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Fourth Quarter 2024 Earnings

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CORPORATE SPEAKERS:

Alex Kapper

Caterpillar; Investor Relations

Jim Umpleby

Caterpillar; Chairman, Chief Executive Officer

Andrew Bonfield

Caterpillar; Chief Financial Officer

PARTICIPANTS:

Stephen Volkmann

Jefferies; Analyst

Michael Feniger

BofA; Analyst

Robert Wertheimer

Melius Research; Analyst

David Raso

Evercore ISI; Analyst

Jerry Revich

Goldman Sachs; Analyst

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Bernstein; Analyst

Jamie Cook

Truist Securities; Analyst

Mircea Dobre

Baird; Analyst

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Kristen Owen

Oppenheimer; Analyst

Steven Fisher

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Kyle Menges

Citi; Analyst

PRESENTATION:

Operator^ Welcome to the Fourth 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, Alex Kapper. Thank you. And please go ahead.

Alex Kapper^ Thank you, Audra. Good morning, everyone. And welcome to Caterpillar's fourth quarter 2024 earnings call. I'm Alex Kapper, Vice President-Elect of Investor Relations. Joining me today are Jim Umpleby, Chairman and CEO; Andrew Bonfield, Chief Financial Officer; Kyle Epley, Senior Vice President of Global Finance Services Division; Ryan Fiedler, Vice President of IR; and Rob Rengel, Senior Director of IR. During our call we'll be discussing the fourth quarter earnings release we issued earlier today. You can find our slides, the news release and a 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. Now let's advance to Slide 3 and turn the call over to our Chairman and CEO, Jim Umpleby.

Jim Umpleby^ Thanks, Alex. Good morning, everyone. Thank you for joining us.

As we close out 2024, I want to thank our global team for their strong execution in delivering another good year. Our results continue to reflect the benefit of the diversity of our end markets and the disciplined execution of our strategy for long-term profitable growth. For the year, we delivered record adjusted profit per share and higher adjusted operating profit margin that exceeded the top of our target range. Although our top line decreased in the year, services revenue grew to a record level. We also generated ME&T free cash flow near the top of the

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target range. Our robust ME&T free cash flow, along with our strong balance sheet, allowed us to deploy over \$10 [billion] to shareholders through share repurchases and dividends during the year (company clarified after the call). I'll begin with my perspectives about our performance in the quarter and for the full year. I'll then provide some insights about our end markets followed by an update on our sustainability journey.

For the fourth quarter, sales and revenues were down 5% versus last year, primarily due to lower sales volume. This was slightly below our expectations, mainly due to services growing at a slightly slower rate than we expected and some delivery delays in Energy & Transportation. Services revenues did increase in the quarter compared to 2023. Stronger-than-expected machine sales to users drove a higher-than-anticipated dealer inventory reduction, which offset each other, resulting in a minimal impact to sales.

Fourth quarter adjusted operating profit margin was below our expectations at 18.3%, primarily due to lower volume and an unfavorable mix of products. We achieved quarterly adjusted profit per share of \$5.14 and generated \$3 billion in ME&T free cash flow. Since last quarter end, our backlog increased by \$1.3 billion to \$30 billion. For the full year, total sales and revenues were \$64.8 billion, a decrease of 3% compared to 2023. Services revenues increased 4% to \$24 billion. Adjusted operating profit margin of 20.7% exceeded the top end of the target range as we expected and represents a slight improvement from 2023. We achieved record adjusted profit per share in 2024 of \$21.90, a 3% increase over 2023.

In addition, we generated \$9.4 billion of ME&T free cash flow which was near the top of our target range as we expected. Since 2019, we have generated approximately \$40 billion of ME&T free cash flow, of which we have returned substantially all to shareholders through share repurchases and dividends including \$10.3 billion in 2024. Our strong and consistent ME&T free cash flow has allowed us to reduce the average number of shares outstanding by approximately 18% since the beginning of 2019.

Turning to Slide 4. As I mentioned earlier, sales and revenues declined 5% in the fourth quarter to \$16.2 billion. Compared to the fourth quarter of 2023, machine sales to users, which includes Construction Industries and Resource Industries, declined by 3% but was better than our expectations. Energy & Transportation continued to grow as sales to users increased 2%. Sales to users in Construction Industries were down 3% year-over-year. In North America, sales to users were slightly lower, but better than we expected. Sales to users grew in residential construction, while non-residential was down slightly. Rental fleet loading was down but in line with expectations as we described during our last earnings call. Dealers' rental revenue continued to grow in the quarter. Sales to users declined in EAME and Asia Pacific in line with our expectations. Sales to users in Latin America continued to grow but at a lower rate than we expected.

In Resource Industries, sales to users declined 3%, which was better than we expected. Mining was better than expected due to large mining and off-highway trucks being placed into service

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earlier than we anticipated. Heavy Construction and Quarry and Aggregates were in line with expectations.

In Energy & Transportation, sales to users increased by 2%. Power Generation sales to users grew 27% as conditions remained favorable for both reciprocating engines and turbines and turbine-related services. Sales to users for reciprocating engines used in Oil and Gas applications declined primarily due to a challenging comparative to the fourth quarter of 2023. For Solar turbines and turbine-related services, fourth quarter sales were down in Oil and Gas compared to strong shipments in the fourth quarter of 2023. Most of Solar's fourth quarter decline in Oil and Gas was offset by growth in Power Generation. Transportation sales to users increased, while Industrial declined.

Moving to dealer inventory and backlog. In total, dealer inventory decreased by \$1.3 billion versus the third quarter of 2024. For machines, dealer inventory decreased by \$1.6 billion. The decrease was more than we had anticipated due to better-than-expected sales to users particularly for Construction Industries in North America and Resource Industries. As I mentioned, backlog increased versus the third quarter to \$30 billion, led by Energy & Transportation. This is a \$2.5 billion increase versus 2023 year-end. Our backlog remains elevated as a percentage of revenues compared to historical levels. We continue to see strong order activity for both reciprocating engines and Power Generation in turbines and turbine-related services in both Oil and Gas and Power Generation.

Turning to Slide 5. I'll now provide full year highlights. In 2024, we generated sales and revenues of \$64.8 billion, down 3% versus last year. This was due to lower sales volume, partially offset by favorable price realization. Our adjusted operating profit margin was 20.7%, a 20-basis point increase over 2023 despite lower sales and revenues. Adjusted profit per share in 2024 was \$21.90.

As I mentioned, services revenues increased to \$24 billion in 2024, a 4% increase over 2023. Services continue to grow as we focus on making our customers successful. Working with our dealers, we are leveraging over 1.5 million connected reporting assets and digital tools. Our Cat digital tools allow customers to more efficiently improve uptime manage their fleets and transact on our eCommerce platforms. For example, this year, we launched an internal generative AI solution designed to optimize the creation of intelligent leads, which we call Prioritized Service Events or PSEs. This tool significantly reduces the time and effort required for service recommendations, helping customers avoid unplanned downtime by clearly identifying the recommended repair options and timing for customers. In 2024, we delivered more than two-thirds of new equipment with a Customer Value Agreement, which remains an important part of our services growth initiatives. We also experienced better-than-expected growth in our e-commerce platforms and have focused on improving our customer onboarding to include key digital products. Also in 2024, we saw record usage of VisionLink, our equipment management application, onboarding and activating thousands of new customers throughout the year. Services growth remains resilient despite the decline in our overall top line. We continue to execute our

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various services initiatives as we strive towards our aspirational target of \$28 billion in services revenues.

Moving to Slide 6. We generated robust ME&T free cash flow of \$9.4 billion for the full year. We deployed \$10.3 billion to shareholders through \$7.7 billion of share repurchases and \$2.6 billion of dividends paid. We remain proud of our Dividend Aristocrat status as we have paid higher annual dividends for 31 consecutive years. We 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 describe our expectations moving forward. Overall, we currently anticipate 2025 sales and revenues to be slightly lower compared to 2024. In 2025, we expect continued strength in Energy & Transportation to mostly offset lower sales in Construction Industries and Resource Industries. We also expect services revenues to grow in 2025 including growth across all three primary segments. We currently expect machine dealer inventory to end 2025 at similar levels to year-end 2024. Full year adjusted operating profit margin is expected to be lower than 2024, but it is anticipated to be in the top half of the target range based on the corresponding level of sales and revenues. Finally, we expect ME&T free cash flow to be in the top half of our target range of \$5 billion to \$10 billion.

Now I'll discuss our outlook for key end markets, starting with Construction Industries. In North America, we expect moderately lower sales to users in 2025 versus last year. Construction spend in North America remains healthy, primarily driven by large multi-year projects and government-related infrastructure investments supported by funding from the IIJA. Although we anticipate the combined non-residential and residential construction spend, to remain similar to 2024 levels, our current planning assumptions reflect lower demand for new equipment. We also expect lower dealer rental fleet loading compared to 2024, although dealer [rental] revenue is expected to grow (company clarified after the call). Overall, we remain positive about the medium- and longer-term outlook in North America. In Asia Pacific, outside of China, we expect soft economic conditions to continue into 2025. We anticipate China to remain at relatively low levels for the above 10-ton excavator industry. In EAME, we anticipate weak economic conditions in Europe will continue and the healthy level of construction activity in Africa and the Middle East. Construction activity in Latin America is expected to decline moderately. We also anticipate the ongoing benefit of our services initiatives will positively impact Construction Industries in 2025.

Moving to Resource Industries. We anticipate lower sales to users in 2025 compared to last year, partially offset by higher services revenues including robust rebuild activity. Customers continue to display capital discipline, although key commodities remain above investment thresholds. Customer product utilization remains high, the number of parked trucks remains relatively low, 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.

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Moving to Energy & Transportation, demand is expected to remain strong in Power Generation, and we expect growth for both Cat reciprocating engines and Solar turbines. Overall strength in Power Generation for both prime and backup power applications continues to be driven by increasing energy demand to support data center growth related to cloud computing and generative AI. Through continued focus on improving manufacturing efficiencies, along with initial stages of our investment to increase large engine output [capability], we expect growth in reciprocating engines for Power Generation in 2025 (company clarified after the call). We also expect growth in Solar Turbines for Power Generation, driven by increased customer demand. For Oil and Gas, after a flat year in 2024, we expect moderate growth in 2025. We expect reciprocating engines and services to be slightly down in 2025 due to continuing capital discipline by our customers, industry consolidation and efficiency improvements in our customers' operations. Solar Turbines Oil and Gas backlog remains strong, and we see continued healthy order and inquiry activity. We expect growth for turbines and turbine-related services in Oil and Gas. Demand for products in Industrial applications is expected to remain at a relatively low level similar to 2024. In Transportation, we anticipate full year growth driven by rail services.

Moving to Slide 8. I'll now provide an update on our sustainability journey. Caterpillar's legacy of sustainable innovation spans nearly a century. Throughout that time we have provided products and services that improve the quality of life and the environment while helping customers fulfill society's need for infrastructure in a sustainable way. Earlier this month, Caterpillar kicked off its year-long Centennial celebration at CES 2025 with the theme "The Next 100 Years Experience What's Possible". We showcased our continuous investment in the core technologies of autonomy, alternative fuels, connectivity and digital and electrification.

Our ability to provide these solutions reflects investments of more than \$30 billion in R&D over the past 20 years to deliver best-in-class innovation. Taking center stage at the Caterpillar CES exhibit was a CAT 972 wheel loader retrofitted to be an extended range electrified machine hybrid technical demonstrator. The demonstrator can run fully battery electric with zero-exhaust emissions for several hours. It has an onboard generator and charger that enables full day uptime without requiring investment in direct current or DC charging infrastructure. In initial testing, the demonstrator maintains or exceeds the performance of a CAT 972 internal combustion machine while providing customers with the benefits of a hybrid system.

With that, I'll turn it over to Andrew.

Andrew Bonfield^ Thank you, Jim. And good morning, everyone.

I'll begin with a summary of the fourth quarter and then provide more detailed comments including some on the performance of the segments. Next, I'll discuss the balance sheet and free cash flow before concluding with comments on our high-level assumptions for 2025, as well as expectations for the first quarter.

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Beginning on Slide 9. Sales and revenues were \$16.2 billion, a 5% decrease versus the prior year. As Jim mentioned, sales were slightly lower than we had anticipated, which together with unfavorable mix, resulted in lower-than-expected margins for the quarter. Adjusted operating profit was \$3 billion, and our adjusted operating profit margin was 18.3%. Profit per share was \$5.78 in the fourth quarter compared to \$5.28 in the fourth quarter of last year. Adjusted profit per share was \$5.14 in the quarter, a 2% decrease compared to \$5.23 last year. Adjusted profit per share excluded a discrete tax benefit of \$0.46 for a tax law change related to currency translation. Mark-to-market gains of \$0.23 for the remeasurement of pension and other post-employment benefit plans was also excluded in addition to restructuring costs of \$0.05 in the quarter.

Other income and expense was \$185 million favorable versus the prior year, mostly driven by a positive currency impact related to ME&T balance sheet translation, which compared to a negative impact in the fourth quarter last year. As I mentioned previously we do not anticipate currency translation movements, so the positive impact on the fourth quarter of 2024 helped to offset the impact of operating profit being lower than expected.

Excluding discrete items, the provision for income taxes in the fourth quarter of 2024 reflected a global annual effective tax rate of 22.2%. This was slightly lower than we had expected a quarter ago and benefited the quarter by \$0.09. Finally, the year-over-year impact from the reduction in the average number of shares outstanding primarily due to share repurchases resulted in a favorable impact on adjusted profit per share of approximately \$0.24 as compared to the fourth quarter of 2023.

Moving on to Slide 10. I'll discuss the top line results for the fourth quarter. Sales and revenues decreased by 5% compared to the prior year, primarily impacted by lower sales volume. Price was unfavorable year-over-year and about in line with what we had expected. Lower volume was driven by the impact from changes in dealer inventories and a 2% year-over-year decrease in total sales to users. Total machine dealer inventory decreased by \$1.6 billion in the quarter compared to \$1.4 billion decrease in the prior year. The decrease in machine dealer inventory was larger than we had expected and is mostly a function of higher-than-anticipated sales to users across both Construction Industries in North America and Resource Industries. Services revenues increased in the quarter compared to 2023. As I mentioned, the sales decrease in the quarter was slightly larger than we had anticipated. This was mostly due to services growing at a slightly slower rate than we had expected and some delivery delays in Energy & Transportation.

Moving to operating profit on Slide 11. Operating profit in the fourth quarter decreased by 7% to \$2.9 billion. Adjusted operating profit decreased by 8% to \$3 billion, mainly due to the profit impact of lower-than-expected sales volume. As I mentioned, for the fourth quarter, the adjusted operating profit margin was 18.3%, a 60-basis point decrease compared to the prior year. This was lower than we had anticipated, mainly due to lower-than-expected sales volume and the impact of unfavorable mix.

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On Slide 12. Construction Industries sales decreased by 8% in the fourth quarter to \$6 billion. This was slightly below our expectations on lower-than-anticipated volume. Compared to the prior year, the 8% sales decrease was primarily due to unfavorable price realization and lower sales volume. The decrease in sales volume was mainly driven by lower sales of equipment to end users and dealers reducing their inventory by slightly more than they did during the fourth quarter of 2023. By region, Construction Industries sales in North America decreased by 14%. In Latin America, sales increased by 6%. Sales in the EAME region decreased by 1% and Asia Pacific sales decreased by 2%.

Fourth quarter profit for Construction Industries was \$1.2 billion, a 24% decrease versus the prior year. This was primarily due to unfavorable price realization as a result of the impact of the post-sales merchandising programs that we discussed with you in October. The segment's margin of 19.6% was a decrease of 390 basis points versus the prior year. The margin was lower than we had anticipated, primarily impacted by lower volume and unfavorable mix. Manufacturing costs were also unfavorable versus our expectations, principally due to a headwind from cost absorption as our inventory in Construction Industries declined.

Turning to Slide 13. Resource Industries sales decreased by 9% in the fourth quarter to \$3 billion. This was below our expectations mainly due to services growing at a slightly lower rate than we had anticipated. As we compare to the prior year, the 9% sales decrease was primarily due to lower sales volume, mainly driven by the impact from changes in dealer inventories. Dealer inventory decreased more in the fourth quarter of 2024 than it did in the fourth quarter of 2023.

Fourth quarter profit for Resource Industries decreased by 22% versus the prior year to \$466 million. This is mainly due to the profit impact of lower sales volume. The segment's margin of 15.7% was a decrease of 280 basis points versus the prior year. This was lower than we had anticipated, primarily due to lower volume.

Now on Slide 14. Energy & Transportation sales of \$7.6 billion were about flat versus the prior year. Sales were slightly below our expectations due to a lower-than-expected services growth rate, largely in Oil and Gas and the timing of deliveries of international locomotives. Compared to the prior year, sales were roughly flat as the impact of lower sales volume was mostly offset by favorable price realization. By application, Power Generation sales increased by 22%. Transportation sales were lower by 1%, Oil and Gas sales decreased by 14% and Industrial sales decreased by 14%.

Fourth quarter profit for Energy & Transportation increased by 3% versus the prior year to \$1.5 billion. The increase was primarily due to favorable price realization, partially offset by the profit impact of lower sales volume. The segment's margin of 19.3% was an increase of 70 basis points versus the prior year. This was lower than we had anticipated, primarily due to lower-than-expected volume and an unfavorable mix of products.

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Moving to Slide 15. Financial Products revenues increased by 4% versus the prior year to about \$1 billion, primarily due to higher average earning assets in North America and higher average financing rates across all regions except North America. Segment profit decreased by 29% to \$166 million. This was mainly due to an unfavorable impact from equity securities in addition to lower margin and a higher provision for credit losses. Our customers' financial health remains strong.

Past dues were 1.56% in the quarter, down 23 basis points versus the prior year and our lowest level since 2005. The allowance rate was 0.91% remaining near historic lows. Business activity at Cat Financial remains healthy. Retail credit applications increased and our retail new business volume grew by 3% versus the prior year. This was our highest level since 2012, supported by attractive financing packages for customers choosing to buy Caterpillar equipment. We continue to see proportionally more of our sales financed through Cat Financial, in addition, demand for used equipment remains healthy and inventories remain at low levels. Conversion rates are above historical averages as customers choose to buy equipment at the end of their lease term.

Moving on to Slide 16. We continue to generate strong ME&T free cash flow. The \$9.4 billion in 2024 was near the top end of our target range and just slightly lower than the prior year despite a larger payment for short-term incentive compensation and higher capital expenditure. The Capex for year was about \$2 billion, which was in line with our expectations.

Moving to capital deployment. In 2024, we returned \$10.3 billion to shareholders through repurchased stock and dividends. On share repurchases, we deployed \$7.7 billion as we continue to fulfill our objective to be in the market on a more consistent basis. Our balance sheet remains strong with an enterprise cash balance of \$6.9 billion, in addition, we hold \$2 billion in slightly longer-dated liquid marketable securities to improve yields on that cash.

Now on Slide 17. Let me start with a high-level overview of our expectations for the full year. We expect a slight decrease in sales for 2025 with an unfavorable impact from both volume and price. Due to the impact of post-sales merchandising programs, price realization should account for about a 1% decrease in sales for the full year. On margins, the impact of price, together with higher depreciation costs due to the investments we are making should result in adjusted operating profit margins being in the top half of the target range of the expected level of sales rather than being above the top end of the range as occurred in 2024. Our margin targets are progressive, so while we would expect volume to have an impact on absolute margins, our target range is adjusted for lower sales.

We expect a slight headwind in other income and expense in 2025, primarily due to lower interest income mostly due to lower interest rates, as well as the absence of the positive currency benefit from ME&T balance sheet translation that occurred in 2024. As I mentioned, we do not anticipate translation movements in our expectations. We expect restructuring costs of approximately \$150 million to \$200 million in 2025. We anticipate a global annual effective tax rate of 23% for 2025, excluding discrete items. While the impact of the share buyback should be

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positive, we expect to have less ME&T free cash flow to deploy in 2025. This implies a less favorable impact to profit per share in 2025 as compared to 2024.

By segment, lower sales in Construction Industries and Resource Industries will be partially offset by sales growth in Energy & Transportation. For Construction Industries, we expect lower sales in 2025 based on the outlook Jim described and unfavorable price realization. In Resource Industries, we anticipate slightly lower sales versus 2024, driven by unfavorable price realization and slightly lower volume. Higher volumes and favorable price in Energy & Transportation should drive sales growth, though sales remain constrained, and so the benefits of the investments we are making in large engines begin to flow through beyond 2025. We also anticipate another year of services growth in each of our primary segments. Currently, we do not anticipate a significant change in dealer inventory of machines by the end of 2025.

Moving on to ME&T free cash flow. We expect to be in the top half of our target range of \$5 billion to \$10 billion. The first quarter of 2025 will be impacted by a \$1.4 billion cash outflow related to the payout of last year's incentive compensation. We anticipate CapEx of about \$2.5 billion in 2025 as we continue to make disciplined investments that are right for our business, governed by our focus on growing absolute OPACC dollars. This includes the multi-year capital investment to expand our large engine volume output capability that we mentioned last year.

Turning to Slide 18. To assist with your modeling, I'll provide some color on the first quarter. Starting with the top line, we expect lower sales versus the prior year. For perspective, in a typical year, we see our lowest sales of the year in the first quarter. In 2025, we anticipate that trend to continue but be more pronounced as sales in the first quarter should account for a lower percentage of full year sales than is typical by about 100 basis points. This decrease is mainly due to our expectations for dealer inventory movements and price, which primarily impacts machines.

Energy & Transportation is expected to show normal seasonality with sales growing throughout the year. Let me explain. Although dealers did reduce their machine inventories significantly in the fourth quarter, they remain around the top end of the range as we enter 2025. This compares with dealer inventories and Construction Industries being towards the middle of the range at the beginning of 2024. As a result, we expect them to build correspondingly less machine inventory during the first quarter than the \$1.1 billion that they've built in the first quarter of 2024. As we expect [machine] dealer inventory to be about flat by year-end, we should see a tailwind to sales in the fourth quarter as we don't expect a similar machine dealer inventory change as we have seen in the last two years (company clarified after the call). We also expect unfavorable price realization for machines in the first quarter due to the impact of post sales merchandising programs. We would expect these price impacts to be greater for machines in the first half of the year as the noticeable impact of post-sales merchandising programs started in the third quarter of 2024, making for an easier comparison in the second half.

So, to pull together the impact by segment, we anticipate lower sales in Construction Industries in the first quarter, impacted by lower sales to users, the headwind from changes in dealer

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inventory and price, the impact of which should be similar to what we saw in the fourth quarter of 2024. In Resource Industries in the first quarter, we expect lower sales volume versus the prior year, impacted by lower volume and unfavorable price realization. In Energy & Transportation, we anticipate similar sales in the first quarter versus the prior year as continued strength in Power Generation is about offset by lower Oil and Gas and Transportation sales. Price should be positive for Energy & Transportation.

Now I'll provide some color on first quarter margin expectations. Though enterprise margins are typically stronger in the first quarter compared to the remaining quarters of the year, we do not expect the seasonal trend to occur in 2025. Compared to the prior year, we anticipate a lower enterprise adjusted operating profit margin in the first quarter due primarily to lower-than-usual volume and price. Volume is impacted by the lower build of machine dealer inventory and slightly lower sales to users for machines. Unfavorable price realization for machines is principally due to the factors I've discussed previously which will be partially offset by favorable price in Energy & Transportation. We expect that there will be improvement in [fourth] quarter margins offsetting the volume impact in the first quarter due to stronger volume in the fourth quarter than is typical (company corrected after the call).

By segment in the first quarter, in Construction Industries, we anticipate lower margins compared to the prior year due primarily to lower volume and price. We do not expect to see the margin benefit we typically see in the first quarter of the year as compared to the fourth quarter, which is generally in the range of 100 to 200 basis points. Again, some of this will be offset in the fourth quarter as volume is favorable and price more neutral. In Resource Industries, we anticipate lower margin in the first quarter compared to the prior year, mainly due to lower volume and unfavorable price realization. In Energy & Transportation, we expect slightly lower margin versus the prior year as favorable price realization is more than offset by higher manufacturing costs and unfavorable mix impacts. Again, as a reminder, this detail is provided to help you model the first quarter and does not impact our expectations for the full year that I set out earlier, which is a slight decrease in sales and revenues for the year and margins in the top half of the target range.

So, turning to Slide 19, let me summarize. Adjusted profit per share of \$21.90 exceeded last year's record by 3%. This was our third straight year with record adjusted profit per share. Adjusted operating profit margin of 20.7% exceeded the top of our target range. ME&T free cash flow of \$9.4 billion was near the top of the target range of \$5 billion to \$10 billion. For 2025, while we expect a slight drop in sales, we expect to be in the top half of the adjusted operating profit margin range and in the top half of the ME&T free cash flow target range, and we anticipate another year of services growth. We continue to execute our strategy for long-term profitable growth. And with that, we'll take your questions.

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QUESTION & ANSWER:

Operator^ (Operator Instructions) Your first question comes from the line of Stephen Volkmann with Jefferies.

Stephen Volkmann^ I guess I'll dive in if I could, since it's timely. Just Jim, how are you seeing the data center business now? There's obviously some concern about what that's going to look like longer term. I know you're adding some capacity. Can you just discuss any changes in your view relative to data center demand?

Jim Umpleby^ We continue to see strong demand for both our reciprocating engines and our gas turbines, just in conversations with customers. It's really all about how quickly can you increase capacity for your reciprocating engines, and how quickly can you get us our large gas turbines. So, we're very encouraged about what we see happening in the marketplace. Many customers are planning orders with us over multiple years to ensure that we can meet their needs. And as a reminder, we said that with the investments we're making in our large reciprocating engines, we are expanding capacity by about 125% compared to 2023 that will happen over the next several years. And with Solar, we have a new product, the Titan 350, we're very encouraged by the acceptance in the market that we're seeing for that product. And of course, a lot of it is being driven by data centers. So again, still very, very positive from our perspective.

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

Michael Feniger^ Just on the -- for dealers, just to see the inventory, I think in 2023, machines built \$700 million for the full year, '24 inventories down \$700 million I know you guys are thinking North American construction end user is down a little bit on '25. So how do you kind of get comfortable with where those dealer inventories are going to stay the same on the machine side? And did anything change post-election in terms of the views around the inventories? Because I think there was some comments that the retail sales end use was a little bit better than expected in terms of how it's informing your view on '25.

Andrew Bonfield^ So, as you correctly point out, we did see a dealer inventory build for machines in 2023. Most of that actually was in [Construction] Industries (company corrected after the call). And in fact, most of the decline this year year-over-year actually is in Resource Industries rather than Construction Industries. So that's part of the balance.

As we know with Resource Industries, a lot of that is around timing of commissioning. We did see better than we expected commissioning in the fourth quarter [of 2024], which will have some impact in the first quarter of 2025, but that was a positive as dealers were able to deliver more machines to customers, particularly on the Resource Industries side (company clarified after the call).

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Overall, on the Construction Industries side, we engage with conversations with dealers, dealers are independent businesses. They determine what level of inventory they hold. They base that on their expectations for the outlook for the markets.

Obviously, our expectation based on what we're seeing today is, as you know that not all of our end markets are exactly in sync as we think about from a Construction Industries perspective. And based on our conversations, we don't expect a material reduction in dealer inventory as we go through the year. Yes, we did see STUs were slightly better in North America than we expected in the fourth quarter. That is probably one of the first times we've actually seen that trend and maybe some benefit from some of our post-sales merchandising programs, but we're not calling that for 2025 yet. We still think that's somewhere where we need a lot of work still to be seen to make sure that we're actually seeing that continue to flow through.

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

Robert Wertheimer^ So my question is on -- you have a large and diverse Oil and Gas business. I'm wondering if you could characterize, especially if you will, on gas compression kind of where you think you are in the cycle? Obviously we've had Europe, we've had Russia, we've had lots of different demand shifting around. And there may be other growth areas, et cetera. I just wonder if you could give a little bit of an outlook on Oil and Gas.

Jim Umpleby^ Yes, certainly. We are expecting moderate growth in 2025 for Oil and Gas in total. For reciprocating engines, we expect engine services to be slightly down for the year, really driven by gas compression and well servicing. We did see some order pickup in reciprocating engines gas compression in late 2024. On the Solar Turbines side, very healthy backlog, healthy order intake and inquiry activity. We do expect growth in Oil and Gas in the year. We are seeing, to your specific question about gas compression, Solar does have a lot of activity around gas transmission, gas compression, particularly in the United States, so many pipeline customers are adding compression to existing pipelines. So again, that business is quite strong and a lot of quotation activity as well.

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

David Raso^ Curious, obviously trying to think about margins for '25 for the segments. And I was a little surprised by price cost being negative while the manufacturing cost had been a positive year-over-year, all of a sudden the comp gets harder, right? That's why the fourth quarter wasn't going to be as easy. But to see the cost up, I noticed you called out Energy & Transportation, but -- does that imply Construction Industries and Resource Industries manufacturing costs were still a benefit year-over-year and all the cost is in Energy & Transportation? And maybe if you can just provide that kind of framework in the fourth quarter to how to think about full year '25 price/cost?

Andrew Bonfield^ David, if you recall actually in my comments, I did call out within Construction Industries negative absorption in the fourth quarter as we did reduce Construction

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Industries inventory. So, manufacturing costs were also negative in Construction Industries. In Energy & Transportation, most of that was a function actually of putting more labor in the factories to get more engines out the door at the end of the year. And that obviously reflects the demand we're seeing. And obviously remember that we are still trying to build up capacity, particularly on the large engine side, and that really is what's driving that in particular.

On material costs, our expectations are the material costs will decline in 2025. However, there are some offsets within manufacturing costs, which go the other way. Some of that relates to volume and absorption as a result of that, which means that we don't get the cost price offset that we've had in previous years. So, most of that is the reason and the rationale by segment for that. So yes, material costs will be favorable. (Statement removed for clarification purposes). Remember also other things come in mix and so forth as well. And finally, just one thing to remember, the depreciation I called out, actually, most of that is within manufacturing costs as well.

Operator^ We'll go next to Jerry Revich at Goldman Sachs.

Jerry Revich^ Jim, Andrew, I'm wondering if you could just talk about your Solar Turbines lead times? And how are you thinking about potentially adding additional roofline capacity for turbine specifically, we're hearing optimism on the Titan 350 from the customer base and assuming what we saw earlier this week is a blip on the radar. I'm just wondering how are you thinking about capacity for that range of products?

Jim Umpleby^ As I mentioned earlier, we're seeing strong backlog and strong inquiry and order activity for Solar for both Power Generation and gas compression. We can increase capacity without building new factories since you mentioned roofline in your question. So certainly, there are things that we can do within our facilities. One is just increasingly manufacture and you can do things like add an additional test cell to an existing facility, maybe add an engine build pit, things like that.

One of the big issues, of course, is working with suppliers to ensure that we get enough components from suppliers. And of course, just given the strength in the business, there's a lot of companies out there working with those same suppliers. That can be a bit of a limiting factor. But in terms of actual investments required to increase capacity based on what we see coming, we don't see a need to build a brand-new factory or anything like that.

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

Chad Dillard^ So my question is on the 2025 operating profit guide. So, you're guiding to the top end of the range, for a given level of revenue for the full year. You've been guiding that way, I think, for the last year and actually have been hitting it. So, I guess what would give you -- what do you think would drive you to, I guess, bring that guide back to the midpoint? Is it price cost normalizing? And in that same vein, I guess like how are you thinking about the evolution of price cost to '25? I guess like when does that pressure peak in comps get easier?

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Jim Umpleby^ And maybe I'll start, and then I'll kick it over to Andrew. Firstly, I believe what we said is we expect to be in the top half of the range for adjusted operating profit margin for 2025. And of course, our key measure for our team is to grow absolute OPACC dollars, because we believe that most closely aligns with Total Shareholder Return over time. Of course, OPACC being "Operating Profit After Capital Charge" So getting the return on the capital that we invest. So again, a reminder we expect for 2025 to be in the top half of the adjusted operating profit margin target range. And with that, I'll turn it over to Andrew.

Andrew Bonfield^ And so on the price realization point, this really is related to the post sales merchandising programs we discussed in the third quarter. Remind you that as I've explained in the third quarter, that will take about a year to flow through. That relates to the fact that in a world where demand is normalizing and supply is less constrained, we have merchandising programs to offer customers, particularly things like buying down interest rates. As we said before, that's also an attractive option for us because we get some margin benefit from that within Cat Financial over the term of the financing deal. What that does mean though is as you saw from the Cat Financial numbers, new business volume is very high. Actually, their share is up. So effectively over time, we'll recover a little bit through Cat Financial, but we will have some margin pressure in the short term from those as those programs normalize. That mostly impacts machines, mostly impacts the first and second quarters, first half of the year. Once we get past Q3, we'll be past that and actually then return probably much more to the normal evolution of price costs, which obviously we always try and work to make sure we can offset the two.

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

Jamie Cook^ My question relates to Energy & Transportation, I guess, first, you called out sort of delays in shipments, I think, in the fourth quarter. Can you just give us color on that, how big that was and how -- when that hits in terms of 2025. And then I was also surprised just your top line growth wasn't better in 2024. So how do we think about top line growth in 2025 and the incremental capacity coming online and how that helps your top line? Just any color there on how much your, I guess, top line in Energy & Transportation was constrained in 2025 because of lack of capacity.

Jim Umpleby^ I'll answer the second part of the question first, and I'll kick it to Andrew for the first part. So, as we've mentioned, we're making that investment to increase our capacity in large reciprocating engines by 125% that takes some time. I think we talked about a 4-year period to increase that capacity, so it does take time. So, we do not expect that to be complete and to have an impact on 2024 and that's the case. We could, in fact, ship more if we could build more, but we're working hard to increase that capacity.

Andrew Bonfield^ As regards to the fourth quarter, most of the impact, as I indicated in my comments, was relating to services, particularly in Oil and Gas, that we'll need to see how that pans out as we go through the first quarter. With regards to the OE side, most of that was

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international locomotives, and that should hit early in the first half of 2025. And overall, just to remind you, we do expect Energy & Transportation sales growth in 2025.

Operator^ We'll go next to Mig Dobre at Baird.

Mircea Dobre^ Andrew, just a very quick clarification on your comments for Construction Industries. At least, as I heard is understood, the relative pressure that we've seen in Q1 might be associated with this segment. So, can you give us a sense for how you see this segment revenue and margin progressing sequentially? So relative to what you had in the fourth quarter?

Andrew Bonfield^ Normally what you would see in Construction Industries is a first quarter benefit on sales and revenues, mainly due to dealer inventory builds. Last couple of years, that's been around about \$1 billion. We expect that to be significantly less in the first quarter of this year. Correspondingly, we've actually seen quite a significant dealer inventory reduction in the fourth quarter that will be a little bit less [in the fourth quarter of 2025] (company clarified after the call). So, this is really just a non-operating. Actually, as we look at underlying sales to users, they will be pretty much aligned throughout the whole of the year and will be down slightly for the full year.

So that is the sort of underlying characteristics on the top line. The other overlay is really around price. Price will impact the first half [of 2025]. The impact on price for Construction Industries in the fourth quarter [of 2024] was around \$300 million. That will be the impact and we estimate impact on the first quarter [of 2025] (company clarified after the call). And obviously as we go through the rest of the year and particularly in the second half, the comparisons become easier and that will actually neutralize as we get into the second half. So, it's really just overall, just really a timing issue relating to dealer inventory, mostly and the timing of price. When you take those two things out, effectively sales to users should actually be broadly much same first half, second half. There is no demand change we're expecting as we go through the year.

Operator^ And next, we'll move to Tami Zakaria at JPMorgan.

Tami Zakaria^ So the order growth in the fourth quarter, I'm curious, how did Construction Industries and Resource Industries orders do sequentially in the quarter versus the third quarter? It seems like Energy & Transportation was strong but would love any directional commentary on the other two segments if you're able to provide.

Andrew Bonfield^ So Tami, overall, as Energy & Transportation was the major driver. We did see some improvement in orders in Resource Industries, particularly related to some large contracts that we've announced previously. And then [machines in total] was broadly flat for the quarter (company clarified after the call).

Operator^ We'll go next to Tim Thein at Raymond James.

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Timothy Thein^ Maybe, Andrew, just back to the -- you had mentioned within the commentary around Construction Industries the issue of inventory absorption or the headwind from it. As you think about just Cat more broadly, should we -- in an environment where the top line is slightly lower. Should we think about that as a headwind more broadly for Cat as a whole in '25? Just given where inventory levels are for the company. Is that something we should be factoring in, in terms of that discussion around material cost? Or is it less of a headwind as you kind of think about the margin outlook?

Andrew Bonfield^ I think as I tried to indicate to David, there are other factors within manufacturing costs, which go the other way. Absorption will be one of them slightly going against, obviously because our intention would be effectively to reduce volume next year, which will impact our rate of absorption and potentially inventory as well.

Inventory is a little bit of a more difficult subject. Just to remind you, we are a very large complex company. We have hundreds of products that we hold inventory for and not all of those products have exactly the same lead time and some of the longer lead time projects are where we have strongest at the moment, things like Solar and also large engines. And so, some of those may actually continue to build inventory, where we may see some inventory trimming within Construction Industries, for example, with slightly lower volumes and also Resource Industries as we go through the year.

So, it is going to be a little bit of a mixed bag, but there may be some impact on absorption that was built into the fact that obviously we're going to see a favorability from material costs coming through manufacturing costs added to the depreciation I talked about a moment ago as well (company removed "not" after the call).

Operator^ Our next question comes from Angel Castillo at Morgan Stanley.

Angel Castillo^ Just wanted to maybe go into the competitive environment a little bit more as you think about the first quarter, continuing to see some of the flow through of the merchandise programs that you mentioned. I guess as we evolve into the second half, I get the comparatives getting easier, I guess, maybe what gives you confidence though that the pricing and competitive environment doesn't worsen? And maybe if you could overlay on that. Just any views on kind of Trump policies and implications on kind of construction activity in the U.S.? And whether -- how you kind of see that impacting demand overall?

Andrew Bonfield^ So, on the merchandising programs, some of that is actually within our control. Obviously, our focus is actually growing absolute OPACC dollars, remind you. So, we don't necessarily focus on margin per product. But obviously we'll take that into account and pricing takes into account the value we provide customers and a lot of other things.

Obviously, the price we're talking about is relating to the merchandising programs and we don't expect those to change much from where we have them today. And in fact, actually, in a lower interest rate environment, actually, they will become less of the total, so may actually be the

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opposite if interest rates do start to fall as we go through the year based on that being buying down of interest rates.

Jim Umpleby^ And just in terms of the administration, certainly if the push for deregulation and other kinds of changes from a regulatory perspective, helps increase economic growth, particularly in the United States, that should be a positive again. But we have to see how that all plays out, but that certainly has the potential to be positive for us.

Operator^ Next, we'll move to Kristen Owen at Oppenheimer.

Kristen Owen^ I wanted to come back to sort of the margin target guidance coming in at the upper half of the range. You did make some adjustments to that margin target when we were at the height of the supply chain dislocation. Just given the strong performance since then, the outlook even inclusive of that negative price impact. I'm wondering how we should think about this range? Is it still valid? Or should we be actually thinking about an upward shift in that range over time?

Jim Umpleby^ As we think about 2025, we're talking about being in the top half of that range. And so certainly for this year, we're not anticipating changing it. And again, just as a reminder, as I mentioned earlier, our driver here is really absolute OPACC dollars because that most closely we believe corresponds to increased Total Shareholder Return over time. And so, what we try to do is to give investors that guide to give you a sense of where we'll be, we make various investments to grow our business profitably and for '25, we said to be in the top half of the range. And as we always do, a year from now we'll reassess and let you know what we think for 2026.

Andrew Bonfield^ And Kristin, just the other point to always remember is our margin targets are very progressive at the top end of the range. [Gross] margin [have to effectively be] up [to extend] the top end of that target range, and well above our average gross margin for our products across the whole (company clarified after the call). So, it does require a lot of operating leverage. So that is one of the reasons again why we took into account the fact that while performance has been strong, we're back in the range now and we still think that actually is a valid range for us to work with.

Operator^ We'll go next to Steven Fisher, UBS.

Steven Fisher^ I know it's still very early to really understand exactly all the policies coming out of the administration. But I wanted to ask a little bit about tariffs if it hasn't been asked already. I'm curious about how you're thinking about contingency plans and strategies for managing tariffs on the products that you import from China into the U.S.? I know generally, you have a strategy of producing for local, but I think there's maybe some products coming in from China. Just curious how you're thinking about the contingency plans and strategies for that.

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Jim Umpleby^ Certainly it's going to take time to see how this plays out. Certainly, a lot of discussions going on around tariffs, and we'll have to see what actually gets put into place in the end. We are a global manufacturer, but our largest manufacturing presence is in the United States, and we are a net exporter outside of the U.S., and that positions us pretty well versus many other companies out there. Having said that, as you say, we do tend to try to produce in region, for region. But yes, some products and components, particularly move around. But as you can imagine, something we keep a close eye on, and we'll deal with it.

We've been around 100 years, and we've seen many different administrations with different attitudes on these issues, and we'll deal with it. But again, the fact that we have such a large U.S. manufacturing presence, I think, positions us pretty well.

Operator^ And today's final question comes from the line of Kyle Menges from Citi.

Kyle Menges^ I was hoping if you could provide a little bit more color on what you're seeing in RI. Just you talked about some order improvement in 4Q. Just how are customer conversations progressing in orders so far in 1Q? And maybe just talk a little bit about some of the pricing actions you're taking in RI? I think you said it would be negative in 1Q. So I would just love to hear some color on those items.

Jim Umpleby^ Yes. Certainly, as I mentioned earlier, our customers continue to display capital discipline, but we are encouraged by the fact that the key commodities that our products help our customers produce remain above investment thresholds and kind of some of the things we look at to get a gauge of what's happening in the industry. We look at product utilization, how the hours that are being put in our machines, and those are high. The number of parked trucks is relatively low. And the age of the fleet is relatively elevated as well.

And again, we're continuing to invest in our autonomous solutions, and we continue to see strong customer acceptance of that. You stop and think about some of the things that are happening. We talked about data center build-outs and all the rest. I mean again, you think about commodities like copper that should be a positive for that over time. Having said that, again, our customers are just displaying capital discipline in terms of price.

Andrew Bonfield^ Price, we do expect some marginally negative impacts in the first quarter, as we said, and that would be mostly due to the fact that, obviously we are also putting merchandising programs, particularly where we think about things like Heavy Construction, Quarry and Aggregates are the major areas that will be affected there.

Jim Umpleby^ Okay. Great. Well, I just want to thank everyone again for joining us. We always appreciate your questions. I'd like to once again thank our team for their strong performance in 2024, delivering a record adjusted profit per share and strong ME&T free cash flow. We've been around 100 years. And so, as we kick off our centennial year this year, we certainly remain committed to serving our customers. We'll continue to execute our strategy and invest for long-term profitable growth. And with that, I'll turn it over to Alex.

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Alex Kapper^ 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 also find a fourth quarter results video with our CFO and the SEC filing with our sales-to-users data. Click on investors.caterpillar.com and then click on Financials to view those materials.

Finally, I'd like to thank Ryan for his support through our transition, and I wish him the best as he moves on to another role in Caterpillar.

If you have any questions, please reach out to me or Rob Rengel. The Investor Relations general phone number is (309) 675-4549. Now let's turn it back to Audra to conclude our call.

Operator^ That concludes today's call. Thank you for joining. You may all disconnect.