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Corporate Speakers:

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- James Umpleby; Caterpillar Inc.; Chairman of the Board & CEO
- Andrew Bonfield; Caterpillar Inc.; CFO

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- Robert Wertheimer; Melius Research LLC; Founding Partner, Director of Research & Research Analyst
- Jamie Cook; Credit Suisse AG; Research Division, MD, Sector Head of United States Capital Goods Research and Analyst
- Jerry Revich; Goldman Sachs Group, Inc.; Research Division, VP
- David Raso; Evercore ISI Institutional Equities; Research Division, Senior MD & Head of Industrial Research Team
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PRESENTATION

Operator^ Welcome to the Fourth Quarter 2022 Caterpillar Earnings Conference Call. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Ryan Fiedler. Thank you. Please go ahead.

Ryan Fiedler^ Thank you, Emma. Good morning, everyone, and welcome to Caterpillar's Fourth Quarter of 2022 Earnings Call. I'm Ryan Fiedler, Vice President of Investor Relations. Joining me today are Jim Umpleby, Chairman and CEO; Andrew Bonfield, Chief Financial Officer; Kyle Epley, Senior Vice President of the Global Finance Services Division; and Rob Rengel, Senior IR Manager.

During our call, which will extend to 8:40 a.m. Central, we'll be discussing the fourth quarter and full year earnings release we issued earlier today. You can find our slides, the news release and webcast recap at investors.caterpillar.com under Events and Presentations. The content of this call is protected by U.S. and international copyright law. Any rebroadcast, retransmission, reproduction or distribution of all or part of this content without Caterpillar's prior written permission is prohibited.

Moving to Slide 2. During our call today, we'll make forward-looking statements, which are subject to risks and uncertainties. We'll also make assumptions that could cause our actual results to be different than the information we're sharing with you on this call.

Please refer to our recent SEC filings and the forward-looking statements reminder in the news release for details on factors that individually or in aggregate could cause our actual results to vary materially from our forecast. A detailed discussion of the many factors that we believe may have a material effect on our business on an ongoing basis is contained in our SEC filings.

On today's call, we'll also refer to non-GAAP numbers. For a reconciliation of any non-GAAP numbers to the appropriate U.S. GAAP numbers, please see the appendix of the earnings call slides. Today, we reported profit per share of \$2.79 for the fourth quarter of 2022 compared with \$3.91 of profit per share in the fourth quarter of 2021. We're including adjusted profit per share in addition to our U.S. GAAP results. Our adjusted profit per share was \$3.86 for the fourth quarter of 2022 compared with adjusted profit per share of \$2.69 for the fourth quarter of 2021.

Adjusted profit per share for both quarters excluded mark-to-market gains for remeasurement of pension and other post-employment benefit plans as well as restructuring items. Adjusted profit per share for the fourth quarter of 2022 also excluded a goodwill impairment. Now let's turn to Slide 3 and turn the call over to our Chairman and CEO, Jim Umpleby.

James Umpleby^ Thanks, Ryan. Good morning, everyone. Thank you for joining us. As we close out 2022, I'd like to start by recognizing our global team for another strong quarter. Our results reflect healthy demand across most end markets for our products and services. We remain focused on executing our strategy and continue to invest for long-term profitable growth.

In today's call, I'll begin with my perspectives on our performance in the quarter and for the full year. I'll then provide some insights on our end markets. Lastly, I'll provide an update on our sustainability journey.

Overall, it was another strong quarter as demand remained healthy for our products and services. Sales rose by 20% versus the fourth quarter of 2021, better than we expected. Supply chain improvements enabled stronger-than-expected shipments, particularly in Construction Industries and supported an increase in dealer inventories. We achieved

double-digit top line increases in each of our 3 primary segments and saw sales growth in North America, Latin America and EAME, while Asia Pacific was about flat.

Adjusted operating profit margins increased to 17% in the fourth quarter and an all-time record, as we saw our margins improve both on a sequential and year-over-year basis. Adjusted profit per share was \$3.86, which includes an unfavorable \$0.41 per share of foreign currency headwind largely due to ME&T balance sheet translation. This was caused by the rapid decline in the U.S. dollar late in the year and reversed much of the favorable impact we saw in the first 3 quarters of 2022. We generated a 17% increase in total sales to \$59.4 billion in the year. Services also increased by 17% to \$22 billion.

Adjusted operating profit margin for the full year was 15.4%, a 170 basis point increase over the prior year. Although we did not achieve our Investor Day adjusted operating profit margin targets for the year, which I'll discuss more in a moment, I'm pleased that we increased adjusted operating profit by over \$2 billion and grew absolute OPACC dollars, which is our internal measure of profitable growth.

For the year, we achieved adjusted profit per share of \$13.84, also an all-time record. In addition, we generated \$5.8 billion of ME&T free cash flow, firmly in our target range. Finally, despite the strong sales in the fourth quarter, backlog grew by \$400 million in the quarter to end the year at \$30.4 billion, a 32% year-over-year increase.

As I've mentioned, we did see some improvement in certain areas of the supply chain in the fourth quarter. However, pockets of challenge continue, particularly with some suppliers related to Energy & Transportation and Resource Industries. Similar to previous quarters, our sales would have been higher if not for these supply chain issues.

Our global team delivered one of the best years in our nearly 100-year history, including record full-year adjusted profit per share. Despite the supply chain challenges, our team achieved double-digit top line growth and generated strong ME&T free cash flow. We remain committed to serving our customers, executing our strategy and investing for long-term profitable growth.

Turning to Slide 4. In the fourth quarter of 2022, sales increased 20% versus last year to \$16.6 billion. The increase was due to favorable price realization and volume growth, which included dealer inventory increases and growth in sales of equipment to end users. Compared with the fourth quarter of 2021, sales to users increased 8%, broadly in line with our expectations.

For machines, including Construction Industries and Resource Industries, sales to users rose by 4%, while Energy & Transportation was up 19%. Sales to users in Construction Industries were up 1%, in line with expectations. As a reminder, nonresidential represents approximately 75% of Caterpillar sales in Construction Industries.

North American sales to users increased as demand remained healthy for both nonresidential and residential despite some moderation in residential. Latin America saw

higher sales to users, while EAME and Asia Pacific declined slightly in the quarter. However, excluding China, sales to users in the Asia Pacific region increased.

In Resource Industries, sales to users increased 13%, which was lower than anticipated mainly due to timing issues related to outbound logistics and commissioning. The segment sales to users increased primarily due to heavy construction and quarry and aggregates.

In Energy & Transportation, sales to users increased by 19%, slightly above our expectations. In the fourth quarter, Oil and Gas sales to users benefited from continued strength in large engine repowers. We also saw strong turbine and turbine-related services. Power generation and Industrial sales to users continue to remain positive due to favorable market conditions. Transportation declined from a relatively low base primarily due to lower locomotive deliveries, while marine was up slightly.

Dealer inventory increased by about \$700 million in the fourth quarter, which was above our expectations, compared to a decrease of about \$100 million in the same quarter last year. As I mentioned, supply chain improvements enabled stronger-than-expected shipments, particularly in Construction Industries, and supported an increase in dealer inventories.

We saw increases in each of our primary segments. And within Construction Industries, dealer inventories are now in their typical historical range of 3 to 4 months of projected sales. In Construction Industries, the largest dealer inventory increase came in North America, which benefited our most constrained region. Over 70% of the combined year-end dealer inventory in Resource Industries and Energy & Transportation is supported by customer orders.

As expected, we generated improved adjusted operating profit margin in the quarter, both year-over-year and sequentially. Our adjusted operating profit margin increased by 560 basis points versus last year to 17%, which does not include the non-cash goodwill impairment charges and restructuring costs associated with the Rail division. I'll provide more detail in Rail later in my remarks.

Turning to Slide 5. I'll now provide full-year highlights. In 2022, we generated sales of \$59.4 billion, up 17% versus last year. This was due to favorable price realization and higher sales volume driven by the impact from changes in dealer inventory, increased services and higher sales of equipment to end users. As I mentioned, we generated \$22 billion of services revenues in 2022, a 17% increase over 2021. Services growth in 2022 benefited from our ongoing initiatives and investments as well as price realization.

We now have over 1.4 million connected assets, up from 1.2 million in 2021. We delivered over 60% of our new equipment with a customer value agreement and the launch of our new app, called Cat Central, helped drive growth in e-commerce sales to users. We also had the highest level of parts availability in our history. Overall, our confidence continues to increase that we'll achieve our \$28 billion services target in 2026.

Our full-year adjusted operating profit margin was 15.4%, a 170 basis point increase over 2021. Although we significantly increased margins in the fourth quarter versus last year, overall, they did not improve enough for us to achieve our full year Investor Day adjusted operating profit margin targets. Our margins in 2022 were impacted by supply chain inefficiencies, ongoing inflationary pressures within manufacturing costs and our conscious decision to continue to invest for profitable growth.

As I mentioned during our last earnings call, our margin targets are progressive, which means we expect to achieve higher operating profit margins as sales increase. In an inflationary environment -- in a higher inflationary environment, where a relatively larger portion of the sales increase is due to price realization, there's less operating leverage, which makes the delivery of those progressive margins more challenging. Andrew will provide more information about our adjusted operating profit margin targets.

Moving to Slide 6. We generated ME&T free cash flow of \$5.8 billion for the full year, which was in line with our Investor Day range of \$4 billion to \$8 billion. We returned \$6.7 billion to shareholders, or 115% of ME&T free cash flow, which included \$4.2 billion in repurchased stock and \$2.4 billion in dividends to shareholders. We remain proud of our dividend aristocrat status and continue to expect to return substantially all ME&T free cash flow to shareholders over time through dividends and share repurchases.

Now on Slide 7, I'll share some high-level assumptions on our expectations moving forward. While we continue to closely monitor global macroeconomic conditions, overall demand remains healthy across our segments, and we expect 2023 to be better than 2022 on both top and bottom line.

Just to remind you, our internal measure of profitable growth is absolute OPACC dollars. We believe increasing absolute OPACC dollars will lead to continued higher total shareholder returns over time. We expect to achieve our updated adjusted operating profit margin targets and ME&T free cash flow target range of \$4 billion to \$8 billion during 2023.

Now I'll discuss our outlook for key end markets this year, starting with Construction Industries. In North America, overall, we see positive momentum in 2023. We expect nonresidential construction in North America to grow due to the positive impact of government-related infrastructure investments, healthy backlogs and rental replenishment. Although residential construction continues to moderate due to tightening financial conditions, it remains at a healthy level.

In Asia Pacific, excluding China, we expect growth in Construction Industries due to public infrastructure spending and supportive commodity prices. As we mentioned during our last earnings call, weakness continues in China in the excavator industry above 10 tons.

We expect it to remain below 2022 levels due to low construction activity. In EAME, business activity is expected to be about flat versus last year based on healthy backlogs and strong construction demand in the Middle East, offset by uncertain economic conditions in Europe. Construction activity in Latin America is expected to be flat to slightly down versus the strong 2022 performance.

In Resource Industries, we expect healthy mining demand to continue as commodity prices remain above investment thresholds. That said, our customers remained capital disciplined. We anticipate production and utilization levels will remain elevated, and our autonomous solutions continue to gain momentum.

We expect the continuation of high equipment utilization and a low level of parked trucks, which both support future demand for our equipment and services. We continue to believe the energy transition will support increased commodity demand, expanding our total addressable market and providing opportunities for profitable growth.

In heavy construction and quarry and aggregates, we anticipate continued growth supported by infrastructure and major nonresidential construction projects. In Energy & Transportation, we expect sales growth due to strong order rates in most applications. In Oil and Gas, although customers remain disciplined, we are encouraged by continued strength in demand and order intakes for the year.

New equipment orders for solar turbines continue to be robust. Power Generation orders are expected to remain healthy, including data center strength. Industrial remains healthy with momentum continuing for 2023. In Rail, North American locomotive sales are expected to remain muted. We anticipate strength in high-speed marine as customers continue to upgrade aging fleets.

During the fourth quarter, we took in a \$925 million non-cash goodwill impairment charge related to our Rail division, which is part of the Energy & Transportation segment. The impairment was primarily driven by a revision in our long-term outlook for the company's locomotive offerings.

We believe opportunities exist for new locomotives, overhauls, repowers and modernizations but at lower levels than previously forecasted and occurring over a longer time horizon.

In addition to the goodwill impairment charge, we also incurred restructuring costs of \$180 million in the quarter primarily related to non-cash inventory adjustments within this division. Importantly, our rail services, including track, signaling and freight car remain robust.

Progress Rail plays an integral part in supporting and maintaining rail infrastructure in countries around the globe, and rail remains one of the most efficient ways of transporting goods across the land. We will continue to offer Tier 4 solutions to our customers. However, strategic investments in new locomotive products will continue

shifting to competitive sustainable solutions to help customers meet their carbon reduction initiatives, including hybrid, full battery electric and alternative fuel power sources, including hydrogen.

These alternative power solutions for rail will leverage modularity and scale across Resource Industries, Construction Industries and Energy & Transportation. We believe these enterprise-wide investments will provide Caterpillar with a strategic advantage over time.

Moving to Slide 8. We continued to advance our sustainability journey in the fourth quarter of 2022 as we strive to help our customers achieve their climate-related objectives. In November, Caterpillar announced the successful demonstration of its first battery electric 793 large mining truck prototype with support from key mining customers participating in Caterpillar's Early Learner program.

The truck performed at the same specification as a diesel truck on our 7-kilometer course, achieving a top speed of 60 kilometers per hour carrying a full load and 12 kilometers per hour with that same load at a 10% grade. In addition to the truck, we also unveiled plans to create a working and more sustainable mine site of the future at our Arizona-based proving ground.

This includes installing and utilizing a variety of renewable energy sources, leveraging technologies from our Electric Power division and new Electrification and Advanced Power Solutions division. We also invested in Lithos Energy, Inc., a lithium-ion battery producer that manufactures battery packs for the types of demanding environments our Cat equipment thrives in. This collaboration supports our commitment to delivering robust electrified products and solutions to our customers.

Lastly, 2022, we continue to advance our autonomous journey, achieving an industry first of moving over 5 billion tons autonomously across 25 mine sites worldwide. During the fourth quarter, we announced our first autonomous solution in the aggregates industry. We'll collaborate with Luck Stone, the nation's largest family-owned and operated producer of crushed stone, sand and gravel to expand these solutions beyond mining.

We'll utilize Cat MineStar Command for Hauling System on 777 trucks, contributing to continued improvements in safety and productivity for our customers. These examples reinforce our ongoing sustainability leadership and how we help our customers build a better, more sustainable world. We look forward to issuing our 18th annual sustainability report during the second quarter. With that, I'll turn the call over to Andrew.

Andrew Bonfield^ Thank you, Jim, and good morning, everyone. I'll begin by covering our fourth quarter results, including the performance of our primary segments. Then I'll cover the balance sheet and ME&T free cash flow before concluding on high-level assumptions for 2023, including the first quarter. Beginning on Slide 9. Sales and revenues for the fourth quarter increased by 20% or \$2.8 billion to \$16.6 billion.

The sales increase versus the prior year was due to strong price realization and volume, partially offset by currency impacts. Sales were higher than we expected as supply chain constraints eased in some areas and we were able to ship more product.

Operating profit increased by 4% or \$69 million to \$1.7 billion, as strong price realization and volume growth were mostly offset by a goodwill impairment charge, higher manufacturing costs and restructuring expenses. Our adjusted operating profit was \$2.8 billion, up \$1.2 billion versus the prior year, and the adjusted operating profit margin was 17.0%.

This was an increase of 560 basis points versus the prior year quarter due to favorable price realization and volume growth, which outpaced manufacturing cost increases. Fourth quarter margins were lower than we were targeting as well as being lower than where we needed them to be to meet our full year Investor Day adjusted operating profit margin target. I will talk more about that in a moment.

Adjusted profit per share increased by 43% to \$3.86 in the fourth quarter, compared to \$2.69 in the fourth quarter of last year. Adjusted profit per share in the fourth quarter excluded a goodwill impairment charge of \$925 million, or \$1.71 per share, related to our Rail division, as Jim has explained. This charge is held at the corporate level and does not impact Energy & Transportation segment margins.

Adjusted profit per share figures also exclude mark-to-market gains for the remeasurement of pension and OPEB plans and restructuring items. Restructuring costs of \$209 million, or \$0.29 in the quarter, were primarily related to non-cash inventory write-downs within our Rail division. Again, these charges impacted the corporate level, and the inventory write-downs are within cost of goods sold in the income statement.

For the full year, restructuring costs were about \$300 million. Last quarter, we told you that a non-cash charge of approximately \$600 million could slip into 2023, which it did. We expect to close on the divestiture of our longwall business in early February, and the non-cash charge will be included in our first quarter 2023 restructuring charges.

The provision for income taxes in the fourth quarter, excluding the amounts relating to mark-to-market, goodwill impairment and other discrete items, reflected a global annual effective tax rate of approximately 23%, as we expected. Finally, our fourth quarter results included an unfavorable non-cash foreign currency impact within other income (expense) of \$0.41 related to ME&T balance sheet translation in the quarter.

To explain, many of our foreign entities are U.S. dollar functional. These entities are generally in a net liability position causing a favorable translation impact in periods of U.S. dollar strength.

Within each of the first 3 quarters of the year, we saw some benefit as the dollar sequentially trended stronger. However, within the fourth quarter, this trend reversed. Given the significant weakening of the U.S. dollar within the fourth quarter of 2022, the

negative impact to profit was sizable. As you would imagine, our forward-looking assumptions do not include expectations for currency fluctuations.

To give a bit more context, other income (expense), excluding the impact of pension mark-to-market adjustments, has trended at around \$250 million of income per quarter for all of 2021 and for the first 3 quarters of 2022. This has reflected a number of offsetting items, including currency. In the fourth quarter, excluding pension mark-to-market, other income (expense) swung to a \$70 million expense. The majority of that change is due to the foreign exchange translation adjustment, which is why we have highlighted this.

Overall, sales were better than we had expected. As we had anticipated, margins increased but, as I said earlier, not by enough to meet our Investor Day adjusted operating profit margin targets. Adjusted profit per share rose by 43%, but that was moderated by the \$0.41 non-cash foreign currency balance sheet translation charge that I mentioned a moment ago.

Moving on to Slide 10. The 20% increase in the top line was driven by favorable price realization and higher sales volume. Volume was supported by the \$800 million year-over-year impact to changes in dealer inventory and an 8% increase in sales to users. From a sales perspective, currency remained a headwind given the strength of the U.S. dollar.

As I mentioned earlier, sales were higher than we expected in the quarter, mostly due to some improvements in the supply chain, which enabled stronger shipments, particularly in Construction Industries. The increase in dealer inventories reflects the improved shipments in Construction Industries and customer delivery timing in Resource Industries and Energy & Transportation. Overall, market dynamics remain healthy as sales to users continue to increase, and our backlog is strong at \$30.4 billion.

Moving to Slide 11. Fourth quarter operating profit increased by 4%, impacted by the goodwill impairment charge and restructuring expenses. Adjusted operating profit increased by 78% as favorable price realization and higher sales volume continued to outpace higher manufacturing costs. Manufacturing costs increased primarily due to higher material costs and unfavorable cost absorption as we decreased our inventories in the fourth quarter compared to an increase in the prior year.

Related to our recent price-cost performance, keep in mind that we are still catching up from the increases in manufacturing costs, which have occurred over the last few years. In particular, material and freight costs have increased by about 20% since 2020 and our full-year gross margins remain below our 2019 levels. Our fourth quarter adjusted operating profit margin of 17% was a 560 basis point increase versus the prior year. As Jim has mentioned, this is our highest ever quarterly adjusted operating profit margin.

As I said earlier, we did not achieve our Investor Day adjusted operating profit margin targets. As Jim said, in a high inflation environment, you do not get the benefit of

operating leverage that you would normally expect when sales increases are volume-driven.

You will recall that our adjusted operating profit margin targets are progressive, which means at the top end of the range, for every \$1 billion in sales, incremental revenues, we need to deliver close to 40 percentage points of that through adjusted operating profit. This is challenging to achieve in a high inflation environment when sales are increasing due to price realization designed to mitigate increases in manufacturing costs. Also, please keep in mind that we made a conscious decision to continue to invest for future profitable growth.

We have not seen inflation anywhere near double-digit levels since the targets were introduced in 2017. In a low inflation environment, productivity improvements can be made to offset inflationary increases, so nominal targets remain effective. In the current high inflation environment, you cannot achieve the level of productivity. So we are adjusting the target sales range to reflect the inflationary increases we've seen in 2022.

On Slide 12, we've updated our adjusted operating profit margin target slope to account for the impact of inflation as depicted on the chart. We still have the same aspirations for margins, however, the corresponding level of sales and costs are generally around 9% higher than they have been in a non-inflationary environment. As you can see, the low end of the sales range is now \$42 billion while the top end is \$72 billion. This compares to the previous bookends of \$39 billion and \$66 billion, respectively.

The key point is that despite the inflationary impact on sales and costs, which impact margins, our expectations for profit and cash generation have not changed, and we remain focused on delivering increases in absolute OPACC dollars. Depending on the inflationary environment that we see in 2023, we'll have to revisit the range next January.

Moving to Slide 13. Across our three primary segments, sales and margins improved in the fourth quarter versus the prior year supported by price realization and sales volume. As expected, price more than offset manufacturing costs in all 3 segments.

Starting with Construction Industries. Sales increased by 19% in the fourth quarter to \$6.8 billion, driven by favorable price realization and sales volume, partially offset by currency. Volume increased primarily due to changes in dealer inventory and higher sales to users. Dealer inventory increased in the quarter compared to a reduction last year.

Sales in North America rose by 34% due mostly to strong pricing, the positive change in dealer inventory and higher sales to users. Sales in Latin America increased by 39% on strong price realization and higher sales volume, the latter due mostly to a favorable change in dealer inventory. In EAME, sales increased by 10% on price realization and sales volume, partially offset by the unfavorable currency. Sales volume was supported by a positive year-over-year change in dealer inventory as the decrease in the prior year's quarter was larger than this year's decline.

Sales in Asia Pacific decreased by 10%, mostly due to unfavorable currency impacts partially offset by stronger price realization. Lower sales volume also contributed to the decline as dealers decreased inventory during the fourth quarter compared to an increase in the prior year.

Fourth quarter profit for Construction Industries increased by 87% versus the prior year to \$1.5 billion. Price realization and higher sales volume drove the increase. Unfavorable manufacturing costs largely reflected higher material costs, unfavorable cost absorption and increased freight.

The segment's operating margin of 21.7% was an increase of 780 basis points versus last year. The margin for the quarter was better than we had expected on stronger volume, price and moderating material costs. As a reminder, the fourth quarter is usually the weakest quarter for margins in Construction Industries, but with the benefit of price realization, the reverse was true in 2022.

Turning to Slide 14. Resource Industries sales grew by 26% in the fourth quarter to \$3.4 billion. The improvement was primarily due to favorable price realization and higher sales volume. Volume increased due to the impact of changes in dealer inventories and higher sales of equipment to end users.

Dealer inventory increased more during the fourth quarter 2022 than the prior year due to the timing of customer deliveries, which includes the impact of outbound logistics delays and commissioning. Fourth quarter profit for Resource Industries increased by 110% versus the prior year to \$605 million mainly due to favorable price realization and higher sales volume. This was partially offset by higher manufacturing costs, primarily material, freight and volume-related manufacturing costs. The segment's operating margin of 17.6% was an increase of 700 basis points versus last year, strengthening versus the third quarter as we had expected.

Now on Slide 15. Energy & Transportation sales increased by 19% in the fourth quarter to \$6.8 billion with sales up across all applications. Oil and Gas sales increased by 38% due to higher sales of turbines and turbine-related services, reciprocating engines and aftermarket parts.

Power Generation sales increased by 12% as sales were higher in large reciprocating engines, supporting data center applications. Sales increased in small reciprocating engines, turbines and turbine-related services as well. Industrial sales rose by 19% with strength across all regions. Finally, Transportation sales increased by 6%, benefited from marine applications and reciprocating engine aftermarket parts. Rail services were offset by lower deliveries of locomotives.

Fourth quarter profit for Energy & Transportation increased by 72% versus the prior year to \$1.2 billion. The improvement was primarily due to higher sales volume and favorable price realization. Higher manufacturing and SG&A and R&D costs acted as a partial

offset. Manufacturing cost increases largely reflected higher material costs and volume-related manufacturing costs.

SG&A and R&D expenses increased due to investments aligned with our strategic initiatives, including electrification and services growth. The segment's operating margin of 17.3% was an increase of 530 basis points versus last year, strengthening versus the third quarter as we had expected.

Moving to Slide 16. Financial Products revenue increased by 10% to \$853 million, benefited by higher average financing rates across all regions. Segment profit decreased by 24% to \$189 million. The profit decrease was mainly due to a higher provision for credit losses at Cat Financial and an unfavorable impact from equity securities in insurance services.

The increase in provisions reflects changes in general economic factors rather than company-specific economic factors. Despite these changes, our leading indicators remain strong. Past dues were 1.89% compared with 1.95% at the end of the fourth quarter of 2021. Also, this was an 11 basis point decrease in past dues compared to the third quarter of 2022.

Retail new business volume declined versus the prior year but remained steady compared to the third quarter. As I mentioned last quarter, Cat Financial is not seeing slowing business activity but continues to see strong competition from banks due to higher interest rates and more customers willing to pay cash for their machines. Used equipment demand remains strong with inventories at historically low levels. We continue to see high conversion rates as well, as customers should choose to buy at the end of the lease term.

Now on Slide 17. ME&T free cash flow in the quarter increased by about \$1.2 billion versus the prior year to \$3 billion. The increase was primarily due to higher profit. On working capital, our inventory decreased by about \$600 million in the quarter. Improved availability of some components benefited shipments as we decreased our work in process inventory. We also saw strong shipments of solar turbines in the quarter.

We repurchased about \$900 million of common stock in the quarter and paid around \$600 million in dividends. As Jim mentioned, we generated \$5.8 billion in ME&T free cash flow for the year, inclusive of CapEx of about \$1.3 billion.

We are pleased with the strong free cash flow we generated in a year where we paid \$1.3 billion in short-term incentive compensation and increased our inventories by over \$2 billion. Our liquidity remains strong with an enterprise cash balance of \$7 billion and another \$1.5 billion in slightly longer-dated liquid marketable securities, which generate improved yields on that cash.

Now on Slide 18, I'll share some high-level assumptions for the full year, followed by the first quarter. As we begin 2023, demand remains constructive, given the strong order

backlog and improving supply chain dynamics, although we do not expect the benefit of a dealer inventory tailwind like we saw last year.

As a reminder, dealer inventory rose by \$2.4 billion in 2022. Around 40% of the increase relates to Construction Industries with the balance reflecting the timing of deliveries to customers in Resource Industries and Energy & Transportation. As Jim mentioned, over 70% of the combined dealer inventory in Resource Industries and Energy & Transportation is supported by customer orders.

For the full-year 2023, we anticipate increased sales supported by price realization. Although we expect stronger sales to users in 2023, the headwind from the \$2.4 billion dealer inventory build in 2022 will moderate volume growth.

Our planning assumption is that we do not expect a significant change in dealer inventory by the end of the year. We do expect service sales momentum to continue after reaching \$22 billion in 2022. From a sales seasonality perspective, we expect a more typical year with lighter first quarter for total sales.

For the full year, we expect our adjusted operating profit to increase reflecting higher sales, and we expect to be within an updated adjusted operating profit margin ranges. Pricing actions from 2022 will continue to roll into 2023, and we will evaluate future actions as appropriate to offset inflationary pressures. We currently expect to see a moderation of input cost inflation as the year progresses, and therefore, a corresponding moderation and price realization as we move through the year. Price though should still more than offset manufacturing costs for the year.

Increases in SG&A and R&D expenses are expected to exceed the benefit of lower short-term incentive compensation expense this year as we continue to invest in strategic initiatives such as services growth and technology, including digital, electrification and autonomy.

Below operating profit, we anticipate a headwind of approximately just over \$300 million dollars, or about \$80 million per quarter, in other income (expense) at the corporate level related to pension expense, due to higher interest costs given higher interest rates. This is a non-cash item.

For the full year of 2022, the strengthening of the U.S. dollar acted as a tailwind of \$189 million relating to the ME&T balance sheet translation impact that I spoke about earlier. This would not reoccur if the weakening we've seen in rates thus far continues. Based on current rates, we'd see a headwind of around \$80 million in the first quarter.

Remember that 2022 was not a typical year for us, as margins increased sequentially through the year as the benefit of price realization was stronger in the second half of the year. Also, manufacturing volumes were impacted by supply chain issues which did impact absorption rates from quarter to quarter. These factors will mean we do not expect to return to our normal seasonal margin patterns in 2023.

Moving on, we expect to achieve our ME&T free cash flow target of \$4 billion to \$8 billion for the year, with CapEx in the range of about \$1.5 billion. We'll have about a \$1.4 billion cash outflow in the first quarter related to the payout of last year's incentive compensation, slightly higher than we saw in the first quarter of 2022.

We anticipate restructuring expenses of around \$700 million this year, the majority of which is related to the Longwall divestiture charge that I mentioned earlier. Finally, we anticipate a global effective tax rate of 23%, excluding discrete items.

Now onto our assumptions for the first quarter. In the first quarter compared to the prior year, we expect sales to increase on price and slightly stronger volume, reflecting higher sales to users.

With regard to seasonal inventory, we expect a typical seasonal build in the first quarter of this year. As a reminder, dealers increased inventories by \$1.3 billion in the first quarter of 2022, and we expect a lower build in the first quarter of 2023. Sales should increase across the 3 primary segments in the first quarter versus the prior year. Compared to the fourth quarter, we anticipate lower sales in the first quarter at the enterprise level following our typical seasonal pattern. We expect lower sales sequentially in each of our 3 primary segments as well.

To provide some color, Construction Industries is following an abnormally strong fourth quarter, where shipments exceeded our expectations. Resource Industries had a strong fourth quarter with its highest quarterly shipments since 2012 and expects lower sequential sales in the first quarter due to the timing of shipments, which, as you know, can be lumpy. Energy & Transportation sales should be sequentially lower as well, following normal seasonable patterns. Keep in mind that Solar Turbines had a strong fourth quarter.

Specific to the first quarter versus the prior year, keep in mind that the first quarter margins last year were very low. We expect substantially stronger enterprise and segment margins in the first quarter on favorable price and volume. Price realization should more than offset manufacturing costs at both the enterprise and primary segment levels as well. Also, we could see headwinds related to pension and currency below operating profit, as I just mentioned.

Compared to the fourth quarter of 2022, we expect adjusted operating profit margins to be flattish to down for the first quarter of the year at the enterprise level. Keep in mind that our fourth quarter of 2022 adjusted operating profit margins were our highest quarterly margins ever.

By segment, in Construction Industries, we normally see higher margins in the first quarter. However, coming off a very strong fourth quarter, we expect lower volume to weigh on margins sequentially. This is the business which usually drives enterprise-wide sequential margin improvement from the fourth quarter to the first.

Similarly, lower volumes should drive sequentially low margins in Resource Industries. And in Energy & Transportation, we expect lower margins sequentially following a strong fourth quarter, which is the normal pattern for this business.

Turning to Slide 19. Let me summarize. Sales grew by 20%, led by strong price realization and volume gains across the 3 primary segments. The adjusted operating profit margin increased by 560 basis points to 17%. ME&T free cash flow was strong at \$3 billion for the quarter, and we continue to return cash to shareholders on a consistent basis.

Service revenues were \$22 billion for the full year, a 17% increase as momentum built in 2022. The outlook remains positive with improving supply chain dynamics and the backlog up around \$400 million to over \$30 billion. We've updated our adjusted operating profit margin targets curve to account for the impact of inflation on sales and costs, and we expect our 2023 adjusted operating profit margins to be within our updated range.

Despite the inflationary impact on sales and costs, our expectations for profit and cash flow generation have not changed, and we will continue to execute our strategy for long-term profitable growth.

I want to confirm that our full-year 2022 restructuring costs were about \$300 million for the year. So apologies if we made an error in the call. Now with that, now I'll hand over to questions.

QUESTIONS AND ANSWERS

Operator[^] (Operator Instructions) Your first question comes from the line of Mig Dobre with Baird.

Mircea Dobre[^] Just wanted to -- I appreciate all the color on dealer inventories. I guess, it looks to me like about \$1 billion of the build is in construction. A good chunk of that is in North America. And retail sales here have been, call it, flattish over the past 3 quarters or so. So I guess I'm curious, as you think about Q1 and you think about that seasonal inventory build, where do you expect that to occur? Is the channel stocked enough in North America construction? And how comfortable are you with dealers actually being able to put through this inventory to end users in 2023?

James Umpleby[^] We typically see an increase ahead of the spring selling season. So that's why we think it will be a traditional kind of increase. Again, we've talked about what we see happening in the various markets, again, the strength in infrastructure, which is 75% of CI, some moderation in residential in North America, as we discussed. But again, North America has really been our most constrained region.

So we're pleased to see healthier dealer inventories in North America. And we're now in that typical range of 3 to 4 months. And again, we talked about the fact that RI and E&T typically don't hold a lot of dealer inventory. Hoping to get an order. Over 70% of the year-end dealer inventory for RI and E&T is tied to customer orders. So again, I hope that helps.

Operator^ Your next question comes from the line of Rob Wertheimer with Melius Research.

Robert Wertheimer^ I'm going to ask about turbines within E&T. Obviously, the global energy mix is shifting on that gas to Russia and so forth. Are you able to say the orders have been strong, I assume, related partly to that -- is the solution sort of already in the pipeline for Solar? Or are there a lot of projects underway and/or under consideration? Do you expect to keep that segment elevated for the next several years?

James Umpleby^ Well, it's -- Rob, it's always tough to make a multiyear prediction, but I will say that orders or order rates are quite strong for Solar, as is quotation activity. And of course, Solar is very involved in that natural gas value chain, compressing a lot of gas to LNG facilities for export around the world.

There has been an underinvestment, I'd argue, in oil and gas over the last few years, and that is starting to be reversed now, and that has a positive impact on both our Cat Oil and Gas business and our Solar business. So again, very difficult always to make a multi-year projection, not knowing what's happening in the economy.

But based on what we see today, business is quite strong for Solar, both on the services side and on the new equipment side. And one of the things we have seen, there was -- for a while there, after the decline in oil prices, a few years ago, we saw a decline in international projects. That's picked up for Solar. So we're seeing more international projects. We're also seeing strength in North American gas compression for solar as well.

Operator^ Your next question comes from the line of Jamie Cook with Credit Suisse.

Jamie Cook^ I guess my question, can you talk for 2023 where is there opportunity to put through incremental price and where you see deflation? And the question just comes from Jim, just the incremental margins that you put up in the fourth quarter were fairly impressive. So I'm just wondering how big sort of the price-cost tailwind can be in 2023 with the strong pricing actions and supply chain easing and potentially deflation in some areas?

James Umpleby^ Well, Jamie, we always -- certainly, when we think about price actions, we take a number of things into account. Certainly, we take into account the increases from our suppliers in cost. We also, of course, pay very close attention to competitive market and always striving to provide more value to our customers.

So it's difficult for us to make a prediction as to what will happen, we demonstrated the ability to pass along price when we need to because of inflationary factors. But again, we always keep competition in mind as well. So again, pleased at how we're doing so far and the way we're managing that balance.

Andrew Bonfield^ Yes. And as I think we've said from our planning assumptions perspective, obviously, there was some carryover price impacting us in -- particularly in the first half of the year. As we expect to go through the year, we expect that benefit of price to moderate in the second half, but also we expect the increases in manufacturing costs to continue to moderate as we go through the year. So -- but obviously, that's a planning assumption. And as always the case, that is predicated on the assumption that -- inflation does moderate. And as Jim said, we'll obviously keep an eye open on that and take pricing actions accordingly.

Operator^ Your next question comes from the line of Jerry Revich with Goldman Sachs.

Jerry Revich^ Yes, I'm wondering if you just talk about your production plan in Construction Industries and what are you folks looking for in terms of the decision to potentially curtail production if we do continue to see dealer inventory builds ahead of expectations. Just if you could just touch on the key indicators that you're looking at and how can we gradually affect the production slowdown if that's indeed what we need to do over the course of '23.

James Umpleby^ Thanks, Jerry. And certainly, again, we obviously pay very close attention to what's happening in the marketplace. We pay attention to STUs. Dealers are independent businesses to make their own decisions about inventory. But certainly, we do work with them. And the last thing we want to do is to have too much inventory in the channel as it occurs today, as we mentioned earlier, we're now back in our normal typical range, and still -- we still have many dealers that would like more equipment from us to support customer orders.

So we talked about the fact that non-resi is 75% of construction industries, and it is still quite robust and strong, and we expect it to grow. We had some moderation in residential. But again, 75% is non-resi. So again, as we always do, we'll pay close attention to the market, and we'll modify our production plans as appropriate. But there are still some products that we want -- we need to produce more of, quite frankly, and we're still dealing with some supply chain issues in some areas.

So again it's not a one-size-fits-all answer. We talked about the fact that China is slow, and we'll continue -- we expect it to continue to be slow, below 2022 levels. But in many areas, demand is quite still quite strong.

Operator^ Your next question comes from the line of David Raso with Evercore.

David Raso^ My question relates to the first quarter guidance. Normal seasonality on sales, EBIT margins usually go up a couple of hundred basis points. I mean, that's sort of

a \$4.50 EPS number. What you're implying is a little closer to \$4.00. The margins in particular, you mentioned pension.

And I know CI is at a high level. So the comp is tough sequentially. But on price-cost, what are you assuming on price cost first quarter versus fourth quarter? If you could just give us some color. It's just to see the margins flat to down sequentially, even with the tough comp is a bit unique. And just if you could help us flesh out some of the price-cost.

Andrew Bonfield^ Yes. David, great question and part of the reason why I highlighted that CI margins were actually very, high in the fourth quarter. Part of that was because normally in the fourth quarter, you don't see a dealer inventory build as big as we did see in the fourth quarter. That did help overall CI margins come in a little bit better than we expected as well. Obviously, what that does mean is we normally get a 200 to 300 basis point bump in the first quarter based on production and ramping of production. Obviously, those production rates aren't quite the same as they would normally be fourth quarter to first quarter because obviously, we're looking at a very different profile, particularly given that, obviously, we were building production through 2022, particularly in CI. So that is the biggest challenge, and that's probably the biggest single factor, which will drive margins sequentially lower.

On price-cost, we still expect strong price in Q1. It will not be as big as Q4 for the simple reason we are lapping price increases that we put through at the beginning of 2022. So that will be coming down slightly, but we do expect price-cost to be favorable for the first half of the year.

Again, that's just going to create a little bit of noise in the margin structure quarter-on-quarter. Unfortunately, we are not going to go back to the normal higher margins in Q1, lower margins in Q4, which you guys are going to be able to model is going to still be a little bit different as we go through 2023. Obviously, 2022 was the opposite.

Operator^ Your next question comes from the line of Tami Zakaria with JPMorgan.

Tami Zakaria^ So I'm trying to understand the volume commentary for this year. Since you expect sales to end users to be stronger this year versus last year but you don't expect dealer inventory restocking benefit, does that mean dealer inventory could actually decline again from current levels to support the stronger sales to end users?

Andrew Bonfield^ No. Our assumption at the moment, Tami -- and thanks for the question, is -- at the moment, planning assumption, as is always the case, dealer inventories will be flattish for the year, and should not increase or decrease. Effectively, what that does mean, though, is obviously the headwind exists from our shipments on the \$2.4 billion of dealer inventory that got built in 2022.

I remind you, a big chunk of that around about 70% is in E&T and in RI, which is related to customer orders, which will be -- fall through into our sales to end users in due course. But overall, we expect, again, sales to users to be up year-over-year. And that will -- and

the dealer inventory headwind will moderate that level of increase, the volume that we will see in our shipments, as I said in my remarks.

Operator^ Your next question comes from the line of Mike Feniger with Bank of America.

Michael Feniger^ Just following up on the Solar comment in the Oil and Gas portfolio. E&T was a dominant driver of earnings 7 to 8 years ago with leading margins for Cat. It's one of the only segments you're not getting that double-digit pricing right now. It's lagged the others. Do you see room for that to pick up following this reversal of underinvestment the last few years? And is there anything structurally keeping Cat from returning to those prior peak margins in E&T?

James Umpleby^ Thanks for the question. So you may recall that we put through price increases later in E&T than we did with machines just based on the market dynamics that existed at the time. So having said that, as I mentioned, particularly in Oil and Gas and Power Generation, market is quite strong, and we expect our volumes certainly in Oil and Gas to increase. And we're dealing with kind of Oil and Gas still some supply chain challenges. And so we're dealing with that. That factor was a ramp-up.

Solar is, again, I mentioned earlier, a very strong fourth quarter but still very robust order rates coming in and a lot of quotation activity. So again, we do expect E&T to improve in 2023. And I won't try to compare it to where they were a few years ago. I mean to say that the business is strong and improving.

Operator^ Your next question comes from the line of Nicole DeBlase with Deutsche Bank.

Nicole DeBlase^ I just wanted to dig into the manufacturing cost side of the price-cost equation. It sounds to me, reading through the comments you made in response to an earlier question, that you still expect manufacturing costs to be a headwind year-on-year in 2023. Can you just kind of talk through the big components of that materials versus freight and why we shouldn't expect at some point in 2023 for manufacturing costs to become a tailwind.

Andrew Bonfield^ Yes. So I mean there's a couple of factors, obviously, to come into that. Material costs will still be a headwind, we expect. Some of that is material cost inflation that we're still seeing through this year. Some of that material cost inflation is not just necessarily commodity costs. Some of it will be labor costs and some of it will include energy costs. So all of those factors, we are anticipating, will moderate as we go through the year. We are starting to see signs of lower levels of requests for price increases coming from suppliers.

So that's a positive sign. And hopefully, as things unwind through the year, some of that will moderate. Again, we have not -- in our planning assumptions, we based our pricing actions on what we're assuming from a manufacturing cost perspective, and obviously,

we'll take action as appropriate, if we need to, if there are great increases and we're currently expecting in manufacturing for 2023.

Operator^ Your next question comes from the line of Chad Dillard with Bernstein.

Charles Dillard^ So in China, I know you mentioned that you're expecting levels to be below '22, at least on the end market perspective. But maybe you could talk about -- just like what you're seeing in like your -- in the channel from an inventory perspective relative to, I guess, normalized levels. And then how should we think about the business now that you have the GX series for a full China cycle?

James Umpleby^ Again, just to reiterate, we had a couple of really strong years in China in 2020-'21, and we saw softening in '22. And again, we don't see signs of improvement at this point. We continue to invest in new products to try to maintain our competitiveness with new products.

So that's continuing, and we've been pleased with the response to those new products, including the GX. But that above 10-ton excavator market, we do expect to be weaker in 2023 than it was in 2022. And inventory in the fourth quarter versus the build in the prior year is lower.

Andrew Bonfield^ Yes. So we actually had a reduction in dealer inventory in Asia Pac this year in CI versus the build in the previous year.

Operator^ Your next question comes from the line of Tim Thein with Citi.

Timothy Thein^ Yes. Jim, maybe just a follow-up on the -- just mining outlook within RI. I get the point about the miners being capital disciplined, which has been in place for some time but just on the back of what appears to be strong results and outlook from a competitor in Asia overnight. Maybe just say a bit more about kind of the outlook and your views on the mining piece of RI for '23.

James Umpleby^ Yes. Thank you, Tim. We've been talking for a number of years in our earnings call about what we expected in the mining industry, which was a moderate growth year-on-year and -- as opposed to what we saw going back, thinking about 10 or 12 or 15 years ago, where we saw some wild cycles up and down. And really, I believe that's a function of our mining customers remaining capital disciplined. And that's a very positive thing, I think, for them and for us.

And what we've been saying for a number of years now in our earnings calls is that we expect a year-over-year moderate increase, and that's exactly the way it's playing out. So we're very encouraged by our quotation activity with customers, the conversations that are going on. We have a strong backlog, which we feel good about. Parked trucks remain at low levels. There's high utilization of equipment, and customers make decisions on a whole variety of factors as to whether or not they're going to rebuild or they're going to buy new trucks, and we benefit from either one of those things.

We're very encouraged by our autonomous solution, and we firmly believe we have the best solution in the industry, and that's being demonstrated by the decision -- the purchasing decisions that our customers are making. And as a reminder, of course, RI also includes quarry and aggregates, which the trends there are positive as well.

A lot of that is driven by infrastructure spending and anticipated infrastructure spending. So again, we feel good about the mining business. And again, quotation activity is very strong, and we're having very good conversations with customers.

Operator^ Your next question comes from the line of Matt Elkott with Cowen.

Matthew Elkott^ I was hoping you guys can provide us with some more insight into the strength you're seeing in the Middle East. And related to that, but longer term, Saudi Arabia has big plans in both construction and, more recently, mining. Are there any meaningful incremental opportunities for you guys there?

James Umpleby^ And I believe we mentioned in our prepared remarks that EAME, which is Europe, Africa and the Middle East is expected to be about flat. And we said that strength in the Middle East is offsetting some uncertainty in Europe. So certainly, when oil prices are elevated, that tends to provide the investment capabilities for customers in the Middle East, whether it's for oil and gas business or for construction. So again, it is certainly a bright spot and a positive one and one that we feel will continue through 2023.

Operator^ Your next question comes from the line of Steve Fisher with UBS.

Steven Fisher^ I'm just curious what was different about the supply chain in construction, which sounds like it was pretty smooth versus E&T and resource, which sounded like are still a little challenging. Is it just still the randomness that's out there? And then last quarter, you talked about some of the manufacturing inefficiencies due to supply chain. Just curious how that played out in Q4. And what do you expect for that in '23?

James Umpleby^ Yes. Thanks, Steve. And then, certainly, we have a diverse group of suppliers and a diverse product line, and we did see some improvement in the quarter, but there are still some areas of strength. And just -- we think -- and it's very different product by product.

And even though you'll see a number of suppliers in better shape, all it takes is one component to prevent you from shipping an engine or machine. And part of it is just the nature of the beast, I think, as to what's happening in various industries. And if we look at our large engines, it's more of a struggle, frankly, than it is with some of our construction machines at the moment. And these things ebb and flow time, but that's where we are today.

We still see some semiconductor availability challenges. I know with the higher-end chips, that's improved significantly in the industry based on industry reports. But for the semiconductors that we use, it continues to be a challenge. And so in the fourth quarter, we certainly did still experience inefficiencies associated with supply chain challenges, and that had the impact on us because we're still doing things like workarounds and it's not anywhere as smooth as it needs to be.

Andrew Bonfield^ Yes. And I think if you look out for the rest of the year, what we do expect is that obviously, we start to lap those in the second half of the year, those inefficiencies. So we should either see a moderation or actually a reversal of some of that supply chain inefficiency we saw in the second half of the year.

Operator^ Your next question comes from the line of Kristen Owen with Oppenheimer.

Kristen Owen^ Wanted to follow up on the services growth. You reported now \$22 billion, on track to meet that \$28 billion target by 2026. Can you just talk to us about some of the growth drivers in that business and maybe provide us with an update on customer value agreement take rates?

James Umpleby^ You bet. So again, we are encouraged, as I mentioned, about our progress in services. And we mentioned when we threw that target out that it wouldn't be a straight line. It wouldn't be linear. And we knew we had to make investments to make it happen. And we are continuing to invest in a whole variety of things. We've got more connected assets now, 1.4 million, up from 1.2 million last year. We're investing significantly in our e-commerce capabilities.

That's one more arguably -- I would argue, we were a bit behind, but we made great progress and very proud of what the team is doing there, and those sales are increasing. To answer your question on customer value agreements, over 60% of new equipment in 2022 was delivered with a CVA, and that's really important because it creates that customer touch point, and it gives us the ability to demonstrate that value that we can provide.

And also, we're investing heavily in AI, and we have what are called prioritized service events. So what that does is it allows us to give dealers a lead on aftermarket service and repair in advance, and it provides value to our dealers, of course, but it also provides value to our customers because it allows them to avoid unplanned downtime. So that's really positive as well.

And also, we're working on parts availability. We need to have the right part at the right place at the right time. And that's one of the benefits of having connected assets and also utilizing AI with those connected assets to ensure that we anticipate where those parts will be needed, and that's a key enabler as well.

Operator^ Your final question today comes from the line of Steve Volkmann with Jefferies.

Stephen Volkmann^ My question is on inventory. The Cat inventory on your balance sheet was up about \$2.2 billion or something roughly in '22. And I'm sure some of that was price. But is there an opportunity to sort of drive that back down as supply chains improve? Or are we in sort of a new reality where we need a little bit higher inventory because of the vagaries of all the supply chains and international trade and et cetera?

James Umpleby^ We're not running as lean as I would like us to be. And certainly, that is a consequence of the supply chain challenges we're having. And I think I mentioned in previous calls the term decommitted, one that I hadn't been familiar with until COVID hit and where suppliers at very short notice decommit and don't give us components when we need them.

And so that's created inefficiencies. It's also resulted in more inventory. So I wouldn't say it's a permanent condition. I believe as the supply chain situation improves, I do expect us to become leaner again and to be able to reduce our internal inventory.

All right. Well, thank you all for joining us. I really do appreciate your questions. Just to summarize here, I'm very proud of our global team. They delivered one of the best years we had on record. We had strong overall top-line growth. Services grew 17%. We generated strong adjusted operating profit and ME&T free cash flow in the year.

And we achieved an all-time record for adjusted profit per share. As we think about the year, we're encouraged by the strong quotation activity, our \$30 billion backlog. And as we mentioned, we believe 2023 will be an even better year than 2022 on both the top and bottom line. And we continue to remain focused on supporting our customers and executing our strategy for long-term profitable growth. Again, thank you for your questions.

Ryan Fiedler^ Thank you, Jim, Andrew and everyone who joined us today. A replay of our call will be available online later this morning. We'll also post a transcript on our Investor Relations website as soon as it's available.

You'll also find a fourth quarter results video with our CFO and an SEC filing with our sales to users data. Click on investors.caterpillar.com and then click on Financials to view those materials. If you have any questions, please reach out to Rob or me. The Investor Relations general phone number is 309 675-4549. We hope you enjoy the rest of your day. And now I'll turn it back to Emma to conclude the call.

Operator^ Thank you so much for attending today's call. You may now disconnect.