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EDITED TRANSCRIPT

CAT - Q3 2012 Caterpillar Inc. Earnings Conference Call

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OVERVIEW:

CAT reported 3Q12 sales and revenues of little over $16.4b and profit per share of $2.54. Expects full-year 2012 sales and revenues to be about $66b and profit per share to be $9.00-9.25.

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PRESENTATION

Operator

Good morning, ladies and gentlemen and welcome to the Caterpillar third-quarter 2012 earnings results. 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. - Director, IR*

Thank you very much and good morning and welcome everyone to our third-quarter earnings call. I am Mike DeWalt, the Director of Investor Relations and on the call today, I am pleased to have our Chairman and CEO, Doug Oberhelman; Group President and CFO, Ed Rapp; and Brad Halverson, who will be replacing Ed as Group President and CFO in January as Ed is transitioning over to be the Group President heading our construction industry's business.

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This morning, there is no doubt we are going to 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 either individually or in the aggregate could make actual results to differ materially from our projections can be found in our cautionary statements under Item 1A, Risk Factors of our Form 10-K filed with the SEC back on February 21 of 2012 and it is also in the forward-looking statements language contained in today's release.

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In addition, we have a reconciliation of non-GAAP measures and that can be found in today's financial release, which has also been posted on our website at caterpillar.com.

Okay, I'll start this morning with a few top points that summarize this morning's release. First, we reported a good third quarter. In fact, it was the highest sales and highest profit of any third quarter in our history. Sales and revenues were a little over $16.4 billion, an increase of about 5% from the third quarter of 2011.

Profit in the quarter was $2.54 a share and that tied the second quarter of this year for the all-time record. Profit was helped in the quarter though by a pretax gain of $273 million on the sale of a majority interest in our third-party logistics business and that happened in the third quarter.

Now incremental operating profit pull-through was extremely high in the quarter and that was the case whether or not you adjust for the logistics gain. That said, the sales increase in the quarter I think was small enough that incremental margin in a quarter like this is probably not that useful a metric. However, there has been enough of a sales increase I think year-to-date for it to be a more useful metric and year-to-date, it has been over 30% and I think that is an indication of good cost control and execution on the part of the Company.

Now while we reported a good third quarter, we did lower the full-year outlook for 2012 and we provided preliminary sales and revenue guidance for 2013 and I will cover both of those in a couple of minutes, but first a little more color on the quarter. And again, let's start with sales and revenues, up $729 million, or about 5% from third quarter of last year.

Now when we look at sales, there are three perspectives that we take. The first perspective is by reason. In other words, was the change due to volume, price, currency, acquisitions and the like? And from that perspective, sales volume improved $622 million. Price realization was favorable $305 million. Acquisitions and divestitures, and we actually had both, was a net positive of $36 million and Financial Products revenues were up $13 million.

Currency was negative on sales and it partially offset the increase by about $247 million. And that is largely because the US dollar was generally stronger versus the euro and Brazilian real than the third quarter a year ago. The improvement in price realization at $305 million is lower than we reported in the second quarter, but it has held up pretty well this year and it has been higher than we have expected most of the year.

The next way we look at or view the sales change is by geographic region. And from that perspective, North America was up 9% in the quarter. Sales in Asia-Pacific rose 8% and EAME, which is Europe, Africa, Middle East and Latin American sales, were about flat. The increase in North America was primarily driven by higher sales of construction equipment in the United States, which has been a relative bright spot all year.

With expectations around US housing on the mend, we are cautiously optimistic about construction sales in the US going forward. I said a minute ago that it was a relative bright spot and that is because, although it is still improving, it is still well below the prior peak.

Within Asia-Pacific, it is a little bit of a different story. Sales are up in the region overall despite lower construction equipment sales in China. And that is because mining and power system sales have been up throughout the region.

Latin America was about flat and so was EAME and while EAME was flat overall, Europe was modestly lower and Africa, Middle East and the CIS moderately higher.

The third way that we look at sales is by segment. And in this quarter, most of our sales increase was in the Resource Industries segment, which is mostly mining and that was up 13% from the third quarter last year. Power Systems was up 5% and most of that increase was related to the acquisition of MWM and then construction industry sales were about flat in the quarter. Financial Products revenues were up about 3% and our All Other segment was actually down 31% and most of that was a result of the sale of our third-party logistics business.

All right, let's shift to third-quarter profit, which, at $2.54, was a tie for the highest quarter ever. Operating margin was 15.8% of sales and revenues and if you exclude the logistics gain, it was 14.1%. Cost control was good. Material costs were actually slightly favorable in the quarter and variable labor productivity has held up pretty well this year.

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When comparing profit to the third quarter of 2011, acquisition impacts had a pretty significant impact on operating margin. And that is mostly two things. The logistics gain was a plus in the third quarter of this year and then last year, we had a lot of the upfront Bucyrus-related costs related to that acquisition in the third quarter of last year. So it is less of that from last year and the logistics gain this year.

On the negative side, we have had higher taxes all year long. Our estimated annual tax rate for this year is 30.5%. That is higher than the third quarter of last year and it is higher than the full year of 2011. And that is really because of two things. One is the absence of the R&D tax credit that Congress has not yet renewed and a geographic mix change in terms of where our profits are.

Okay, that is a quick review of the third quarter. Let's move onto the 2012 outlook. In this morning's release, we did lower the outlook for both sales and profit. We are expecting 2012 sales and revenues of about $66 billion and profit in a range of $9 to $9.25 a share. That is down from the previous outlook range on the top line of $68 billion to $70 billion and profit at $9.60 a share at the middle of the sales range.

Now, at MINExpo about a month ago, we said we were in the middle of our forecasting process and it was evident that sales estimates were going to come down. Since then, we have completed the forecast and we have another month of actual results under our belt. And the sales outlook is down from July for two primary reasons. First, end-user demand, while better than a year ago, is not growing as fast as we were expecting it would. From a product standpoint, it is fairly widespread across construction, mining and Power Systems and from a geographic standpoint, it is also spread across the globe.

The second reason for our decline today in the sales outlook is dealer inventory. Based on the finished inventory that we have, significant improvements we've made in delivery times to dealers, and some moderating growth in end-user demand, our dealers find themselves with too much inventory. In response, they have cut order rates to levels that are well below what they are selling to end customers.

As a result, in the fourth quarter, we will be reducing production levels quite a bit. We have already announced a number of temporary plant shutdowns and there will be more coming. It means that, for the next quarter and into 2013, our production will be below end-user demand.

By segment, about two-thirds of the outlook decline is construction and the other third is split about evenly between mining and Power Systems. Based on our new outlook of $66 billion of sales and revenues this year, the fourth quarter will be just slightly below the third quarter of this year.

Now if you look at the decline in our profit outlook range, the $9 to $9.25 range, it is primarily a result of lower sales, but partially offset by the gain on our third-party logistics business, which happened in the third quarter.

Now, in addition to 2012 and as we usually do at this time of the year, we've provided a preliminary economic and sales outlook for 2013. You can boil down what we are thinking about 2013 to a short statement and that goes both for economic environment and sales. And that statement is steady as she goes; not much change from 2012.

Now as we look forward on the positive side, in many countries around the world, monetary and credit policies have eased over the past year and we do expect that to continue into 2013. However, economic growth has been slow to respond and we are not expecting any improvement in world economic growth until maybe the second half of 2013.

And even then for the full year, we are only expecting economic growth for the world of about 2.7% and that is just a couple of tenths of a point above what we are expecting for this year. In the developed world, we continue to expect growth at levels that are well below potential, at about 1.5% in total for the developed world with about 2% growth in the US, and the eurozone close to zero. In the developing world, we are expecting growth of about 5.5%. That is about half a point better than 2012. We think Brazil will continue to improve some and that China's growth rates will improve to about 8.5%.

Again, to summarize our view of the 2013 economic prospects, we are not expecting much change from this year. We are not planning for a significant pickup in the world economy, but that said, we are also not expecting a recession. We are expecting a continuation of the slow growth path the world seems to be on. I will just repeat that for emphasis. We are not seeing, expecting or reflecting the world being in recession in our outlook for 2013.

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And based on our steady as she goes slow growth economic outlook, we are expecting 2013 sales and revenues to be roughly the same as 2012 in a band of about plus or minus 5%. We are expecting our Resource Industries segment, which is primarily mining, to be down somewhat in 2013. Lower metals and coal prices and increasing operating costs have hurt profit margins at many mining companies. That profit pressure, combined with economic uncertainty and slow growth, has resulted in mining companies delaying some investment.

Although metals prices have recently improved, we expect mining companies will reduce capital spending in 2013 and sales of mining equipment will decline. However, we expect the lower mining sales to be about offset by higher sales of construction equipment. We are expecting some improvement in construction activity in the United States and you are already seeing some of that in housing.

Sales of construction equipment in China should also improve somewhat in 2013 after quite significant declines in 2012. Now to be clear, we are not expecting China to make up the ground that was lost in 2012. But we do expect some modest improvement from a very disappointing 2012. We are seeing Brazil continue to improve and expect construction equipment sales in the developing world in general will be a little better in '13 than 2012.

On the downside in construction, we are not expecting economic recovery in Europe and are planning sales there to be lower. For our third large segment, Power Systems, we are expecting sales to be roughly flat with 2012.

In terms of timing, how we are thinking about sales first half versus second half, we are not expecting a major economic pickup in the year and we are not expecting a big demand pickup next year. But we and our dealers will be continuing to work off inventory early in the year, which will probably cause early sales in 2013 to be a little bit weaker than the usual seasonality.

I am going to finish here this morning with the three main points we are trying to get across today in this call and this morning in our release. Point number one is we are doing a very good job of managing costs, margins are good and incremental margins so far in 2012 have been much better than our goal of 25%. Point two, we recognize we have too much inventory and dealers are telling us they have too much inventory. As a result, we are lowering production. We have already announced widespread temporary layoffs and rolling factory shutdowns or temporary shutdowns and there is more coming. It will take a little while to work down the inventory and it means that our production levels and sales will be lower than dealer sales to end users in the fourth quarter and into 2013.

The third and final key point that we are making today is we are taking a pragmatic, steady as she goes view of 2013. We are not seeing or predicting a worldwide recession, but if one happens, we know what to do. And as I mentioned a minute ago, we are already taking actions to lower production to deal with the inventory and we are ready to do more if we need to.

On the flip side of that, this is also an important point, we are not banking on a big pickup in the economy and if we get a better economy next year, that is upside to the outlook. So that is it, so we are ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Eli Lustgarten. Please announce your affiliation and pose your question.

Eli Lustgarten - *Longbow Research - Analyst*

Longbow Securities. Good morning, everyone.

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Mike DeWalt - *Caterpillar Inc. - Director, IR*

Good morning, Eli.

Eli Lustgarten - *Longbow Research - Analyst*

Can we get a little more into the production cuts and the timing of it? At MINExpo, you told us you were basically taking $2 billion out of the fourth quarter. It looks like you took a little bit in third and now you gave us a little bit of distribution. Can you give me some quantification of how much production are you taking out this year and how much will go into next year so we can get a sense of how the size of magnitude of what is going on?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes. When we were at MINExpo, we weren't done with the forecast. At that time, it was pretty clear that it was going to come down. Order rates for both mining and construction were lower. From mining, it has been evident that customers wanted to lower CapEx next year and we were seeing that in our orders. And it was becoming pretty clear, despite decent sales to end users, that dealers were reducing orders to cut inventory in the third and fourth quarter.

At MINExpo, the sum of all of that looked around $2 billion. It ended up being more like $3 billion and that is the change that we have in the outlook. So directionally, we were pretty -- I mean we knew which direction it was going to go. We could see what was happening. We have another month under our belt. It is going to be this year and there will probably be some reduction in the first quarter as well.

Eli Lustgarten - *Longbow Research - Analyst*

So that $3 billion is what you scheduled for this year somewhere on top of that or is it $3 billion will spill over?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Well, I wouldn't view the $3 billion as entirely inventory reduction. I think the $3 billion is a combination of inventory reduction and demand is not as high as we thought just in general. If you look at sales to end users, still positive versus a year ago and along those lines, I would mention that the September number was a little weaker than you might have expected and that is because we had an extra weekend in September. We will have more workdays in October. So work days were about 10% less in September.

But the point is, even though sales to end users are up versus a year ago, well in positive territory, our expectation is that it was actually going to be a bit better than it is turning out in the fourth quarter. So the decline in the outlook is both inventory and increases in demand are a little less than we thought.

Eli Lustgarten - *Longbow Research - Analyst*

And a follow-up, can you -- you talked about the mining being down next year. Can you give me some quantification whether that is double-digit or single-digit or some magnitude of how we should think about the impact on the mining sector?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

I will tell you what, we don't do the guidance by segment, but if you were to look broadly at generally what mining companies are saying about CapEx, I think the numbers that I have seen are sort of 5% to 10%. I mean that will give you some order of magnitude anyway in terms of what they are thinking.

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Eli Lustgarten - *Longbow Research - Analyst*

All right. Thank you very much.

Operator

Vance Edelson.

Vance Edelson - *Morgan Stanley - Analyst*

Hi, Morgan Stanley. Good morning. A follow-up on that last question. With the mining customers delaying some projects and reducing orders, could you give us a feel for just how widespread this has already become? In other words, do you have some customers that are taking the early steps? Perhaps they are acting quite concerned while others are still taking more of a wait-and-see approach or have the vast majority started to delay already?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Vance, it has actually been going on since late in the second quarter. It hasn't really changed too awful much here in the last month or two. It is a pattern that has continued. I think basically what has happened is mining companies actually have quite a bit in the order book already. We have -- particularly for the long leadtime mining products like large mining trucks, we have pretty good order cover for next year and I think they are just taking a wait-and-see attitude to see what happens here with China and the US election and to get some direction on next year before they start ordering again.

Vance Edelson - *Morgan Stanley - Analyst*

Okay, that's helpful. And then, in the past, you have referred to a potential inflection point in China. Any update on when you might see that happening? Does the first quarter of 2013 now seem too early given the back-end-weighted overall expectations that you have for next year?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Well, actually, China has continued to be pretty weak. In fact, I would say that is one of the reasons why our finished inventory hasn't come down maybe a little bit faster. We were thinking we would start seeing at least a little bit of a pickup here in the fourth quarter. Within the economy there, they are going to accelerate some infrastructure spend. They have taken monetary policy easing. Sentiment on the ground from the dealers is a bit better, but in terms of translating it into sales, I would say it hasn't happened yet. So the selling season is sort of mid-February on. So probably not going to see much till then.

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

Mike, let me add in here. It's Doug Oberhelman. I want to just add on China a little bit. Mike is exactly right. We don't see anything concrete differently today than we have really the last few months. However, we were just there two weeks ago, all of us with our Board of Directors, for our October meeting. We met with all of our distributors in China and most of them in Asia and I would say for the first time that I have talked to them in a while, as Mike said, the attitude is better and their outlook is better without concrete orders in hand, however.

We heard, I would say, story after story of positive anecdotes from their customers inside China, but none of them yet are on the order books. The presidential transition and the leadership transition happens the first half of November. Unanimously they all believe that is a watershed event. We all know that. They also look for substantial change, whatever that means, by Chinese New Year, which typically is the selling season over there

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anyway. But these are anecdotes at this point, but I would note that it is the first positive anecdotes we have had across the board inside China in some time. So we all left somewhat encouraged without any concrete things to put in our pocketbook as yet.

Vance Edelson - *Morgan Stanley - Analyst*

And from the Chinese officials themselves, are you hearing anything either directly or indirectly in terms of what they might focus on to the extent they try to spur growth? Do you think infrastructure, for example, or anything else that you could benefit from is going to be high on that list?

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

Well, they have had the easing spigot open almost all year. We have seen increased levels of building permitting this year over last year. We have also seen in the last six weeks or so a major infrastructure effort announced. I suspect all of that is aimed after leadership transition and most of that is aimed towards spring of next year, which is kind of a confluence of events that, around Chinese New Year, if it happens, it is going to happen then. If it doesn't, we are in for another kind of slow year in 2013. But right now the cards in the hand are looking better than they have for a while, but I would emphasize nothing concrete in terms of orders as yet.

Ed Rapp - *Caterpillar Inc. - Group President and CFO*

Hey, Vance. This is Ed. The only thing I would add to that in terms of the government officials is I think it is quite clear from the discussions is they are trying to moderate the stimulus maybe more effectively than they did back in the '08/'09 timeframe where they felt things really got overheated and we look at that as a positive. There will be a point in time when we look back on 2012 and I think we will be pleased with the fact that China slowed and put this thing under more control. I think it is going to be better for our business, better for our business model over the long haul.

Vance Edelson - *Morgan Stanley - Analyst*

Okay, that is very helpful. Thanks, guys.

Operator

Stephen Volkmann.

Stephen Volkmann - *Jefferies & Co. - Analyst*

Hi, good morning. It's Jefferies & Company.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Hey, Steve.

Stephen Volkmann - *Jefferies & Co. - Analyst*

I am wondering, Mike, can you share -- you gave us some data regarding your backlog and I am wondering if you could share your book-to-bill in mining specifically?

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Mike DeWalt - *Caterpillar Inc. - Director, IR*

Well, we don't -- we have never disclosed that. We put out a backlog for the total Company. We don't even -- we are not even splitting that by segment. What I would tell you though is the decline in the backlog occurred in all three major segments. I mean it wasn't all mining; it was a combination of mining, construction and Power Systems. And again, most would have been construction and Power Systems and mining companies are taking deliveries certainly on products that they have ordered. In fact, our sales of mining equipment in the third quarter from Resource Industries were up 13% from a year ago.

But they are not ordering much. Again, I think they are taking a wait-and-see. They have CapEx expectations next year that are a little bit lower than this year. So we're seeing that in the backlog. For construction, it is a little more of I think a short-term issue. I mean with construction, it is not long leadtime product. Dealers try to keep on hand or have orders that are let's just say in the ballpark of delivery times from us, so kind of a few month sales.

It has been -- orders on construction have been quite low over the past few months, actually improving a little bit as we have gone through, well below their sales to end users, the order rates. So what that means is as those orders over the last quarter kind of move into our production schedule for the fourth quarter and the first quarter, it means there should be some fairly significant reductions in dealer inventory. And then, again, I think that is a temporary situation. Dealers can't go on for a very long time selling -- or ordering less than they are selling. We'll see that for probably a couple of quarters, but then it has to move back up in line with selling rates.

Stephen Volkmann - *Jefferies & Co. - Analyst*

Okay, that's helpful. I guess what I was trying to get at though is to think about the mix shift as we get into 2013. Are you seeing any cancellations? I know you let that -- you allowed that at one point in a previous downturn. Is it that aftermarket is kind of holding in okay and that the OE side is weaker or is it more broad?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes, I think the OE side is where order rates are dropped. For parts, we ship in about 24 hours, so our order backlog for parts is usually limited to about a day. So it doesn't really play much into the order backlog numbers. So, the decline would definitely be OE and again, we have pretty good visibility in the backlog. We have not had massive cancellations. I wouldn't say we haven't had any, but the primary reason the backlog has come down is they have just eased off ordering I think until they get a better picture for what next year is going to look like.

Stephen Volkmann - *Jefferies & Co. - Analyst*

Thank you very much.

Operator

Ted Grace.

Ted Grace - *Susquehanna Financial Group - Analyst*

Hey, guys, Susquehanna. The first thing I was hoping to ask is, on the 2013 revenue guidance, could you just maybe clarify, is that a top-down perspective or is that bottoms up having gone through the business segments, dealer conversations and all the other things that would drive a bottoms-up forecast?

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Mike DeWalt - *Caterpillar Inc. - Director, IR*

It is a little of both. We do, from the top down, we do an economic forecast and we try to translate that into what we think that means region by region, sort of product by product category around the world. And then we play into that from a bottoms-up standpoint. The uniqueness that is going on in individual products, do you have new products, are you having a particular push into a region, do dealers have unique things going on in the territory? So it is a little bit of a combination. It is kind of a top-down economic view, coupled with a bottoms-up view of the territories and the products and the product dynamics. So it is a little bit of both.

Ted Grace - *Susquehanna Financial Group - Analyst*

Okay. So just, and I realize you haven't given any kind of formal guidance on -- or any guidance whatsoever on earnings for next year, but just a little handholding to think about the key variables. I mean you did walk through sales mix next year and obviously mining, you mentioned would be down, which, all else equal, is a headwind and you mentioned some of the production issues. But when we think through the key levers of variables, could you just give us maybe just some framework of how to think about mix next year and puts and takes?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes, I can do a little bit of that. Under the kind of qualification that we haven't really provided profit guidance, and to a large degree we are still working on the details of next year's plan. But certainly one of the things for sure you would have to take into consideration is, in the third quarter of this year, we had the third-party logistics sale gain. That was $273 million pretax in the third quarter. We are not going to sell that thing twice. So that will definitely come out.

Sales mix, as you mentioned, that will likely be a little bit negative. I mean we have some decline in mining next year, some increase in construction. We make a little more money in mining than we do construction. So to your point, that would not signal a positive sales mix.

We have been investing for the future and our depreciation -- or our CapEx has been up a little, up, probably be a little bit less than $4 billion this year. So that means the depreciation next year will be a little bit higher.

Kind of the flip side of that though is we have done a pretty good job on managing the factories. We have held our fixed cost growth, so I think in terms of managing costs, we have done a good job. Efficiency in the factories all in has held up pretty well. We do have some pricing next year we have announced, not huge, but some price increase for next year that would certainly be positive. I think those are probably some of the bigger things to think about.

I guess the last point that I would make is that, this year, even with what we are expecting to take out in inventory in the fourth quarter, we will still end up this year with an inventory increase and we would certainly be planning on an inventory decrease next year. Order of magnitude, we're still working on and that will likely be a little bit negative for profit as well.

Ted Grace - *Susquehanna Financial Group - Analyst*

So the last thing I will ask, Mike, is just at the guidance for 2013 revenue, could you give us a sense for how to think about what the embedded dealer inventory levels would be either year-on-year or versus normal ratios of inventory to sales?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

You mean how it would end next year or just (multiple speakers)?

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Ted Grace - *Susquehanna Financial Group - Analyst*

Yes, either where it would end or how we should think about that pattern next year or path.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes, I think it depends a little bit on how next year plays out. Dealer inventory, by and large, they have somewhere in the, by historic standards, around 3.25 to 3.5 months of inventory. So it will really depend upon what sales are looking like towards the end of next year in terms of how much they will have.

But I think if you look at selling rates today, they have more than that. A pretty good size chunk of what we took out of -- not all of it certainly. Some of it will come from our inventory, but we would expect to make pretty good reductions in dealer inventory in the fourth quarter. Probably again in the first quarter, but maybe a little bit less than the fourth quarter, not because they don't have more to do, but because commonly in the first quarter, dealers build inventory for the selling season. But I think the specifics of how it is going to play out by quarter will probably depend on next year and how confident dealers get in the second quarter, but certainly down $1 billion or $2 billion from where they are at now.

Ted Grace - *Susquehanna Financial Group - Analyst*

Okay, that's great, guys. Best of luck.

Operator

Andy Casey.

Andy Casey - *Wells Fargo Securities - Analyst*

Wells Fargo Securities. Good morning, everybody. A couple questions, but first on Cat corporate cash flow inventory liquidation benefit from the inventory cut that you kind of forecast. How much of that is coming from purchased material work in process or are you considering rolling back some of the PDC inventory?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Well, it's actually a little of both. In fact, if you look at the purchase content and our work in process and raw material inventory, we actually took that down several hundred million dollars in the third quarter. So in fact, the cash flow for the third quarter, payables were a little bit less of a help and partly that is because we have cut the front end of that inventory pipeline. I think if you look at what will happen in the fourth quarter, it will probably be less work in process and production stores and a bit more of the finished goods as we try to take that down.

Andy Casey - *Wells Fargo Securities - Analyst*

Okay, thanks, Mike. And then if I could go back to the topic of the day, the mining equipment CapEx cycle, last month, you discussed the longer-term extension of the current mining investment cycle. And then, today, although short term, you are talking about the 2013 backlog for orders from your customers, pretty full. You acknowledge 2013 CapEx may decline from 2012.

I am just trying to understand kind of where we are in the potential cycle and whether, if nothing changes in 2013 in the macro environment, do all the puts and takes suggest that, in 2013, you would see accelerating declines through the year or is it just kind of, like you said, in the overall revenue mix down first half, up second half?

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Mike DeWalt - *Caterpillar Inc. - Director, IR*

Well, before I answer the point on mining, just this whole first half/second half thing, I would just like to clarify just a little bit. We are not looking for a Hail Mary second half of the year that is a big increase after a decrease in the first half. That is not what we are predicting. I mean we are not out there expecting a big economic recovery in the second half that is going to somehow save the year from a weak first half.

I think what we are saying is it is going to be a bit of a -- ho-hum probably is not the right word, but a pretty stable year. Our sales will probably be a little bit lower in the first half relative to normal seasonality just because we are still working on dealer inventory. So I think it is worth noting that we are not banking on a giant second half of the year to somehow bail the year out.

I think with regard to mining in general, I'll tell you, we couldn't be more positive about the long-term potential for mining. I mean the world's population is continuing to go up. More and more people are moving into the middle class as standard of livings improve. Those are big commodity drivers. I think long term we are very comfortable with mining.

In the short term, there are economic swings. The developed world, particularly China, are big incremental users of commodities and in 2012, their growth rates tipped down and it has been negative, at least for a while, to commodity prices. It has given miners an opportunity to take a breather and that is okay. That is a normal economic situation that happens. That doesn't, I don't think, change the longer-term view of mining, which in our view is actually quite positive.

So I think next year should be a fairly steady as she goes year overall, but with us probably selling a little less in the first half of the year because we know dealers are cutting inventory. I don't know if that answered it, but --.

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

I just want to talk a little bit -- it's Doug Oberhelman here -- a little bit about my view of '12 and '13 and '11 for that matter. But 2012 for this Company will be a record year at top line and bottom line. And what we are looking at is going into '13 with a lot of uncertainties right now, most of which will be cleared out, good or bad, in the first half of the year. So I think there are about three things going on that Mike talks about -- the fact that the second half is likely to give us a little more clarity around economic conditions, the inventory, maybe turnaround that he talked about and so on.

But we are looking at two really good years here, '13 and '12. And around CapEx, given the fact that '13 and '12 likely top line will both be near record years, saying nothing about the bottom line yet for 2013, I would expect CapEx could be, and we haven't rolled it out yet, but won't be down an awful lot. We are looking at a growing economy here out through '15 as we talked about at MINExpo and we are going to need capacity, not additional capacity necessarily from where we are, but certainly the buildout of what we have, our parts warehouse, system and distribution centers for spares around the world.

Given the fact that '13 is going to look a lot -- resemble, as I said in Las Vegas, '12, moving on up in '14 and '15, we are going to need some capital spending. If the year doesn't turn out like we think it will in '13, we will slow down. But I just want to kind of work on expectations a little bit around capital because we see the base case as pretty good through '15. No recession in sight globally, that means we are going to need to spend a little bit to keep up with what should be good growth between here and '15. So maybe that is a little more long-term perspective on it, but certainly how I see it at this stage today.

Operator

Timothy Thein.

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Timothy Thein - *Citigroup - Analyst*

Great, thank you, Citigroup. First question, just, Mike, to come back on segment mix, specifically on Power Systems, there are obviously a couple different segments within there where the margins and returns can vary quite a bit. But given the outlook in the release on your expectations for Brent averaging $110 a barrel next year, it would seem to be supported for E&P spending and obviously petroleum. So can you maybe provide a little bit more color in terms of how you are currently thinking about mix within that Power Systems number for 2013 to the extent you have?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes, if we look at the lower level components of it, there is not -- actually we are not forecasting a very significant change up or down in sort of those different end markets -- industrial, marine, oil and gas. The forecast, even by kind of lower levels, is not dramatically different. So I would say the mix is probably maybe just a slight bit negative in that one of the segments that will probably have some growth after a pretty poor year in 2012 is industrial. That has been down quite a bit so far this year. I think that is looking at maybe a little bit of an improvement next year. But even as I say that, the change overall is fairly flat, the change even below that level is not very dramatic.

Timothy Thein - *Citigroup - Analyst*

Okay, got you. And just back on mining, as the outlook there has come in, is that impacting the expected pace of distribution sales and/or leading to any notable change in your dealers' thoughts regarding the evaluation of distribution rights?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

No. Sorry, it's a simple answer, so in the interest of time, I won't take a lot of time saying no, so I don't think it has changed anything, no.

Timothy Thein - *Citigroup - Analyst*

Okay, thank you.

Operator

Ross Gilardi.

Ross Gilardi - *Bank of America-Merrill Lynch - Analyst*

Good morning, Bank of America-Merrill Lynch. I was just wondering, in China, clearly, you have been working on getting your inventories down for several quarters now. Where do you think the industry is in that regard and from here, do you think it is a six-month process to clear the excess inventory for the industry or do you think it is more of a multiyear process? And what is happening to pricing in the region? Are you seeing any customer tradedown in terms of product quality?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Well, a couple of things. Very good question, Ross. A couple of things. One, just in terms of shifting around customers, we tend to be certainly the premium product there. And although sales are depressed in China, not very good, we have tended to do a little bit better than the market overall. So in a down market, we are doing okay.

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In terms of the inventory part of your question, I think the way I would describe it is we have made steady inventory reductions in China, both us and dealers, of finished inventory. But it has not been as fast as we would have thought and it is not because we are producing anymore than we were expecting; it is because the sales have just remained pretty low. We have really not seen -- we have not really seen a pickup there yet.

So part of the inventory reduction that we were expecting as we marched through the year, we were thinking we would get a little bit of help from sales, which didn't happen. So I think if you look at how weak it is there, my guess is the rest -- and I don't know this -- our competitors don't report their inventories to me, but if they are anything like us, it is probably a case where it is going down, but not as fast as we'd all like. I think it will -- it is probably going to remain elevated until the selling season starts. That would probably begin mid-February. That is the first opportunity I think for a more meaningful reduction.

Ed Rapp - *Caterpillar Inc. - Group President and CFO*

Ross, this is Ed. What I would add to that -- you asked about the pricing side. As we talked about before, you are seeing a lot of, if you would, packaged merchandising. I think the other thing we have seen happen in China is the tried and true business model and the way we work with Cat Finance has really played out. You do hear a certain amount of noise out of competition with their struggles on the receivables side, but if you look at Cat Finance's reported results for the third quarter, very solid, past dues down and it just gets back to the discipline at which we run that business, I think it is serving us well in places, including China.

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

Yes, Oberhelman here. I want to pile on again on China and inventory. We have been reluctant to massively lower inventory suddenly. And we are doing it in a very measured way. Most of our production there today is for export around the world. We need more capacity. We have it today, but frankly I am worried about any kind of recovery in China and not having inventory ready. So we have done this in a very measured fashion all the way down this year and I would expect that to continue.

While we want inventory down and we are a bit high, we cannot let ourselves get into a position where we don't have inventory to match the market when it does recover. And we will be there, I suspect, fairly soon and again, it comes back to what happens with demand on the ground inside China going into '13. And we will know this -- we are going to know this likely in the first quarter which way this is going.

Ross Gilardi - *Bank of America-Merrill Lynch - Analyst*

And just a follow-up on your growth projects. At MINExpo, you made it clear that you temporary delayed several of your projects. Is that still the case and in your outlook, you mentioned GDP accelerating at 8.5%? If you see signs of that really unfolding in the first half of the year, do those projects come back on very quickly?

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

We have slowed the expansion of our China facilities as I mentioned at MINExpo. In fact, we have just delayed it; we have not -- and deferred it. We haven't canceled it at all. We are going to look at again what happens in '13, but, as I said before on many occasions and I'll say it again having just come back from China, China is underexcavated on a per capita basis by any metric to the rest of the world. So we know where that is going to go over time and we have to be there with capacity.

So right now, it is a juggling act between how much do we lower inventory, how much do we slow capacity expansion knowing full well that -- I don't know if it is six months, one year, two years or five years, we are going to need a lot more than we have today. And your second question, I'm sorry, was -- I forgot?

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Ross Gilardi - *Bank of America-Merrill Lynch - Analyst*

No, I think you got most of it there. Thanks very much.

Operator

Ann Duignan.

Ann Duignan - *JPMorgan Chase - Analyst*

JPMorgan. First, just a clarification on the model. How should we think about modeling the logistics business going forward? It wasn't really clear in the press release or in any of the Q&As.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Ann, with the logistics business -- okay, we have actually several things going on with acquisitions and divestitures. We bought Siwei in the quarter, that's a Chinese underground coal company. A year ago, we bought MWM -- or not quite a year ago. So -- and then we sold a part of the logistics business. So there are pieces coming in and pieces going out.

I think for the logistics piece in and of itself, if you look at our All Other segment, most of the sales decline there was logistics. It is probably a little less than $100 million a month in terms of sales. But then again we have an add-on for Siwei as well. So we have things that are going in both directions.

Overall, certainly from a top-line perspective, the net of them isn't going to be a big difference next year. So in other words, when we talked about our expectations that next year's kind of plus or minus the same as this year, we didn't mention acquisitions because we have some coming in and some going out.

Ann Duignan - *JPMorgan Chase - Analyst*

Yes, it's just that we know where Siwei goes. We know where MWM goes, but it's just there is no reference -- you said logistics is about $100 million in sales per month.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

No, it's less -- it is a bit less than that. You can look at our release today. Based on when we sold it, we had absence of about two months of sales. It would have been less than $200 million in the quarter impact.

Ann Duignan - *JPMorgan Chase - Analyst*

Okay, that is somewhat helpful. And then my second question is you had noted that in order to reduce inventories quickly in China that you were going to have to use some marketing programs.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes.

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Ann Duignan - *JPMorgan Chase - Analyst*

Can you talk both about what kind of marketing efforts you are having to make in China to liquidate the inventories? And also are we looking now at very broad-based marketing dollars being spent to move products all over the world both out of dealer inventory and out of your inventory?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

I think the best guide to answer that question is going to be the new head of our construction business sitting to my right.

Ed Rapp - *Caterpillar Inc. - Group President and CFO*

Hey, Ann. I would say in China today, you have a fairly broad-based push in terms of the merchandising programs and kind of as we reported last time, a good portion of that is coming through the packaging of different offerings all the way from financing to trade-in allowances to those types of things. And I think that, as Doug said earlier, we are seeing some good results relative to our position in that market because it really plays to the strength of our business model.

We've slowed some of the capital as we talked about in China, but we haven't slowed the buildout of that business model. Dealer locations, building out our services, be it insurance or financing, building out the product support side of it with things like logistics capability and Reman. So we continue to build out that business model, but going after that complete merchandising package really does I would say play to our strengths.

I think in terms of how that is playing out around the world, it is a bit different in different parts of the world depending on what segment you are operating in. As you have seen year-over-year progress in the states, sales to users still with a pretty good growth rate. We talked about Europe being weak, but Africa, Middle East and CIS holding. So there is a different play-out depending on the different geographies around the world. But you have seen third-quarter overall price realization was quite positive.

Ann Duignan - *JPMorgan Chase - Analyst*

Okay, and just while I have you on the line, I was curious just what the thinking was in terms of moving the headquarters for the construction business out of Hong Kong, which is obviously closer to China, to Singapore. Was there any reason for that in particular?

Ed Rapp - *Caterpillar Inc. - Group President and CFO*

I would say it is twofold. First of all, also included in the announcement is the appointment of Qihua Chen as an officer based in Beijing. I will tell you one of our great leaders and I say great leader who just happens to be Chinese. And so having an officer on the ground in China is a huge step forward and he will play a great role.

The other reason is, if you go back in history, we really moved our Asian operation headquarters to Singapore. It is where we got a bigger concentration of our people, product managers, purchasing organization, those kinds of resources. So it puts me right smack in the middle of that. Trust me, I fully understand it is a mailbox because a good portion of the time has been spent on the road, but those are the two things that really led to that decision.

Ann Duignan - *JPMorgan Chase - Analyst*

Okay, I appreciate the color. Thank you.

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Operator

Robert Wertheimer.

Robert Wertheimer - *Vertical Research Partners - Analyst*

It's Vertical Research and good morning, everybody. I just have two quick questions on mining. Have you seen any reduction in hours run on mining equipment and do you expect in your forecast any diminution in parts, either growth or contraction in parts, whether due to destock or cut hours?

And second, are you allowing cancellations? You had been at one point I think kind of sold out for '13 and I know you have allowed push-outs. And so I am just curious if you allowed any cancellations or whether just the declines seemed a little bit surprising given how robust the backlog had been. So I just wanted to see if that stuff had been pushed all the way to '14 or canceled?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes, Rob. Just a comment on the whole hours worked question. I think if we use our aftermarket business as probably a reasonable indicator of that, it would tell us that activity levels -- and actually if you look at mine production levels as well, they look pretty good. I think the one place where that is not the case where versus a year ago it is actually down is Eastern coal in the US. So I would say that is the one spot of weakness certainly in the aftermarket part of it.

In terms of your cancellation question, yes, there have been some cancellations. It has not been hugely significant. For the most part what customers have done is two things. One, and you can see this based on the backlog, there is not a lot of new order activity for new equipment. Of course, the aftermarket piece has just cycled through. And two, you have had some pushed out. We had some sales that we -- shipments that we would've thought would have come in the fourth quarter of this year that are pushed into '13, some from '13 pushed beyond that. So it is a combination of low orders and some delays, not big cancellations.

Ed Rapp - *Caterpillar Inc. - Group President and CFO*

Hey, Rob, this is Ed. One other thing on the cancellations because you mentioned the past. We have openly communicated to our dealers that the order cancellations in the late '08 timeframe was an anomaly or an exception. It was a liquidity crisis. No one certain where it was going to end up, and so we made some steps there. It was not part of our ongoing practices with our dealers and we wanted them to understand the risk that comes with the ordering process to keep good honesty in the order board.

And also, as we talked openly, we don't see a recession coming in 2013. We see things a lot differently than we did in that period. So like I said, an exception to our standard ordering practice back in '08, '09. You are seeing us now move back to more of our standard practice.

Robert Wertheimer - *Vertical Research Partners - Analyst*

Thanks, Ed.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

I think we have time for one more question.

Operator

Andrew Kaplowitz.

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Andrew Kaplowitz - *Barclays Capital - Analyst*

Good morning, everyone, Barclays. Mike, maybe I could ask you about the Western Hemisphere in terms of construction. Obviously the US market has held up better than some other markets. Have you seen any order slowdown from dealers in that market? And you talked about growth in the market next year. Confidence level around that, I noticed your housing start number was pretty good too.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes, a couple of things. Sales to users in let's say North America, the rate of growth has slowed down a little bit. Now again September is a little bit unusual. We had four weekends last year in September. The way the calendar fell this year, we had five. So the flipside of that will happen in October. So September I think because of the calendar was probably a little weaker month.

But if you go back to the fourth quarter of last year, North America was up like close to 50%. I mean it was up a lot. There was I think a little bit of probably extra buying in the sales to users because of the depreciation rules at the time, probably a little bit of a pull-forward, if you will, into the fourth quarter, I think particularly at a dealer level.

So I would fully expect that if you are looking at year-over-year growth rates, I expect those growth rates to come down a little bit in North America. That doesn't mean that sales to users are kind of sequentially seasonally adjusted, getting worse; it just means that the fourth quarter of last year was quite a bit better than the second and third quarter of a year ago.

We are reasonably constructive on the US in terms of construction activity. Housing really does seem to be on the mend. I mean it is not booming, but it really seems to have turned a corner and is getting a little better. So that should help. If we can get this election and year-end tax and spending cliff dealt with, I think there is opportunity for confidence even to get a little bit better. So I think we are fairly constructive.

Now you said the Western Hemisphere, so I will move to Latin America. In Brazil, which is one of our more important countries in Latin America in terms of sales, we have had a pretty steady improvement year-over-year in terms of sales to end users. I mean the government there has been constructive I think on monetary and credit policies. We have seen our sales to users, our dealers -- deliveries to end users get better. So I think we are -- I would say we are reasonably positive on that as we move forward as well. I don't know, Andy, did I answer all your questions?

Andrew Kaplowitz - *Barclays Capital - Analyst*

You did, Mike. Just on Latin America, your sales were still down sequentially. I mean has the Argentina effect sort of run its course where you just haven't been delivering a lot there? I think that stopped sort of in February of this year or something like that, so you should have easy compares there as you go forward.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes, Argentina has been just quite severe declines there. And I think if you look at our sales in Latin America too, you have a little bit of a different situation. The construction business in Brazil, dealers have actually been cutting inventory there a little bit. Actually in the country of Brazil, dealer inventories went down a little bit in the quarter, so our sales there are a little bit less than real demand already.

And as the demand continues to increase there and dealers get their inventory in line, at some point here, orders and sales of ours will start matching or get closer to end-user demand. So that is a temporary thing.

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Andrew Kaplowitz - *Barclays Capital - Analyst*

Okay. And then just real quickly, Bucyrus profitability was a little lower sequentially. It looks like less than 5%. Usually they have a strong fourth quarter. So is that kind of what we are anticipating here? Is that one of the reasons why operating profitability was lower?

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Yes, I think our view of Bucyrus, if you look at what happened in the fourth quarter a year ago, just a shift in their both sales and profitability, going from third to fourth, there is an uptick. They just historically have made a higher portion of their profit and sales in the fourth quarter. So we would be looking for that to improve in the fourth quarter as well.

Andrew Kaplowitz - *Barclays Capital - Analyst*

Thank you.

Mike DeWalt - *Caterpillar Inc. - Director, IR*

Thanks, Andy. Thanks, everybody.

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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