

Caterpillar

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Alex Kapper: Welcome, everyone, to the Caterpillar fireside chat at the Barclays Industrial Select Conference. I'm Alex Kapper, Vice President of Investor Relations for Caterpillar.

We just want to make a few quick reminders before we get started. Today we may make forward-looking statements, which are subject to risks and uncertainties. For a full list of the risks which may cause our actual results to vary materially, please see our SEC filings, including our 10-K which was filed just last week. We may refer to non-GAAP numbers as well, so any reconciliation to U.S. GAAP numbers, please see the appendix of our earnings presentation.

And with that, I'll hand it over to our host, Adam Seiden.

Adam Seiden: Great. Thanks so much, Alex, and thank you to the Caterpillar team for being here, both Alex, Rob and of course the star of the show today, Andrew Bonfield. The format of this session here is going to be a hybrid between a little bit of remarks from Andrew as well as some questions from myself. Like most of the presentations here and the sessions here, we do invite your participation through the gadgets that are sitting on your table when we get to the audience response questions. So, with that, Andrew, good to have you back in Miami here.

Andrew Bonfield: Thanks, Adam, and good morning, everybody. Let me just start quickly just to recap a little bit about our strategy. Just to remind you, definition of winning is to grow absolute OPACC dollars. OPACC is Operating Profit After Capital Charge. It's the center of our strategy. The purpose there actually is we believe that's got the highest correlation to [MP&E] free cash flow, which then creates total shareholder return (company clarified after the call). And if you look at our performance, since 2020, Caterpillar has generated top quartile total shareholder return, and at the same time, grown OPACC dollars by 4.1x. So, the strategy is working. That's the benefit and the effect that our shareholders are seeing through that.

In November, many of you know, we set out our new Investor Day targets. There's a couple of new ones which were there which hadn't been previously, particularly around sales and revenues, which is to grow sales and revenues between 5% and 7% on average from [2024] to 2030 (company clarified after the call). Last year, we achieved 4%, slightly underneath that goal. If you remember, the beginning of the year, we actually expected sales to be about flatish or down slightly. So actually, it was a pretty good performance and reflects the benefit of some of the merchandising programs particularly we've been doing in Construction Industries. Last year, in Construction Industries, our underlying sales to users grew by around 5% in a down market, so a strong performance

there.

We continue to deliver our [adjusted] operating profit margin within our operating margin target ranges, which I'll talk about in a moment (company clarified after the call). Last year, it was towards the bottom end, impacted by the tariffs that impacted us in 2025. Without tariffs, it would have been towards the top end of the range.

Again, we continue to focus on growing Services. Full year Services [revenues] [totalled \$24 billion in 2025] (company clarified and corrected after the call), and we are on track to deliver our target of \$30 billion by 2030.

[MP&E] free cash flow continues to be strong. We'll talk a little bit more about that in a moment (company clarified after the call). We returned about 84% of [MP&E] free cash flow to shareholders through a mixture of dividends and buybacks and grew the [quarterly] dividend by 7% last year (company clarified after the call).

These are some of our additional targets we've given to our segments. The top three relate to sales targets, which help underpin the 5% to 7% growth. The remaining targets really relate to our Digital and Technology activities, which is where a significant amount of our investment dollars are going as we move forward through the strategy and into 2030.

The adjusted operating profit margin target range has been changed. It used to be 10% to 22%. It's now 15% to 25%. We've upped the top end of the range from \$72 billion now up to \$100 billion. The pull-through at the top half of the range is exactly the same as the pull-through was at the bottom part of the range, around 31% on average. Obviously, one of the things that if you think about where we are going at the moment, we are expanding CapEx and capacity support, but you won't get quite as much operating leverage as you would have done historically at lower levels of sales and revenues. So that's part of the reason why we stuck to that range.

We've always said you cannot grow margins to infinity and beyond. It is one of those things where obviously you balance out. And that's why our real target, although the margin ranges are there for guidance, is absolute OPACC dollars because that's, again, what we believe has the strongest correlation to total shareholder return.

We continue to invest for profitable growth. CapEx this year will be around \$3.5 billion, still less than 5% of revenues. We are doubling CapEx over the next five years versus the previous five years, but still very affordable within the strength both of the balance sheet and the cash flow generation that we have. So, although we are expanding capacity, this is not a significant investment in the context of Caterpillar as a whole. We continue to invest behind Digital and Technology, things like automation, connectivity. All of those things are important as part of our strategy and will increase our investment by 2.5x between [2025] and 2030 [as compared to 2019-2024] (company corrected and clarified after the call).

This is the chart which actually is the one which I think is the real, is the money chart. It's the [MP&E] free cash flow chart (company clarified after the call). But it's one which actually shows the differentiation of Caterpillar versus many of our peers. Our [MP&E] free cash flow generation is really, really strong (company clarified after the call). Over the last three years, we've generated in excess of \$9 billion of [MP&E] free cash flow (company clarified after the call). It's the highest average of free cash flow generation in the S&P 500 industrials. We are a strong generator of cash. And that occurs even in times where, even if you look in 2020 during COVID, we still maintained positive free cash flow that year. It is one of the strengths of the company. It is one of the things, the benefits of OPACC, which has helped obviously drive that correlation to shareholder

return.

At the same time, we've grown the dividend for 32 consecutive years. We're a proud Dividend Aristocrat. Since 2019, we've grown the [annual] dividend paid on average by 7.5% (company clarified after the call). At the same time, we've also talked about the fact that we expect that to grow high-single digit increases between now and 2030. And share repurchases have been very strong. So, we've bought back since 2019. Part of the strategy was to be in the market more consistently with share buybacks. We have done that -- we've actually until last year returned 99% of [MP&E] free cash flow [from 2019 – 2024,] 84% last year (company clarified after the call). We'll do a slightly bigger ASR, accelerated share repurchase, in the first quarter than we did last year. That's a bit of a way to cover that up. But effectively, we've reduced the share count by 21% over that time period.

We don't try to time the market. We're not looking to beat the market on average. We will look at it against the VWAP, the volume weighted average price. But actually, just to give you context, the average price we've bought those shares back is actually \$226. So again, that's helped shareholder return as we go forward.

So key takeaways. Strong financial performance. We continue to invest for profitable growth, which supports our shareholder value creation as we move forward. So, with that, Adam, over to you for questions.

Adam Seiden:

Thanks, Andrew. Appreciate that overview of the company a bit and the strategy. Maybe to start off here. Lots of folks in the room here. Lots of folks talking about data center, Power Generation. And certainly I think folks appreciate what you guys bring to the table there. But maybe for those folks that are a bit newer to the Cat story and are looking at that angle, can you talk a little bit more about some of the other legs of the stool here?

Andrew Bonfield:

So, the point being, we're actually a broad-based business and a very diverse business, which is one of the things that people sometimes don't appreciate. And obviously the three [primary] segments, Construction Industries, Resource Industries, and Power and Energy now (company clarified after the call).

Within Power and Energy, it's not just a data center play. There's obviously, particularly around Oil and Gas, if you think about the demand for increased energy, that is going to require more gas. We use recip engines, which are the same recip engines you can use for data center backup generation can be used in wellhead gas compression, and that can also be used in well-servicing for actual oil exploration. Also, we have Solar turbines, which you can use in, again, powered applications, but also principally actually used in gas compression for pipelines.

So, if you think about the fact that obviously if we do need more electricity, and electricity demand is going to grow, most of that in the short to medium term is going to come from gas. If it doesn't come from gas, coal may be another option as you've seen the administration here has talked about. Again, coal benefits our Mining business, our Resource Industries business.

Resource Industries, if you think about what's happening in the world today, there's two parts of that business. There's Mining, and then there's Heavy Construction and Quarry & Aggregates. Again, a lot of infrastructure spend still going on. A lot of the IIA money is still being spent as we move out. And if you think about, again, infrastructure spend around data centers, again, that requires Heavy Construction.

Then on the Mining side, if you think about copper, gold, all of those commodities are

very strong. Iron ore and so forth are all required to build out infrastructure. And we are in a point of time where if you look at the average age of the fleet, it continues to age. Some of that reflects the fact that obviously -- sort of depends where the life of the mines are, but obviously at some stage, there will be a replacement cycle. It's been happening, but it's very, very slow. Much slower than people anticipated. That's not necessarily a bad thing, because what that does mean is you actually see a more steady progression rather than the boom-bust that we have seen in the mining cycle before.

And then on the Construction Industries side, again, if you look around the world, North American construction remains strong. Non-residential construction's been very strong. We've actually been doing particularly well actually on the smaller side of equipment, Building Construction Products, which tends to be used in residential construction. There's been some changes. And again, some of the merchandising programs we've put back in place this year have helped that particularly where we buy down interest rates for customers, which obviously is attractive if you're a small landscape gardener and you want to buy a skid steer, a lower interest rate and a fixed payment is an attractive option. That's a good way of spending our merchandising dollars because we get a lot of that back through Cat Financial later on. But also, again, still infrastructure growth.

But around the world, actually, that's been a bit mixed. Middle East has been strong. Latin America has been growing. Asia Pacific has been sort of mixed. China, very weak, and we expect some improvement this year in 2026. And Europe's been pretty weak, although we expect some improvement as we look through 2026 as well.

So again, it's a broad-based business. And then we haven't even talked in Power and Energy, [things like Rail] moving over to Resource Industries this year as well (company clarified after the call). So, there's quite a lot of activity. Again, that breadth of the portfolio helps, and also obviously the drive towards services helps reduce the amount of volatility you would see in a normal cycle.

Adam Seiden: Great. That's a great roundup. You spoke a little earlier about some of the investments that Cat's been making. How broad-based is that investment spend across Cat's portfolio these days, or is it concentrated in one area?

Andrew Bonfield: I mean, obviously, from a CapEx perspective, a lot of the capital spend is obviously going on today. A lot of the increases relating to the capacity increases we've announced for both electric power, so large engines, and also for Solar. Effectively within large engines, we're increasing our capacity by [2]x [between 2024 and 2030] (company corrected and clarified after the call).

Large engines can be used in a number of different applications. They're not just for electric power. They can also be used for Oil and Gas applications and actually are used in large mining trucks as well. So, they are multipurpose engines which we're driving. And then in Solar turbines now with the launch, effectively, of the Titan 350, which is an around 38-megawatt turbine, we are seeing a lot of interest for that, and we are [increasing capacity by 2.5x] for Solar turbines [between 2024 and 2030] (company corrected and clarified after the call). That capacity will come in over a number of years. We started seeing a little bit last year. A little bit more towards the end of 2026, particularly on the large engine side. Most of it in 2027 on the large engine side. And then Solar, probably 2028 onwards.

Adam Seiden: Got it. And you were talking about the different parts of the portfolio a minute ago. So do Construction Industries and Resource Industries get the same level of investment today versus when you first started as CFO at Cat?

Andrew Bonfield: Yeah, they do. For example, a lot of our digital investment is going on in Construction Industries. And also a lot of our technology investment is going into both Construction Industries and Resource Industries. For example, looking at the tech stack for our autonomous applications within Resource Industries is part of what we're doing to reconfigure that. For those people who don't know, Caterpillar has moved over [11 billion tonnes of material] autonomously over the years (company corrected after the call). We have over [800] mining trucks out there today operating autonomously (company corrected after the call). So again, that has been a strong part of the portfolio.

But obviously we're looking to make that even more efficient and then move that more into construction applications, which are different, much more challenging in many ways. Some of those are remote. We already have that, but obviously continue to invest to find ways, because one of the biggest pain points for many of our customers is labor, and that skilled labor is a challenge. So looking again, we did a lot of CES around technology around some of the things we're working on.

And then connectivity is really important. Connectivity is really about making sure we know what the machine is doing, where it is. We can actually help customers maintain or increase their uptime. That is really important for our customer base. Remember, in construction, if you think about it, a lot of the activity works in series, not in parallel. So, you have to have your piece of equipment ready, available at that point in time when you're ready to do, for example, soil compaction. You may have moved dirt, but now you want to do soil compaction. If the machine doesn't work at that point in time, you actually lose time when you're constructing your job. So, it's really important to be able to have machine uptime. Connectivity helps that by actually enabling us to help people with things like fault codes. And then AI as well, applications on top of that, to actually help customers maintain or improve their uptime, maintain the serviceability of their equipment.

Adam Seiden: Great. So when we think through the backlog a bit, you guys talk through I guess AIP (American Independent Power), actually. It's one of the largest Power Generation orders ever for Cat. And that seems to come on top of what was already, what, about \$10 billion-plus in backlog growth this quarter. Could you talk a little bit about the size of AIP? And then maybe for compare and contrast, if not dollars but size-wise, how does it compare versus the Joule and Hunt announcements earlier?

Andrew Bonfield: It's about [two] gigawatts of power that's being applied there, obviously (company corrected after the call). So, it is smaller than the Joule size. But again, it's just a reflection of the fact that these are significant opportunities for us.

If you're a data center today and you're looking for a grid connection, you know often that is now under scrutiny. All the reports going on about how data centers are struggling, particularly given the pressure it's putting on customer bills. Having worked in a utility before, I know how much fun it is trying to go to the regulator to get a bill increase. And to build out infrastructure is not easy. So, there's a cost to doing that for a data center, and there's also a time issue. Either getting a grid connection can take many years, and/or also you may be in a situation where you're waiting for a newer power station, and you're waiting for a GE Vernova turbine for 2029, 2030 before you can see one.

So, it means that the people are looking for other options. And one of the benefits of both smaller turbines and recip is availability compared to other options that are out there. So that's really been a driver, and AIP is exactly that sort of wave. You're sitting there as a data center provider, and you're going to be told it's three years before you can start generating revenue. Or there's an option to use other options. From a time, value and money perspective, that may actually drive you to look at, say, Cat as a way of actually

closing the gap.

Adam Seiden: And with AIP and some of the other order momentum that you've seen in the business, I guess, is there a good way to think about how backlogs grow in 2026 or maybe Q1, just given the size of that?

Andrew Bonfield: What I would say to you is that obviously, normally within that business, you would see in Construction Industries and Resource Industries an increase in backlog normally in the fourth quarter. That would be normal because ahead of the summer selling season, those are shorter lead times, so they tend to work through. So, you will see some of that work through a little bit in the first quarter for Construction Industries. So that would be a normal, seasonable pattern.

Obviously, normally in Power and Energy, a lot of, particularly things like Solar, tend to be orders which tend to get delivered towards the end of the year, given the packaging required around the turbine. Again, that tends to mean, particularly in Solar, you tend to have a buildup of backlog as you go through the year.

Obviously, it's really around what orders can we take, what slots can we fill. If you saw historically, [at the enterprise level,] we normally have been able to provide around 70%-plus of orders within one year (company clarified after the call). Currently, we're running at 62%. So again, slots are becoming more difficult to get, and so there may be people putting out backlog orders later this quarter. AIP will be one which potentially will flow through into the first quarter.

Adam Seiden: And on those orders in the backlog that you spoke to, how are those set up in terms of are there framework agreements, inflationary indices that they're set to? And what are those prices benchmarked to?

Andrew Bonfield: In a number of the longer term contracts, you have an escalator in there, which may be an index or may be related to future price increases. Again, it's a contract-by-contract basis that is negotiated. Obviously most of the backlog [does not have price protection] in it, because obviously that's really important particularly as you get to longer lead time items (company corrected after the call).

Adam Seiden: You mentioned merchandising programs as well paid off certainly for Cat quite significantly. So now sitting here in the first couple months here in 2026, what has been some of the feedback from dealers on that program from last year and how that's played out and what's the expectation set for this year?

Andrew Bonfield: Again, as I mentioned, one of the great things last year was we actually saw [Construction Industries'] end user sales grow by 5% in the market in an industry that was generally flat to down last year (company clarified after the call). And part of that is the success of those merchandising programs. If I look in Cat Financial, for example, the proportion of the customer machines we finance actually went up quite significantly last year. And part of that, again, also reflects the fact that the merchandising programs were seen as a success.

Obviously for large customers, they have their own sources of finance. They don't necessarily always come to us. Some of them do because of the optionality. But obviously for a small retail customer, it's a really good option, particularly if you give a low-single digit interest rate for a 5-year. That obviously helps their cash flows. And that's why, particularly within the small equipment, we actually saw a significant pickup of merchandising from that, which is good.

The aim is to continue to put those programs, keep those programs in place. If you think about what happened during the post-COVID era, we probably took them down a little bit, which helped price, because obviously that fed through into better price. Obviously, for the last 18 months, we've been taking that down, price down, in order to put that back. But it gives us a better balance and a better competitive situation.

Remember always from a Cat perspective, our brand promise is around the lowest total cost of ownership. Our price premium may be higher upfront, but it's about quality, productivity and actually –“built-to-be-rebuilt” is part of our mantra as well, which means the machine life tends to be longer. So that actually reduces your total cost of ownership. Again, having those things all are important. And then obviously offering finance, particularly to smaller customers who'd rather have a Cat skid steer than another brand.

Adam Seiden: I know a lot of folks in the audience tend to have questions on inventories. So maybe just thinking the business, if you think over the last couple of years, the business does feel a bit more comfortable running a bit higher than historical average dealer inventories. I don't know if you'd push back on that or not. Is that fair? And then I guess more of the bigger question that I'm after is, does that change the destock-restock dynamic that we've seen in prior cycles?

Andrew Bonfield: Yeah, I would push back a little bit because I think dealers tend to think about the average of three to four months as their sort of level of inventory, and we're still within that sort of normal range. There may be areas where we actually look within, but again, that's a machine, and we have a large portfolio of machines, and not every machine's the same. And one of the areas where we might want to actually build inventory over time is, say, having some more small equipment on the yard rather than just always having large excavators and big bulldozers because then that's a higher, faster-moving piece of equipment. So there's things we tend to look at. Again, we talk to the market about it as if it's one number. And it's [around] 150 dealers around the world (company clarified after the call). Probably they have 90 pieces of different type of equipment that they may be stocking on the yard. It's complex.

But I think what we are trying to do is work closer with our dealers to make sure we never get into an excess inventory position. I think that would be the way I would frame it. Because obviously, excess inventory does create an issue where it causes us production issues because you're having to slow down the factories. And then it also causes them to have issues on their end as well on clearing their inventory out. So, it's better for us to actually help work with them. They are independent businesses. They make their own decisions, but we try to work with them to make sure we don't end up in a situation where we have been in the past. I mean, that was back in the 2012 era. Yes, we're trying to avoid those sorts of issues.

Adam Seiden: Well, I appreciate you took the inventory number from being one number to two numbers, so at least we get a little bit of a balance there. Thinking through other topical stuff like tariffs. What country-specific relationships should we be paying attention to? It feels like every day or week or so we see another country in the headlines about a potential deal or not, India being one of them most recently. And then thinking about the other side of that, how large is that basket of mitigation measures available to Cat on some of this stuff?

Andrew Bonfield: So what we always remember is Cat is a net exporter out of the U.S. The administration is trying to encourage to manufacture more in the U.S. than it produces elsewhere. But obviously, we are a relatively low volume producer. There are places where we have centers of excellence for individual products.

There's two parts to the tariffs. Obviously, there's the 232s, which relate to steel and aluminum, which are very different from, say, the IEEPA tariffs, which are a little bit more broad-based, country specific. There's some of the challenge around some of the IEEPA tariffs. We have seen those fluctuate and we'll continue to see those fluctuate.

I'm not going to go country specific about which ones are bigger, but we keep a very close eye on things. Obviously, India, as you say, has reduced the tariff. And we'll update what we think that impact of that will be when we report our first quarter results at the end of April. But if it was material enough, we would come out, as we did last August, with a statement about what we would update the impact if it became material. But at that stage, India's not that material in the context of the total.

On the mitigation side, it's around looking at sourcing changes. It's looking at about making sure you maximize the use of where there are exemptions or there are duty drawbacks and things like that that you can use. Obviously, we've been trying to avoid doing too many sourcing changes straightaway, because that is one thing which, you don't want to do something and then find out six months later the tariff has gone down and then you regret the action. So, we've been very mindful about doing that. But overall, as we say over time, our intent is to mitigate the impact of tariffs and to be around the midpoint of the margin target range. This year, we've still got a little bit of a way to go.

Adam Seiden: Got it. And just a really quick one first before we get to audience responses is going to be just on the capacity ramp. I think you gave a little bit of a progression earlier to tell us how you think things will be through. So just what's assumed in your guidance for 2026 for the capacity ramp and Power Generation?

Andrew Bonfield: We've got some growth in Power and Energy. We haven't specifically gone by capacity from that perspective, but we should see some capacity come online. Obviously, working really hard to see if we can bring it on a little bit faster. That will always be a part of it. This year is probably going to be our peak CapEx number. 2026 and 2027 are probably going to be the peak years for CapEx, \$3.5 [billion] this year (company clarified after the call). Somewhere around that, maybe slightly lower next year as we get into 2027. But that was sort of our expectation, 2026 and 2027 will be peak years.

Adam Seiden: Fantastic. If we could just switch to the audience response questions here first. All right. So, when the timer goes on, that's when to respond. Do you currently own the stock? Yes, overweight, market weight, underweight, or no? Timer, please.

Alex Kapper: I know the answer here.

Adam Seiden: Oh, okay. Lots of dry powder. About half the room says no.

Next question. What is your general bias towards the stock right now: positive, negative, or neutral? About half the room, a little over half the room says positive.

Next question, please. In your opinion, through-cycle EPS for Cat will be above peers, in line or below peers. All right. About two-thirds of the room above peers.

Next question, please. In your opinion, what should Cat do with excess cash: bolt-on M&A, large M&A, repos, divvies, debt pay down, or internal investment? It looks like we touched on a bunch of these already. Do you agree? Buy back shares, Andrew.

Andrew Bonfield: Yep.

Adam Seiden: Next question, and the last one. And this one's not going to be a good one for this room. In your opinion, on what multiple of 2026 earnings should Cat trade: less than 10x, all the way above, higher than 21x? You guys can mess with us here. All right. I'm going to throw that one out, but I led the witness. All right.

So maybe just, Andrew, just to pass back to you, anything you'd want to wrap up with here?

Andrew Bonfield: No, just obviously this is an incredibly exciting time to be at Caterpillar. There's lots of opportunity. Our focus is, again, still continuing to drive strong total shareholder return. We're very pleased with the returns we've been able to drive for shareholders. But that is obviously part of the strategy is to continue to do that going forward. That's the most important thing.

Adam Seiden: Excellent. Well, please join me in thanking Andrew, Rob and Alex for coming here.