analyst*

Okay. If we could switch over to the planned increase in production in China. Could you give us a little bit more color what you're seeing there? I mean, is Cat just outperforming the market? Do you feel like the industry is going to be more disciplined this time going forward? Or what gives you confidence to start raising production there on the construction side?

Mike DeWalt - *Caterpillar Inc. - Corporate Controller, Director of IR*

I think there is two things. I think the fundamental one is that we've spent almost a year getting inventory down. So we've had production levels that are well below real end-user demand levels to work down inventory. Inventory is down to a point where, not quite yet, but probably in the next month or so, it will be getting to a level where we are not looking to take it down more. And so then production will come back.

So I think most of the increase in China production is because we are kind of getting to the end of the inventory decline, or hopefully, anyway, over the next quarter. But I think also mixed in there, certainly for the midsize excavators in the marketplace, we're actually doing a little bit better than the market overall. So that has been a positive for us as well.

Thanks, everyone. We are kind of at the end of our hour right now, so thanks for joining us, and we will sign off.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

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