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# CATERPILLAR INC.

1Q 2024 Earnings

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## CORPORATE SPEAKERS:

**Ryan Fiedler**

*Caterpillar Inc.; Vice President of Investor Relations*

**Jim Umpleby**

*Caterpillar Inc.; Chairman and Chief Executive Officer*

**Andrew Bonfield**

*Caterpillar Inc.; Chief Financial Officer*

## PARTICIPANTS:

**Tami Zakaria**

*JPMorgan; Analyst*

**Michael Feniger**

*Bank of America; Analyst*

**Jamie Cook**

*Truist Securities; Analyst*

**David Raso**

*Evercore ISI; Analyst*

**Rob Wertheimer**

*Melius Research; Analyst*

**Chad Dillard**

*Bernstein; Analyst*

**Jerry Revich**

*Goldman Sachs; Analyst*

**Stephen Volkmann**

*Jefferies; Analyst*

**Mircea Dobre**

*Baird; Analyst*

**Angel Castillo**

*Morgan Stanley; Analyst*

**Kristen Owen**

*Oppenheimer; Analyst*

**Nicole DeBlase**

*Deutsche Bank; Analyst*

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### **PRESENTATION:**

Operator^ Welcome to the first quarter 2024 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^ Thanks, Audra. Good morning, everyone. Welcome to Caterpillar's first quarter of 2024 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 Director of IR. During our call we'll be discussing the first quarter earnings release we issued earlier today. You can find our slides, the news release and a webcast recap at [investors.caterpillar.com](https://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 the 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. Now I'll turn the call over to our Chairman and CEO, Jim Umpleby.

Jim Umpleby^ Thanks, Ryan. Good morning, everyone. Thank you for joining us. I'd like to start by thanking our global team for delivering another strong quarter, including higher adjusted operating profit margin, record adjusted profit per share and strong ME&T free cash flow. Our strong balance sheet and ME&T free cash flow allowed us to deploy a record \$5.1 billion of cash for share repurchases and dividends in the first quarter.

Our results reflect a continuation of healthy demand for our products and services across most of our end markets. We remain focused on executing our strategy and continue to invest for long-term profitable growth. I'll begin with my perspectives about our performance in the quarter. I'll then provide some insights about our end markets, followed by an update on our sustainability journey. It was another strong quarter. Sales and revenues were about flat in the

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quarter versus last year, broadly in line with our expectations. Services revenues increased in the quarter.

Our adjusted operating profit increased by 5% to \$3.5 billion. Adjusted operating profit margin was slightly better than we expected and improved to 22.2%, up 110 basis points versus last year. We achieved record adjusted profit per share of \$5.60, up 14%. We also generated strong ME&T free cash flow in the quarter of \$1.3 billion. In addition, our backlog increased to \$27.9 billion, up \$400 million versus the fourth quarter of 2023.

We continue to expect 2024 sales and revenues to be broadly similar to the record 2023 level. We have revised our full year 2024 segment expectations to reflect a slightly stronger top line in Energy & Transportation, offset by softening in the European market for Construction Industries. We anticipate services to be higher in 2024 as we strive to achieve our 2026 target of \$28 billion. For the year, we continue to expect adjusted operating profit margin and ME&T free cash flow to be in the top half of our target ranges. Turning to Slide 4.

In the first quarter of 2024, sales and revenues remained about flat at \$15.8 billion. Compared to our expectations, sales volume was slightly lower, while price realization, including geographic mix, was better than we anticipated. Compared to the first quarter of 2023, overall sales to users decreased 5%. This was slightly lower than we expected, mainly due to weakness in Europe for Construction Industries. Energy & Transportation continued to show strength, where sales to users increased 9%. For machines, which includes Construction Industries and Resource Industries, sales to users declined by 9%.

Focusing on Construction Industries, sales to users were down 5%. In North America, our largest geographic region for Construction Industries, sales to users increased as expected and demand remained healthy for both non-residential and residential construction. Construction projects, as well as government-related infrastructure, continue to benefit non-residential demand. Although residential sales to users in North America were down slightly, demand for new housing remains strong. Sales to users declined in EAME, primarily due to weakness in Europe, related to residential construction and economic conditions. Latin America and Asia Pacific sales to users also saw some declines.

In Resource Industries, sales to users declined 17% in the first quarter compared to a very strong first quarter in 2023. Mining, as well as Heavy Construction and Quarry and Aggregates were lower mainly due to softness in off-highway and articulated trucks that we mentioned during our last earnings call.

In Energy & Transportation, sales to users increased by 9%. Oil & Gas sales to users benefited from strong sales of turbines and turbine-related services. We also saw increased sales of reciprocating engines in Gas Compression and Well Servicing Oil & Gas applications. Power Generation sales to users grew as market conditions remain favorable including strong data

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center growth. Transportation sales to users increased, while Industrial declined as we expected from strong levels last year. In total, dealer inventory increased by \$1.4 billion versus the fourth quarter.

For machines, dealer inventory increased by \$1.1 billion, which was slightly higher than our expectations, largely due to sales to users being modestly lower than anticipated. The increase in machine dealer inventory is consistent with normal seasonal patterns of which Construction Industries products accounted for the majority of the increase. The total level of machine dealer inventory is comfortably within the typical range.

As I mentioned, backlog increased to \$27.9 billion, up \$400 million versus the fourth quarter of 2023 led by Energy & Transportation. Backlog remains elevated as a percentage of revenues compared to historical levels. Adjusted operating profit margin increased to 22.2% in the first quarter, a 110-basis point increase over last year, which was slightly better than we anticipated. This was primarily due to better than expected manufacturing costs, mainly related to freight. Moving to Slide 5.

We generated strong ME&T free cash flow of \$1.3 billion in the first quarter. We deployed \$5.1 billion of cash for share repurchases and dividends in the first quarter including the initiation of a \$3.5 billion accelerated share repurchase program, which may last up to nine months. 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 6, I'll describe our expectations moving forward.

We expect a continuation of healthy demand across most of our end markets for our products and services. We continue to anticipate 2024 sales and revenues to be broadly similar to the record 2023 level. As I mentioned, we expect services to continue to grow in 2024. We currently do not anticipate a significant change in dealer inventory of machines in 2024 compared to a \$700 million increase in 2023. This is expected to be a headwind to sales in 2024. As a reminder, dealers are independent businesses and manage their own inventories.

The vast majority of dealer inventories in Energy & Transportation are backed by firm customer orders. The timing of these products being recognized as sales to users is impacted by dealer packaging and commissioning, which is why it's difficult to predict dealer inventory in Energy & Transportation. This is why we have become more explicit about the differentiation between machine dealer inventory and total dealer inventory.

As I mentioned, we anticipate that our 2024 results will be within the top half of our target ranges for both adjusted operating profit margin and ME&T free cash flow. Our strong results continue to reflect the diversity of our end markets as well as the disciplined execution of our strategy for profitable growth. Now I'll discuss our outlook for key end markets, starting with Construction Industries.

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In North America, after a very strong 2023, we continue to expect demand in the region will remain healthy in 2024 for both non-residential and residential construction.

We anticipate non-residential construction to remain at similar levels to slightly higher demand levels compared to last year due to construction projects as well as government-related infrastructure. Residential construction demand is expected to be flat to slightly down versus last year which remains strong in comparison to historical levels. In Asia Pacific, outside of China, we are seeing some softening in economic conditions. We anticipate demand in China will remain at a relatively low level for the above 10-ton excavator industry. In EAME, we anticipate that weak economic conditions in Europe will continue, somewhat offset by strong construction activity in the Middle East. Construction activity in Latin America remains mixed, but overall, we are expecting modest growth. In addition, we expect the ongoing benefit of our services initiatives will positively impact Construction Industries in 2024.

Next, I'll discuss Resource Industries. After a strong performance in 2023 in Mining, as well as Heavy Construction and Quarry and Aggregates, we anticipate lower machine volume versus last year, primarily due to off-highway and articulated trucks. In addition, we anticipate a small decrease in Resource Industries dealer inventories during 2024 versus a slight increase last year. While we continue to see a high level of quoting activity overall, we anticipate lower order rates as customers display capital discipline. We expect to see higher services revenues including robust rebuild activity. Customer product utilization remains high, the number of parked trucks remains low and the age of the fleet remains elevated and our autonomous solutions continue to see strong customer acceptance. We continue to believe the energy transition will support increased commodity demand over time, expanding our total addressable market and providing further opportunities for long-term profitable growth.

Moving to Energy & Transportation. In Oil & Gas, we expect reciprocating engines and services to be about flat after strong 2023 performance. We expect reciprocating Gas Compression demand to be higher in 2024 than it was in 2023. Well Servicing demand in North America is expected to soften. Cat reciprocating engine demand for Power Generation is expected to remain strong, largely due to continued data center growth relating to cloud computing and generative AI. Last quarter, I mentioned we are making a multiyear capital investment in our large reciprocating engine division including increasing capacity for both new engines and aftermarket parts. This investment will approximately double output for large engines and aftermarket parts as compared to 2023. We leverage these large engines across a variety of applications including data centers, Oil & Gas, large mining trucks and distributed Power Generation. For Solar Turbines, our backlog and quoting activity both remained strong for Oil & Gas and Power Generation. As we said previously, Industrial demand is expected to soften relative to a strong 2023. In Transportation, we anticipate high-speed marine to increase as customers continue to upgrade aging fleets.

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Moving to Slide 7. I'll provide an update on our sustainability journey. We are contributing to a reduced carbon future and continue to invest in new products, technologies and services to help our customers achieve their climate-related objectives.

In January, we announced the signing of an electrification and strategic agreement with CRH to advance the deployment of Caterpillar's zero-exhaust emission solutions. CRH is the number one aggregates producer in North America and the first company in that industry to sign such an agreement with Caterpillar. The agreement is focused on accelerating the deployment of Caterpillar 70 to 100 ton-class battery electric off-highway trucks and charging solutions at a CRH site in North America. Through the agreement, CRH will participate in Caterpillar's Early Learner program for battery electric off-highway trucks.

In February, Caterpillar Oil & Gas announced the launch of the Cat Hybrid Energy Storage Solution to help drillers and operators cut fuel consumption, lower total cost of ownership and reduce emissions in oil and gas operations. The custom-designed energy storage system stores excess power from the job site and then discharges it as needed.

In a hybrid system that combines the Cat Hybrid Energy Storage Solution and a natural gas fuel generator set, the transient response is even quicker than the conventional diesel-only rigs. Depending upon site configuration, the Hybrid Energy Storage Solution has proven to deliver up to 30% fuel cost savings with natural gas, 85% fuel cost savings with field gas, and up to an 80% reduction in nitrogen oxides. Carbon dioxide equivalent reductions up to 11% and 7% are possible with natural gas and field gas, respectively.

In addition, we look forward to issuing our 19th annual Sustainability Report in May. The material in our report reinforces our ongoing commitment to sustainability. With that, I'll turn it over to Andrew.

Andrew Bonfield^ Thank you, Jim. And good morning, everyone. I'll begin by commenting on the first quarter results including the performance of our segments. Then I'll discuss the balance sheet and ME&T free cash flow before concluding with a few comments on the full year and our assumptions for the second quarter.

Beginning on Slide 8. Our operating performance was strong with both adjusted operating profit margin and adjusted profit per share being better than we had expected. Sales and revenues of \$15.8 billion were about flat compared to the prior year, broadly in line with our expectations. Adjusted operating profit increased by 5% to \$3.5 billion and the adjusted operating profit margin was 22.2%, an increase of 110 basis points versus the prior year, which was slightly better than we had expected. Profit per share was \$5.75 in the first quarter compared to \$3.74 in the first quarter of last year. Adjusted profit per share increased by 14% to \$5.60 in the first quarter compared to \$4.91 last year. Adjusted profit per share excluded net restructuring

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income of \$0.15 per share. This compares to restructuring expense of \$1.17, which was excluded in the first quarter of 2023.

Other income of \$156 million for the quarter was higher than the first quarter of 2023 by \$124 million. This is primarily related to favorable ME&T balance sheet translation. The provision for income taxes in the first quarter, excluding discrete items, reflected a global annual effective tax rate of 22.5% compared with 23% in the first quarter of 2023. Included in profit per share and adjusted profit per share was a benefit of \$38 million or \$0.08 for a discrete tax item related to stock-based compensation. A comparable benefit of \$32 million or \$0.06 per share was included in the first quarter of 2023. The year-over-year impact of a reduction in the number of shares, primarily due to share repurchases over the past year had a favorable impact on adjusted profit per share of approximately \$0.24. This included a favorable impact from the initial shares we received from the \$3.5 billion accelerated share repurchase agreement that Jim mentioned earlier.

Before I move on, you will have seen some additional detail in the earnings release segment commentaries. We continue to highlight the primary drivers of year-over-year changes in sales and profit by segment, as we have done previously, but in addition, we are now also quantifying those significant variances. You will also find some additional information on historical dealer inventory including at the machines level in the appendix of today's slides.

Moving to Slide 9. I'll discuss our top line results in the first quarter. Sales remained about flat compared to the prior year as lower volume was largely offset by favorable price realization. The decline in volume was primarily due to lower sales to users. As Jim mentioned, the 5% decrease in sales to users was slightly more than our expectations, mainly driven by weakness in Europe for Construction Industries. Changes in total dealer inventories did not have a significant impact on sales as the increase of \$1.4 billion in the quarter was similar to the increase last year. As Jim mentioned, the \$1.1 billion increase in machines was slightly higher than we had anticipated, primarily as sales to users were modestly lower than we had expected. As compared to our expectations for the quarter, sales were broadly in line. Sales volume was slightly lower than we had anticipated, while price realization, including geographic mix, was better than we had expected.

By segment, sales in Construction Industries were lower than we had anticipated, while sales in Energy & Transportation exceeded our expectations. Resource Industries sales were about in line.

Moving to operating profit on Slide 10. First quarter operating profit increased by 29% to \$3.5 billion. As a reminder, the prior year included a \$586 million charge that arose from the divestiture of the company's Longwall business. Adjusted operating profit increased by 5% to \$3.5 billion. Price realization benefited the quarter, while lower sales volume acted as a partial offset. The adjusted operating profit margin of 22.2% improved by 110 basis points versus the

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prior year. Margins were slightly better than we had anticipated, mainly due to favorable manufacturing costs as freight costs were lower than we had expected. Price including a benefit from geographic mix was also better than we had anticipated.

Now on Slide 11, I'll review segment performance starting with Construction Industries. Sales decreased by 5% in the first quarter to \$6.4 billion, primarily due to lower sales volume, partially offset by favorable price realization. Sales were slightly lower than we had anticipated. Sales in North America increased by 6% in the quarter. In the EAME region, sales fell by 25%, and in particular, Europe was lower than we had anticipated, impacted by weakness in residential construction and economic conditions.

In Latin America, our sales decreased by 1%. In Asia Pacific, sales decreased by 14%. First quarter profit for Construction Industries was \$1.8 billion, a slight decrease versus the prior year. The decrease was mainly due to lower sales volume, partially offset by favorable price realization and manufacturing costs. The segment's margin of 27.5% was an increase of 100 basis points versus the last year. This was better than we had expected due to favorable manufacturing costs, which largely reflected lower freight costs.

Turning to Slide 12. Resource Industries sales decreased by 7% in the first quarter to \$3.2 billion, which was about in line with our expectations. The decrease was primarily due to lower sales volume, partially offset by favorable price realization. The decrease in sales volume was mainly driven by lower sales of equipment to end users, which Jim explained. First quarter profit for Resource Industries decreased by 4% versus the prior year to \$730 million. The decrease was mainly due to lower sales volume, partially offset by favorable price realization. The segment's margin of 22.9% was an increase of 60 basis points versus last year. This is better than we had expected on stronger price and favorable manufacturing costs, driven mainly by lower freight costs.

Now on Slide 13. Energy & Transportation sales increased by 7% in the first quarter to \$6.7 billion. The increase was primarily due to higher sales volume and favorable price. Sales were stronger than we had expected, mostly due to increased deliveries of large engines. By application, Power Generation sales increased by 26%; Oil & Gas sales improved by 19%; Transportation sales were higher by 9%; while Industrial sales decreased by 21%. First quarter profit for Energy & Transportation increased by 23% versus the prior year to \$1.3 billion. The increase was primarily due to favorable price realization. The segment's margin of 19.5% was an increase of 260 basis points versus the prior year. The margin was significantly stronger than we had anticipated due to lower than expected manufacturing costs, higher volume and better price.

Moving to Slide 14. Financial Products revenues increased by 10% to \$991 million primarily due to higher average financing rates across all regions and higher average earning assets in North America. Segment profit was strong, increasing by 26% to \$293 million. The increase was

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mainly due to an insurance settlement and a favorable impact from equity securities. Our portfolio continues to perform well as past dues remain near historical lows at 1.78%, a 22-basis point improvement compared to the first quarter of 2023. This is the lowest first quarter past dues since 2006. In addition, the allowance rate was our lowest on record of 1.01%. Business activity remains strong as new business volume increased versus the prior year, primarily driven by North America. We continue to see strong demand for used equipment and inventories remain close to historically low levels, with just slight increases over recent quarters.

Moving on to Slide 15. As Jim mentioned, our ME&T free cash flow remained strong. We generated \$1.3 billion in the quarter after taking into account the \$1.7 billion payments made for 2023 short-term incentive compensation and CapEx spend of about \$500 million. Spend for both short-term incentive compensation and CapEx was higher than it was in the first quarter of 2023. For the full year, we expect to be in the top half of our ME&T free cash flow target range, which correlates to between \$7.5 billion and \$10 billion. We still expect to spend between \$2 billion and \$2.5 billion in CapEx and we will continue to prioritize investments around AACE, which is autonomy, alternative fuels, connectivity & digital and electrification.

Moving to capital deployment. We continue to expect to return substantially all of our ME&T free cash flow to shareholders over time through dividends and share repurchases. Of the record \$5.1 billion of cash deployed in the first quarter, share repurchase spend was \$4.5 billion, including the \$3.5 billion accelerated share repurchase, or ASR. The \$3.5 billion were deployed in the first quarter and the ASR agreement may last for up to nine months. The ASR provides us with favorable pricing as compared to shorter-term ASRs, which we have carried out previously which makes it more attractive. Pricing is finally determined relative to the volume weighted average price or VWAP over the duration of the agreement. Approximately 70% of the shares were delivered to the company upfront, with the balance calculated when the agreement is terminated based on the actual average VWAP. As a reminder, our objective is to be in the market on a more consistent basis with share repurchases. So, this is a great mechanism for us to use. As I mentioned, our balance sheet remains strong. We have ample liquidity with an enterprise cash balance of \$5 billion, and we hold an additional \$2.2 billion in slightly longer-dated liquid marketable securities to improve yields on that cash.

Moving to Slide 16, I will share our high-level assumptions for the full year. As compared to a quarter ago, our assumptions for the full year generally remain unchanged. On the top line, we anticipate broadly similar sales and revenues as compared to the record 2023 level, consistent with what we mentioned last quarter. Although our top-level sales expectations remain the same, segment inputs have shifted a bit. We now see a slightly stronger top line in Energy & Transportation after a strong first quarter, while our expectations have been tempered slightly in Construction Industries due to economic conditions in the European market. We continue to expect slightly favorable price realization versus the prior year. Our expectations on dealer inventory also remain unchanged. We currently do not expect a significant change in dealer inventory of machines in 2024 compared to a \$700 million increase in 2023. This is expected to

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be a headwind to sales. We also continue to anticipate another year of services growth across each of our primary segments as we strive to achieve our 2026 target of \$28 billion in services revenues.

At the segment level, we now expect Construction Industries sales to users to be slightly lower compared to 2023 due to the softer economic conditions in Europe. We expect demand in North America to remain at healthy levels, as Jim discussed. We also anticipate changes in dealer inventory to act as a headwind to Construction Industries sales in 2024. We expect services revenues to be positive versus the prior year. In Resource Industries, we continue to expect lower sales impacted by lower machine volume, primarily in off-highway and articulated trucks where the comparison versus the prior year is challenging. We anticipate changes in dealer inventory to act as a headwind to sales in this segment as well. In Energy & Transportation, our 2024 sales expectations have increased slightly after the strong first quarter. We continue to see strong demand for reciprocating engines in Power Generation, as well as healthy order and quoting activity for Solar Turbines for both Oil & Gas and Power Generation. This supports our improved optimism for higher sales in Energy & Transportation in 2024. Also, as typical seasonality would suggest, we expect to see some sales ramp in Energy & Transportation as we move through the full year.

On full year adjusted operating profit margin, we continue to expect to be in the top half of the margin target range at our expected sales levels. As I mentioned last quarter, we expect a relatively small pricing benefit to be weighted towards the first half of the year, given carryover from increases in the second half of last year. We now expect flattish manufacturing costs this year versus the prior year as we anticipate more favorable freight costs, although the unfavorable impact from cost absorption could act as a partial offset. As I mentioned a quarter ago, given better availability this year, we anticipate shipping a more normal mix of products this year. We anticipate this dynamic may act as a slight headwind to margins. SG&A and R&D expenses are expected to ramp through the remainder of the year as we continue to invest in strategic initiatives aimed at future long-term profitable growth. This will be offset by the benefit of lower short-term incentive compensation. In addition, from a segment perspective, keep in mind that margins in Construction Industries tend to trend lower as the year progresses. Finally, we continue to anticipate restructuring costs to \$300 million to \$450 million this year, and our expectation for annual effective tax rate, excluding discrete items, is now 22.5%.

Now on Slide 17, I'll discuss our expectations for the second quarter, starting with the top line. We expect lower sales in the second quarter compared to the prior year as we anticipate a headwind due to changes in dealer inventory of machines which will impact volumes. We expect dealer inventory machines to decline this quarter in line with normal seasonal trends versus the atypical \$200 million increase that occurred in the second quarter of 2023. However, we anticipate a continuation of healthy demand across most of our end markets for our products and services, and price is expected to remain positive year-over-year. Following the typical seasonal pattern, we do expect higher sales in the second quarter as compared to the first.

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By segment compared to the prior year, we anticipate lower sales in Construction Industries as we expect changes in dealer inventory to act as a headwind. Favorable price should provide a partial offset. We expect lower sales in Resource Industries versus the prior year driven by lower volume, partially offset by favorable price. In Energy & Transportation, we anticipate similar sales versus the prior year.

On enterprise margins in the second quarter, we expect the adjusted operating profit margin to be similar to the prior year and lower versus the first quarter following the typical seasonal pattern. As compared to the prior year, we expect that price will remain favorable from the continued carryover benefit from increases taken in the second half of 2023. We expect flattish manufacturing costs compared to the prior year as favorable freight is expected to offset the impacts of unfavorable cost absorption. We also anticipate an increase in SG&A and R&D expenses related to strategic investments, although this will be offset by lower short-term incentive compensation.

By segment, in both Construction Industries and Resource Industries, we expect similar margins in the second quarter compared to the prior year as we expect favorable price to be offset by lower volume. In Energy & Transportation, we expect a higher margin versus the prior year on better price and favorable mix. Unfavorable manufacturing costs and SG&A and R&D spend related to strategic investments are expected to act as a partial offset in this segment. Note that we expect a headwind to enterprise margins in corporate costs in the quarter where we anticipate unfavorable year-over-year impacts from timing differences.

So turning to Slide 18, let me summarize. The strong operating performance continued in this quarter with the adjusted operating profit margin at 22.2% and record adjusted profit per share of \$5.60. We deployed a record \$5.1 billion of cash for share repurchases and dividends in the quarter. Our assumptions for the full year remain similar, and we expect to be in the top half of our target ranges for both adjusted operating profit margin and ME&T free cash flow. We continue to execute our strategy for long-term profitable growth. And with that, we'll take your questions.

Operator^ (Operator Instructions) We'll take our first question from Tami Zakaria at JPMorgan.

Tami Zakaria^ So nice margin performance in the quarter. And hence, my question is around margins. You guided for the second quarter. So, if sales are expected to be lower year-over-year, I'm assuming volumes are down too. So, what essentially would help margins remain relatively flattish. I know you mentioned some factors, but just wanted more color. Is it price/cost? Is it some cost savings initiatives? Or is it something else that's going on? So, any color there would be helpful.

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Andrew Bonfield^ At the moment, there are two factors. One, which is price will still be positive in the second quarter, and that will help overall margins and will help to offset the impact of lower volume. Also, we do expect to see some flattening of manufacturing costs versus the prior year, mostly because of freight. We would expect the benefit of lower freight costs to offset the impact of cost absorption which may occur in the quarter. So, those are two factors. Then we will expect the increase in investments we're making behind our strategic investments in SG&A and R&D to be offset by lower short-term incentive compensation expense. So, those are all the moving parts. But overall, as we said, we expect margins to be about flat year-over-year in the second quarter versus second quarter of 2023.

Operator^ We'll move next to Michael Feniger at Bank of America.

Michael Feniger^ Great. I know you're guiding Q2 sales to be lower year-over-year and the full year would be broadly similar. So, maybe you could give us some context of what's driving that second half, that slight pickup? Is it deliveries in a certain market like Energy & Transportation? And is your expectation that end user dealer retail sales, which pulled back in Q1. Do you think that's the low point for the year, and that starts to improve through the year to match that full year guide? Any context there would be helpful.

Andrew Bonfield^ Overall, as we've said, really what's happening in Q2 is principally the impact on lower volume will be around the impact of dealer inventory movements, particularly on the machine side. Last year, as I said, we actually had a very atypical build in the second quarter. As you know the historic trend is always during selling season to see, particularly on the Construction Industries side, dealer inventory to decrease. So, that was really the main driver.

Overall, as we've indicated for the year, we still expect a healthy volume in North America in Construction Industries. We do have some impact now on Europe. That means we now expect Construction Industries' sales to users to be slightly lower year-over-year. We are seeing that offset though by expected sales growth in Energy & Transportation where we're seeing more positivity. As far as sales to users are concerned, the first quarter was impacted by principally the European conditions, which we mentioned a moment ago. Overall, we're still very comfortable, but the overall guide we've made for the year, which is sales and revenues will be broadly flat with 2023.

Operator^ We'll move to our next question from Jamie Cook at Truist Securities.

Jamie Cook^ Nice quarter. Jim, I guess my question, under your leadership, I think the earnings tower of Caterpillar has far exceeded anyone's expectation and a lot of that was driven by the Operation & Execution business model and your focus on profitable growth. At the same time, you've been allocating capital to higher-return products, right? That's part of the strategy. At the same time, you're talking about doubling, I think you said your large engine capacity to meet demand for data centers. At this point, it's your lower-margin segment. So, I guess

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understanding right now within Energy & Transportation, we have investment in AACE and capacity. But like over time, why shouldn't Energy & Transportation margins structurally be higher than the other two segments, in particular, given where Construction Industries margins are right now. I'm just wondering if the market underappreciates where Energy & Transportation margins can go, given the capacity additions you're talking about?

Jim Umpleby^ Jamie, it's a good question. One of the things to keep in mind is that many of the investments we're making, electrification in other areas, the costs are absorbed in Energy & Transportation. So, that's one of the things that has an impact on the margin of the total segment. And as you quite rightly mentioned, we're very focused on investing in areas that represent the best opportunities for future profitable growth. And as we look at the margin opportunities around large engines, that's certainly an area that very much deserves our investment in both capital and expense and management attention as well. So certainly, as you know our primary measure of profitable growth is absolute OPACC dollars, and we're trying to increase that. Having said that, we provided our margin targets, and we said it would be in the upper half of the range. But again, we're investing in areas that represent very good opportunities for profitable growth, and that includes large engines. So, I'm not saying that margins won't come up in Energy & Transportation. Again, the one thing to keep in mind here is that a lot of costs go into that segment that really benefit some of the other segments.

Operator^ We'll move next to David Raso at Evercore ISI.

David Raso^ I think some of the concern around the second half of the year sales having to be positive to offset the first half being down. It'd be helpful if you can give us a little sense of the implied orders for the quarter actually did turn slightly positive year-over-year. Can you give us any color that you can around sort of what moved in the backlog sequentially, Energy & Transportation, Construction Industries, Resource Industries, just so we can get a sense of was the order improvement year-over-year solely Energy & Transportation? Was there any order improvement year-over-year in Resource Industries and Construction Industries just to maybe build more confidence in the second half of the year sales growth? And of course any color around some of the Energy & Transportation orders. You get the impression some are very long-dated orders. Just trying to get a sense of that order flow in Energy & Transportation, how soon can those orders show up in revenues.

Jim Umpleby^ So David, let me answer the last part of your question first. So, in terms of Energy & Transportation, about 80% of our total Cat backlog is expected to be sold within 12 months. We don't put orders into the backlog unless we have a firm customer order. So, we work really closely with our customers that are looking for large engines for data centers. We have a sense going out multiple years of what it is they want. But we don't put any of that into the backlog until they give us a firm order. Our backlog doesn't go out as far as you might think. So, I'll start with that, and then I'll turn it over to Andrew for the first part of your question.

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Andrew Bonfield^ Yes. And David, your fact on the implied order rate is correct. Yes. The implied orders are up year-over-year. Obviously, that is one of the factors which gives us confidence as we look out. And also, the relative strength of the backlog gives us a lot of confidence within the business lines where they are. As regards to backlog, obviously most of the increase has been in Energy & Transportation, as you would expect, given that those are the businesses now which is showing more strength relatively versus Construction Industries and Resource Industries. That is reflected in that order positioning as we go out.

Operator^ We'll go next to Rob Wertheimer at Melius Research.

Rob Wertheimer^ My question is around Cat's capabilities in Power Generation and data centers and so forth and how that may or may not be changing with the rise of AI and kind of massive increases in scale of data centers. Then can I ask specifically, I understand that your investment in large reciprocating engines is probably partially targeted at that. My impression is that historically, Solar Turbines were more combined heat and power in Power Generation. I don't know whether they've served the data center market. I'm curious as to whether you now have an opportunity as those data centers are bigger to sell turbines into it? And just your general sense of how the world is changing.

Jim Umpleby^ Thank you, Rob. We are very excited about what we view as a secular growth opportunity around data centers, both in terms of increasing base power loads, but also the specific opportunities to serve those data centers. So, as you probably know traditionally, we have provided reciprocating generator sets as backup for those data centers. But what you say is very correct that business is changing. I believe that we are uniquely positioned because we have a combination of both gas turbines and reciprocating engines that burn a whole variety of fuels. And so, we have had some projects now where we've shipped gas turbines to provide prime power for data centers because in some places, when data centers want to go into a geographic area, the utility can't handle the load of those. When, in fact, there's natural gas available, we've seen situations where a customer will take gas turbines, install those for natural gas to produce their own base power for the data centers. In addition to that then, there's also the reciprocating engine generator sets as backup, if something were to happen. But typically, again we are seeing a change. You're right, the market's changing, and we're very excited about that opportunity.

Operator^ We'll move to our next question from Chad Dillard at Bernstein.

Chad Dillard^ My question for you is on Energy & Transportation. Just trying to understand what the lead times are, specifically in Power Generation. Then just like how long it will take to get your capacity expansion online and just how to think about just like when you can actually ramp the revenues there.

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Jim Umpleby^ So, we started to make those capacity investments and those. That capacity is expected to ramp up over the next four years. So, it's gradually phased in. So, that will happen over a 4-year period. In terms of Energy & Transportation, I mentioned that Solar Turbines has strong quotation and order activity as well. They have the ability certainly to increase their production. So again, the capacity in large engines, the investments that we specifically mentioned is expected to gradually phase up over the next four years.

Andrew Bonfield^ Yes. And just a quick point to make. Obviously, Power Generation is the fastest-growing business today within Energy & Transportation, just to note, and actually as a percentage of Energy & Transportation [external] sales, it has gone up from 25% in the first quarter of last year to 29% this year (company clarified after the call). So, it is an area of exciting opportunity even before we build the capacity and obviously an area where there's potential for further growth as well.

Jim Umpleby^ And maybe just one to add on, one of the beauties about our business model. We're making this capacity investment in large engines. But those large engines just don't have the ability to serve the Power Generation market. I mean they serve a whole variety of markets. So those same large engines are used for Oil & Gas. They're used for large mining trucks. They're used for data center backup, but we also believe there's an opportunity over time for distributed generation as well. So again, we're making this capital investment, not just based on one opportunity in the marketplace, but upon multiple opportunities in different industries. And again, we think that diversity of our end market opportunities is one that really makes us an excellent investment.

Operator^ And we'll move to our next question from Jerry Revich at Goldman Sachs.

Jerry Revich^ Jim and Andrew, I wonder if you could just talk about in Construction Industries. In prior cycles, the industry has passed through lower input costs in terms of lower prices to customers when input costs have declined. In the first quarter, we saw a nice price/cost spread on the positive side, for you folks here. I'm wondering to what extent do you think for you folks in the industry. Could we see that price/cost gap continue to widen since the industry has taken a more disciplined approach in cutting production sooner relative to the soft spot that you mentioned in your prepared remarks?

Andrew Bonfield^ So, Jerry, as we've indicated, obviously price has been favorable, but we expect the benefit of favorable price to moderate as the year progresses. That obviously holds true for Construction Industries as it does for the other segments. That really will mean that the benefit on margin expansion will become much, much tougher for Construction Industries as particularly as you get into the second half of the year, where you won't see that spread. We do see manufacturing costs being broadly flattish. And part of the reason for that is because of the favorability of freight, which is more than offsetting the impact of cost absorption. So overall, we've taken the approach that where we have got the benefit of price, we will obviously be

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trying to hold that as best as we can. As you rightly point out, we've been pretty disciplined about making sure that we have cut production like, for example, in excavators that you saw in the fourth quarter, where we do see softness or weakness in the market.

Operator^ We'll take our next question from Stephen Volkmann.

Stephen Volkmann^ I'm wondering if we could tap back to the dealer inventory commentary. I want to make sure I understand that right, because that seems to be a bit of a focus for the market this morning. I think if I'm not mistaken, that the dealers did build a little more than you expected in the first quarter. I'm curious why that might be. If you can provide some sense of how much of that total \$1.4 billion kind of has a customer name on it. And I guess the bottom line is, why don't you worry that that's kind of an inventory build that sort of makes things less bullish going forward?

Jim Umpleby^ The reason dealer inventory increased a bit more than we expected is primarily due to the softness in European construction. That really is the reason for that build in dealer inventory. Dealer inventory is well within our typical range; comfortably within what we consider a typical range. So, we are not concerned about it.

Andrew Bonfield^ And just the other bit of granularity, which we tried to give about splitting out between machine in dealer inventory and dealer inventory as a whole principally because, in Energy & Transportation, most of that inventory, as we said previously and also within Resource Industries, over 70% of that is backed by firm customer orders. It's not really inventory sitting on a dealer's lot waiting, often it's getting ready for commissioning. That is part of the reason for that. Overall, as Jim reiterated, and just to reiterate, we are comfortably within the range of machine dealer inventory. We do expect for the year that inventory level to be flat year-over-year. That's our expectation or the planning assumption at the moment.

Operator^ We'll move to our next question from Mig Dobre at Baird.

Mircea Dobre^ Maybe we can talk a little bit about Resource Industries. I guess one of the things that stood out to me was that pretty significant decline in dealer deliveries in this segment. I'm curious in Mining specifically. What's going on there? Are you actually starting to see maybe a pullback in demand from your customers? Is the investment cycle maturing there? Or is this just sort of a temporary aberration?

Jim Umpleby^ So, we had expected some softness certainly in Resource Industries this year, and we talked about that, I believe, in our [fourth] quarter call (company corrected after the call). So, a number of things. First of all, on the positive side, the number of parked trucks and some indices that we look at to really judge the health of the mining industry. So, some positives. The number of parked trucks is relatively low. The utilization of our products by our customers is high and the age of the fleet is relatively elevated. So, those are positive things. Having said

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that, our customers are displaying capital discipline; not surprising just given what's happening in the economic conditions around the world. But those indices really do bode well for us. In addition to that, we've seen great strength, great acceptance of our autonomous solutions. So, those have been accepted well also. We expect a robust rebuild activity this year because our products are being used so extensively by our customers. So again really, I think it's just really mostly a function of a bit of a dealer inventory change and also our customers displaying capital discipline.

Andrew Bonfield^ Yes. And just to add to that a little bit, just to remind you that the first quarter of 2023 was very strong and actually the highest level of sales to users in Resource Industries for over 10 years at the time. So, that was a significant factor. Secondly, as we talked about, there are two product lines where because of supply chain, there was a backlog which was used up principally in 2023, off-highway trucks and also articulated trucks. Just as an FYI, large mining trucks are still growing, which I know is one of the factors that many of you look at. So, there is no issue there at all with regards to that.

Jim Umpleby^ And again if you think about the market changing, we're still very bullish on the fact longer term that we believe the energy transition will support increased commodity demand over time. That will expand our total addressable market and provide us further opportunities for long-term profitable growth. Just think about everything that has to happen for EVs. There's no way around that being accomplished without our customers producing more commodities. And of course they use our products to produce those additional commodities.

Operator^ We'll go next to Angel Castillo at Morgan Stanley.

Angel Castillo^ Just wanted to clarify, going back to North America Construction Industries in the second quarter, you talked about seeing continued kind of healthy demand there. But just wanted to clarify, as we think about kind of dealer inventories coming down in the second quarter. You also have a little bit of tougher comps there as you think about retail sales. When we kind of look at retail sales for the second quarter of this year, just to clarify, is that expected to be still positive? Or do you expect that to turn kind of modestly negative. And as you kind of talk about that and provide more color on that, could you also talk about what you're seeing in April in terms of kind of quarter-to-date trends in retail sales?

Andrew Bonfield^ As I think we've indicated, overall, for the full year, we expect Construction Industries sales to users to be slightly negative for the full year. In first quarter [February], we've said we thought they would be about flat for the full year (company clarified after the call). So, that does imply some acceleration through the year in order to get back to that sort of just slightly negative. With regards to trends in April, look, we're not going to talk about what's happening. I mean as is always the case, quarter-on-quarter, you see changes, which can relate to its commissioning and all sorts of number of factors, but we're comfortable with our full year forecast for Construction Industries.

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Jim Umpleby<sup>^</sup> And North America is our largest geographic area for Construction Industries. And as we said earlier, we certainly expect demand in North America to remain healthy. We expect it to be flat to slightly higher in non-residential; residential: flat to slightly down. So again, in that North American market, which is so important to us, our business continues to be strong.

Operator<sup>^</sup> Our next question comes from Kristen Owen at Oppenheimer.

Kristen Owen<sup>^</sup> I wanted to ask about capital allocation here, just given the ASR that you put in place. You've bought back more shares than historically you do any year. I appreciate that, that is in line with the ME&T free cash flow deployment, but your stock is also at all-time highs. So, just wondering how we should think about in terms of value at this stage and how to weigh that ASR versus, say dividend increase?

Andrew Bonfield<sup>^</sup> So, obviously as you know we have both a dividend policy as well as a share buyback policy. As far as the dividend is concerned, we have one more year of our high single digits. That's a board decision, which will probably be made around June time. Then after that, we'll probably come back and look at what the future policy will be. Remember, the objective is to pay out no more than 60% to 65% of ME&T free cash flow in a low environment for the dividend. That comes into part of the policy and the way we look at that. With regards to intrinsic value, obviously as is always the case, yes, we do take into account intrinsic value. That decision has been made as part of the longer-term ASR. But remind you that the benefit of the ASR is really around the fact that you are in the market more consistently. We don't try and time the market; we are really just trying to be in the market consistently to return that cash to shareholders. Overall, we believe that's the best approach. But we're very comfortable with putting that in place.

Operator<sup>^</sup> That question comes from Nicole DeBlase at Deutsche Bank.

Nicole DeBlase<sup>^</sup> I also wanted to focus on Construction Industries. So, a lot of discussion obviously about Europe kind of being the problem child this quarter. I guess are you guys seeing -- as you kind of progress through the quarter, some signs of stabilization? Or is there a risk that Europe could still get worse? Then I guess also, like with dealer inventories being up and that being the driver, are you concerned about the level of dealer inventories in Europe Construction Industries specifically?

Jim Umpleby<sup>^</sup> First, as I mentioned earlier, we believe the dealer inventory is comfortably within what we would consider the typical range. When we think about EAME, we talked about construction weakness in Europe, but also there's strength in the Middle East, a lot of construction activity in the Middle East. That provides a bit of a buffer there to the total EAME region. I keep coming back to North America as our largest, most important region for Construction Industries and the fact that non-residential construction is underpinned by those

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government infrastructure projects, which, again is a very positive thing for us. I think that's an important thing to keep in mind as you think about Construction Industries.

All right. Well again thank you for joining us, and we certainly appreciate all your questions.

I'd like to just close by thanking our global team for their strong performance in the first quarter including higher adjusted operating profit margin, record adjusted profit per share and strong ME&T free cash flow. Our strong results continue to reflect the diversity of our end markets as well as the disciplined execution of our strategy for long-term profitable growth. With that, I'll turn it back to Ryan.

Ryan Fiedler^ Thanks, 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 our first quarter results video with our CFO and an SEC filing with our sales to users data. Click on [investors.caterpillar.com](https://investors.caterpillar.com) and then click on Financials to view those materials. If you have any questions, please reach out to Rob or me. Now let's turn the call back to Audra to conclude our call.

Operator^ Thank you. And that does conclude our call. Thank you for joining. You may all now disconnect.