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# Caterpillar

First Quarter 2025 Earnings

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## CORPORATE SPEAKERS:

**Alex Kapper**

*Caterpillar; Vice President of Investor Relations*

**Jim Umpleby**

*Caterpillar; Chairman, Chief Executive Officer*

**Joseph Creed**

*Caterpillar; Chief Operating Officer, Incoming Chief Executive Officer*

**Andrew Bonfield**

*Caterpillar; Chief Financial Officer*

## PARTICIPANTS:

**Michael Feniger**

*BofA; Analyst*

**Robert Wertheimer**

*Melius Research; Analyst*

**Tami Zakaria**

*JPMorgan; Analyst*

**Kyle Menges**

*Citigroup; Analyst*

**David Raso**

*Evercore ISI; Analyst*

**Jamie Cook**

*Truist Securities; Analyst*

**Angel Castillo**

*Morgan Stanley; Analyst*

**Stephen Volkmann**

*Jefferies; Analyst*

**Kristen Owen**

*Oppenheimer; Analyst*

**Jerry Revich**

*Goldman Sachs; Analyst*

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## PRESENTATION:

Operator^ Welcome to the First Quarter 2025 Caterpillar Earnings Conference Call.

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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.

Please go ahead.

Alex Kapper^ Thank you, Audra. Good morning, everyone. And welcome to Caterpillar's first quarter of 2025 earnings call. I'm Alex Kapper, Vice President of Investor Relations. Joining me today are Jim Umpleby, Chairman and CEO; Joe Creed, Chief Operating Officer and incoming CEO; Andrew Bonfield, Chief Financial Officer; Kyle Epley, Senior Vice President of the Global Finance Services Division; and Rob Rengel, Senior Director of Investor Relations. 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 replay at [investors.caterpillar.com](https://investors.caterpillar.com) under Events & 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 Chairman and CEO, Jim Umpleby.

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

Since the beginning of the year, we have been celebrating our centennial at facilities and trade shows around the world. Earlier this month, we commemorated Caterpillar's founding on April 15<sup>th</sup> by hosting events across the company, and I had the honor of ringing the opening bell at the New York Stock Exchange surrounded by all living and past CEOs of Caterpillar. It was a historic celebration. On the same day, we also announced that Joe Creed will succeed me as CEO tomorrow, May 1. The announcement followed a multi-year succession planning process by Caterpillar's Board of Directors. I have great confidence in Joe and the rest of the Executive Office to lead Caterpillar going forward. It's been a great honor and privilege to serve as Chairman and CEO for the past eight years, and I look forward to my new role as Executive Chairman.

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Now moving to Slide 4. I want to thank our global team for another quarter of solid results, which reflect the benefit of the diversity of our end markets and the disciplined execution of our strategy for long-term profitable growth. Although sales were broadly in line with our expectations when excluding the negative impact from currency, we delivered adjusted operating profit and adjusted operating profit margin above our expectations. Very strong order rates resulted in backlog growth of \$5 billion, an all-time record for organic backlog growth in a quarter. The backlog increased for all segments and was led by Energy & Transportation.

Our strong balance sheet allowed us to deploy over \$4 billion to shareholders through share repurchases and dividends during the quarter. As you know the current environment is dynamic, and we will discuss the potential impacts to 2025 in a moment. But to start, I'll share my perspectives about this quarter's performance. Joe will then discuss the second quarter outlook and our full-year scenarios. Finally, Andrew will provide a detailed overview of results and key assumptions looking forward.

For the first quarter, sales and revenues were down 10% versus last year. The sales decrease was primarily due to lower sales volume and unfavorable price realization versus the first quarter of 2024. Lower sales volume was primarily driven by the impact from changes in dealer inventories. Total dealer inventory increased by about \$100 million in the first quarter of 2025, compared to about \$1.4 billion in the first quarter of 2024. Machine sales to users were stronger than we expected in the first quarter, resulting in flat machine dealer inventory versus our expectation for growth in dealer inventory during the quarter. First quarter adjusted operating profit margin was 18.3%, above our expectations, primarily due to favorable manufacturing costs. We achieved quarterly adjusted profit per share of \$4.25.

Turning to Slide 5. As I mentioned earlier, sales and revenues declined 10% in the first quarter to \$14.2 billion. Compared to the first quarter of 2024, machine sales to users, which includes Construction Industries and Resource Industries, declined by 1%, but were better than our expectations. Energy & Transportation continued to grow as sales to users increased 13% driven primarily by Power Generation. Sales to users in Construction Industries were up 3% year-over-year.

In North America, sales to users were slightly higher than the prior year and better than we expected. Growth in sales to users for residential construction more than offset a slight decline in non-residential and lower rental fleet loading. Rental fleet loading was in line with our expectations, and dealers' rental revenue continued to grow in the quarter. Sales to users increased in EAME driven by better-than-expected sales to users in Africa and the Middle East. In Asia/Pacific, sales to users declined, in line with our expectations. Sales to users in Latin America continue to grow and at a higher rate than anticipated.

In Resource Industries, sales to users declined 10%, which was better than we expected. Mining as well as Heavy Construction and Quarry & Aggregates were both better than expected, primarily due to off-highway trucks placed into service sooner than anticipated.

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In Energy & Transportation, sales to users increased by 13%. Power Generation sales to users grew significantly by 58%, primarily due to demand for reciprocating engines for data center applications. Turbines and turbine-related services for Power Generation also grew. Sales to users of reciprocating engines declined in Oil & Gas applications due to softness in well servicing. Turbines and turbine-related services for Oil & Gas declined due to a difficult comparison versus the first quarter of 2024 and some delay in timing of deliveries in the first quarter of 2025. Transportation sales to users increased and Industrial sales to users grew slightly from a relatively low level.

Moving to dealer inventory and our backlog. In total, dealer inventory increased by approximately \$100 million versus the fourth quarter of 2024. Machine dealer inventory was about flat and grew less than we had anticipated due to better-than-expected machine sales to users in Construction Industries and Resource Industries. As I mentioned, backlog increased versus year-end 2024 by \$5 billion or 17%, driven by strong order rates in all three of our primary segments. Our backlog of \$35 billion is a record.

Moving to Slide 6. We generated ME&T free cash flow of \$200 million in the first quarter. The decline versus last year is primarily due to lower profit. We deployed \$4.3 billion to shareholders through nearly \$3.7 billion of share repurchases and about \$700 million 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 I'll turn it over to Joe.

Joseph Creed^ All right. Thank you, Jim. And good morning, everyone. I'll start today with a discussion of our second-quarter outlook and a range of scenarios for the full year before discussing our end markets. The first quarter ended with positive momentum after another quarter of better-than-expected sales to users and record organic growth in our backlog. However, the potential impact of tariffs has increased uncertainty and the situation remains fluid.

I'll start with our expectations for the second quarter where we have the best visibility and then cover the full year. Based on our current view, we anticipate sales in the second quarter to be similar to prior year. Sales growth in Energy & Transportation will be offset by lower machine sales in both Resource Industries and Construction Industries, primarily driven by unfavorable price, while volume is expected to be about flat. We expect lower enterprise adjusted operating profit margins versus the prior year without the additional headwind of tariffs, primarily due to lower price realization.

Additionally, for the second quarter, the tariffs which have been announced and implemented this year are currently estimated to be a cost headwind of about \$250 million to \$350 million. This estimate is net of our initial mitigation efforts and cost controls, which represent limited short-term actions that we were able to implement quickly. As you would expect, we are evaluating a broad range of longer-term mitigation actions. Many of these actions require more time to implement are more difficult to reverse and, therefore, require more clarity and certainty

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on the long-term environment around tariffs. As I mentioned, the situation remains fluid, and we will continue to monitor it closely.

Throughout our history, we've demonstrated the ability to navigate many different environments. I'm confident we're well-positioned to manage the impact of tariffs over time. Caterpillar is a global company and we have manufacturing locations around the world. Our largest manufacturing base is in the United States where we employ over 50,000 full-time employees. And we continue to be a net exporter. Caterpillar's business is resilient due to the diversity of our portfolio and the end markets we serve.

Moving on to the full year. I remain cautiously optimistic based on how we finished the first quarter. As Jim mentioned, machine sales to users in the first quarter were better than expected, especially in Construction Industries. This is a continuation of the positive momentum we saw at the end of last year and evidence that the merchandising programs we put in place are yielding results.

I'm also pleased with the continued growth in Power Generation as well as the first quarter order intake in all three segments, which led to record organic growth in our backlog. As a result, in a pre-tariff scenario, which does not include any impact from tariffs, we would have expected full-year 2025 sales and revenues to be about flat versus 2024. This would represent a slight improvement since our outlook last quarter. In this scenario, we would also expect adjusted operating profit margins to be in the top half of the target margin range based on the corresponding level of sales and revenues. ME&T free cash flow would also be in the top half of the \$5 billion to \$10 billion target range.

However, due to the tariff announcements and increasing economic uncertainty, we have evaluated a variety of scenarios to estimate the potential impact [of tariffs] on our results for the remainder of the year (company clarified after the call). In the event we see negative economic growth in the second half of the year, we would expect full year 2025 sales and revenues to only be down slightly versus 2024. This expectation is a reflection of the diversity of our end markets and the strength of our record backlog, especially for large engines and Solar Turbines where we have line of sight to production for the remainder of 2025.

Before considering additional mitigating actions we might take and assuming the tariffs in place today remain for the duration of 2025, we would still expect to be in the target margin range for adjusted operating profit as well as in the ME&T free cash flow target range for the year. Andrew will provide more details on key assumptions for the second quarter and full year in a moment. To further support our range of scenarios, I'll now share the latest view of our end markets based on current conditions.

Starting with Construction Industries. As I said earlier, we are encouraged by another quarter of better-than-expected sales to users and strong order rates across many of our regions as customers are responding to the attractive rates offered through Cat Financial. In North America, overall construction spending remains at healthy levels and infrastructure projects funded by the

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I/JA continue to be awarded. Sales to users in residential construction and dealer rental revenues continue to show growth. China has shown positive momentum in the 10-ton and above excavator industry, but from a very low level of activity. In Asia/Pacific outside of China, economic conditions continue to be soft. In the EAME, weak economic conditions in Europe remain, while conditions are supportive of investment in Africa and the Middle East. Construction activity in Latin America is expected to decline moderately throughout the year.

Moving on to Resource Industries. We are starting the year with strong order rates and backlog growth, particularly for large mining trucks. Rebuild activity is expected to remain healthy. Although most key commodities remain above investment thresholds, customers continue to display capital discipline. Customer product utilization remains high and the age of the fleet remains elevated. We also continue to see growing customer acceptance of our autonomous solutions. We believe the evolving energy landscape will support increased commodity demand over time providing further opportunities for long-term profitable growth.

And finally, in Energy & Transportation. The growth in backlog was driven by robust order activity in both Oil & Gas and Power Generation. Demand remains strong in Power Generation for both CAT reciprocating engines and Solar Turbines. Our ongoing discussions with data center customers give us confidence in our long-term outlook. We are focused on operational improvements to deliver orders today while increasing our large engine output capability through the previously announced multi-year capacity investment. For Oil & Gas reciprocating engines and services, we expect continuing softness in well servicing due to ongoing capital discipline by our customers, industry consolidation and efficiency improvements in our customers' operations. We do see positive momentum, however, in gas compression. As we previously mentioned, we can leverage our large engine platforms across a variety of applications. Based on current market conditions in well-servicing applications, we are able to serve additional Power Generation and gas compression demand while meeting customer needs. Solar Turbines Oil & Gas backlog remains strong, and we continue to see healthy order and inquiry activity. Demand for products in Industrial applications is expected to remain at a relatively low level, while Transportation remains stable.

With that, I'll turn it over to Andrew for a detailed overview of results and key assumptions looking forward.

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

I'll begin with a summary of the first 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 current assumptions for the full year as well as our expectations for the second quarter.

Beginning on Slide 8. Sales and revenues were \$14.2 billion, a 10% decrease versus the prior year. Adjusted operating profit was \$2.6 billion, and our adjusted operating profit margin was 18.3%. Both were slightly better than we had anticipated. Profit per share was \$4.20 in the first

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quarter, compared to \$5.75 in the first quarter of last year. Adjusted profit per share was \$4.25, compared to \$5.60 last year. Adjusted profit per share excluded restructuring costs of \$0.05 in the quarter. Other income and expense was unfavorable versus the prior year by \$49 million, primarily driven by unfavorable foreign currency impacts. Excluding discrete items, the estimated annual effective global tax rate was 23%. 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 \$0.17.

Moving to Slide 9. I'll discuss our top line results for the first quarter. Sales and revenues decreased by 10% compared to the prior year, primarily impacted by lower sales volume. Lower volume was mainly driven by the impact from changes in dealer inventories. In addition, price realization and currency were unfavorable year-over-year. Sales were broadly in line with our expectations if you exclude the impacts of currency movements, which we do not anticipate. The net sales impact of better-than-expected machine sales to users and the lower-than-anticipated machine dealer inventory was about neutral. Price realization was also about in line with our expectations.

Moving to operating profit on Slide 10. Operating profit in the first quarter decreased by 27% to \$2.6 billion. Adjusted operating profit decreased by 26% to \$2.6 billion, mainly due to the profit impact of lower sales volume and unfavorable price realization. The adjusted operating profit margin was 18.3%, a 390-basis point decrease versus the prior year. This was better than we had anticipated, mainly due to favorable manufacturing costs including freight, and cost absorption impacted by higher inventory levels in the quarter.

On Slide 11, I'll review the performance of the segments, starting with Construction Industries. Sales decreased by 19% in the first quarter to \$5.2 billion, slightly below our expectations, due to unfavorable price realization and currency impacts. Price realization was more unfavorable than we had anticipated, mainly due to the higher-than-expected volume of sales to users. Compared to the prior year, the 19% sales decrease was primarily due to lower sales volume and unfavorable price realization. The decrease in sales volume was mainly driven by the impact from changes in dealer inventories.

By region, Construction Industries' sales in North America decreased by 24%. In Latin America, sales decreased by 15%. Sales in the EAME region decreased by 13%. In Asia Pacific, sales decreased by 12%.

First quarter profit for Construction Industries was \$1.0 billion, a 42% decrease versus the prior year. This decrease was mainly due to the profit impact of lower sales volume and unfavorable price realization. The segment's margin of 19.8% was a decrease of 770 basis points versus the prior year. The margin was slightly stronger than we had expected, mainly due to the lower-than-anticipated manufacturing costs and lower-than-expected SG&A and R&D expenses. Price realization was slightly unfavorable compared to our expectations and acted as a partial offset.

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Turning to Slide 12. Resource Industries sales decreased by 10% in the first quarter to \$2.9 billion. Sales were slightly higher than we expected on stronger-than-anticipated sales to users, which benefited from the timing of deliveries of off-highway trucks. As we compare to the prior year, the 10% sales decrease was primarily due to lower sales volume, unfavorable price realization and currency impacts. Lower sales to users drove the sales volume decline.

First quarter profit for Resource Industries decreased by 18% versus the prior year to \$599 million. This was mainly due to the profit impact of lower sales volume. The segment's margin of 20.8% was a decrease of 210 basis points versus the prior year. Margin was stronger than we had anticipated due to better-than-expected volume, price realization and manufacturing costs.

Now on Slide 13. Energy & Transportation sales of \$6.6 billion decreased by 2% versus the prior year. Sales were slightly below our expectations due to volume as a result of a delay in an expected delivery and unfavorable currency impacts. The sales decrease versus the prior year was mainly due to lower sales volume and unfavorable currency impacts, partially offset by favorable price realization. By application, Power Generation sales increased by 23%, Industrial sales decreased by 2%, Transportation sales were lower by 10%, and Oil & Gas sales decreased by 20%.

First-quarter profit for Energy & Transportation increased by 1% versus the prior year to \$1.3 billion. The slight increase was primarily due to favorable price realization, mostly offset by the profit impact of lower sales volume and unfavorable manufacturing costs. The segment's margin of 20% was an increase of 50 basis points versus the prior year. This was slightly stronger than we had anticipated, primarily due to favorable cost absorption and price realization, partially offset by the lower-than-expected volume.

Moving to Slide 14. Financial Products revenues increased by 2% versus the prior year to over \$1 billion, primarily due to higher average earning assets in North America, partially offset by lower average financing rates also in North America. Segment profit decreased by 27% to \$215 million. The decrease was mainly due to the absence of a favorable insurance settlement that occurred in the prior year and higher provisions for credit losses. The increase in the provision reflected the absence of a non-recurring reserve release in the prior year and a specific reserve related to a single customer that was provided in the current quarter. Our customers' financial health remains strong. Past dues were 1.58% in the quarter, down 20 basis points versus the prior year, the lowest first quarter since 2006. The allowance rate was 0.95%, remaining near historic lows. Business activity at Cat Financial remains healthy. Retail credit applications increased by 13% and retail new business volume grew by 8% versus the prior year, with increases in all regions. This reflects the attractiveness of our sales merchandising programs. In addition, used equipment inventory levels remain low and conversion rates remain above historical averages as customers choose to buy their equipment at the end of their lease term.

Moving on to Slide 15. ME&T free cash flow was about \$200 million in the first quarter. This was about a \$1 billion decrease versus the prior year, primarily driven by lower profit. The quarter included our annual payment for 2024 short-term incentive compensation and CapEx

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spend of about \$700 million. We continue to anticipate higher CapEx spend this year, likely to be around \$2.5 billion.

Moving to capital deployment. We deployed \$4.3 billion to shareholders in the first quarter. Nearly \$3.7 billion was for share repurchases, which included a \$3 billion accelerated share repurchase, or ASR, that may last for up to nine months. The ASR provides us with favorable pricing, which is finally determined at an attractive discount to the volume weighted average price, or VWAP, over the full period of the agreement. Our balance sheet remains strong. We have ample liquidity with an enterprise cash balance of \$3.6 billion, in addition to \$1.2 billion in slightly longer-dated liquid marketable securities to improve yields on that cash.

Now on Slide 16, let me start with a few comments on the full year. We are closely monitoring the evolving economic conditions. Demand signals were stronger than we expected in the first quarter including backlog growth across our three primary segments and stronger-than-expected sales to users, particularly in Construction Industries. These indicators boost our confidence in the resilience of the top line this year. As Joe mentioned, our sales expectations would be about flat for the full year in a pre-tariff scenario, which excludes any impact from tariffs. As a reminder, this compares to our prior expectation for slightly lower full year sales that we communicated to you a quarter ago. Also, as Joe noted, we have run a number of scenarios to estimate the full potential impact of tariffs for the remainder of the year.

Our alternative scenario also assumes negative economic growth in the second half of 2025. This scenario could result in full year 2025 sales and revenues to be only down slightly versus 2024. This result highlights the resilience of our top line, which is supported by the strength of our backlog and the diversity of our end markets. Now on to margins.

In a pre-tariff scenario, which assumes no impact from tariffs, we would have expected full year margins to remain in the top half of the adjusted operating profit margin range at the expected level of sales and revenue. We have also assessed potential cost impacts from the current tariffs for the remainder of the year before any additional mitigation actions. Given the uncertainty of what the tariff rates could be and the timing of any additional mitigation actions that we may take once the situation becomes clearer, it is not possible to derive an accurate estimate of the net full year impact of tariffs. However, in our alternative scenario, assuming the tariffs in place today remain for the duration of 2025, and without any additional mitigation actions, which is unlikely to happen, we would still expect to remain within the margin target range at the expected level of sales and revenues.

Also, I want to remind you about two important points impacting our year-over-year comparatives. As we said in January, we expect the impact of negative price realization to be greater in the first and second quarters of the year. This will moderate as we move into the second half. In addition, we also do not expect a significant decrease in machine dealer inventory as we saw in the fourth quarter of 2024 and still expect dealers to hold inventories about flat for the full year. These factors help to underpin our confidence about the second half of the year.

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Moving on. We continue to expect restructuring costs of approximately \$150 million to \$200 million in 2025, and our anticipated annual effective global tax rate remains at 23% for 2025 excluding discrete items.

Turning to Slide 17. To assist you with your modeling, I'll provide our second quarter assumptions. Based on what we see today, we anticipate second quarter sales will be similar to the prior year as sales growth in Energy & Transportation is offset by lower sales in Construction Industries and Resource Industries.

By segment, we anticipate lower sales in Construction Industries in the second quarter versus the prior year, mainly due to lower price, the impact of which is expected to be similar to the headwind we saw in the first quarter of 2025. We expect slightly positive volume to act as a partial offset.

In Resource Industries in the second quarter, we expect lower sales versus the prior year, primarily due to unfavorable price realization, the impact of which is expected to be larger than what we saw in the first quarter of 2025. We also expect a slight decrease in volume.

As I mentioned, we anticipate higher sales in Energy & Transportation in the second quarter versus the prior year, driven by continued strength in Power Generation and in Oil & Gas, driven by Solar Turbines. We also anticipate favorable price.

Now I'll provide some color on our second quarter margin expectations. Compared to the prior year, excluding any tariff impacts, we would have expected margins to be lower than the prior year, primarily due to a net headwind from price realization and some unfavorable manufacturing costs and SG&A and R&D increases. In addition, as Joe mentioned, tariffs will represent a net headwind of about \$250 million to \$350 million for the quarter. I'll make a few comments regarding our segment margin expectations as well.

In the second quarter, in Construction Industries, excluding any tariff impacts, we would have expected lower margins compared to the prior year where the strong prior-year margins make for a challenging comparison. The main driver of lower margins year-over-year is unfavorable price. While lower than the comparative quarter last year, we would have expected margins to be higher when compared to the first quarter of this year. Now taking tariffs into account, we would expect about 50% of the second quarter net enterprise tariff impact of \$250 million to \$350 million to be incurred in Construction Industries.

In Resource Industries, similar to Construction Industries, a strong prior year margin sets a challenging comparison in the second quarter. Excluding any tariff impacts, we would have expected lower margins versus the prior year, primarily due to unfavorable price, which I commented on a moment ago, and higher SG&A and R&D costs. In addition, Resource Industries would be expected to incur an additional headwind of about 25% of the net tariff costs in the second quarter.

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In Energy & Transportation, excluding any tariff impacts, we would have expected slightly higher margins compared to the prior year with favorable volume and price realization, partially offset by manufacturing cost and SG&A and R&D increases. For Energy & Transportation, we would be expected to incur an additional headwind of about 25% of the net tariff costs in the second quarter.

So turning to Slide 18, let me summarize. Despite the evolving environment, we would expect the range of sales will be flattish to slightly lower and we currently expect to be comfortably within our target ranges for adjusted operating profit margin and ME&T free cash flow. Business activity and customer financial health remains resilient, while our balance sheet and liquidity positions are strong. We continue to reward our shareholders deploying \$4.3 billion of cash in the quarter. We continue to execute our strategy for long-term profitable growth. And with that, we'll take your questions.

### QUESTION & ANSWER:

Operator<sup>^</sup> (Operator Instructions) Your first question comes from Michael Feniger at Bank of America.

Michael Feniger<sup>^</sup> Just the cost headwind of the \$250 million to \$350 million you guys identified in Q2, just what are you evaluating in terms of the mitigation as you move through the year? Can we see pricing or cost reduction that can fully offset that as we move through the year? And is there anything you're seeing in the environment right now in terms of surcharges or price increases as we look at the competitive environment where you guys are positioned in terms of your manufacturing footprint versus maybe other OEMs and brands that might have more imports. So just kind of wondering how you're looking at that cost headwind, and if we're thinking about pricing as you move to the back half as a lever to mitigate that as we move through the year.

Joseph Creed<sup>^</sup> Mike, this is Joe. Maybe I'll take a shot at that, and others can chime in here. There's a lot to unpack in that question. As far as the second quarter goes, as I mentioned in prepared remarks, we have taken a number of short-term actions, things that we would call no-regrets type of actions that we can be pretty nimble with. Examples of those would be obviously some short-term cost reductions. We'll have a look at our overhead costs, things that would fall into the belt tightening situation. So, cutting back on travel, discretionary spending. We're able to slow some inbound shipments for certain products. Keep in mind, and many of you know this, we have 3.5 months of sales of dealer inventory on the ground for most products. And in some products, we have more. So, by slowing down those shipments, it gives us time to see how this fluid situation plays out. And since COVID, we've been working on making our supply chain more resilient and adding some dual sourcing where we can. That's, I would say, a fairly limited opportunity for us, but where we have the opportunity and that benefits us, we're taking advantage of that.

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We need to see, obviously in this fluid situation, where it shakes out. Some of the longer-term things that we would consider here require investments. They take time to implement and they're very difficult to change or pivot from once we do that. Those types of things like significantly moving sourcing or supply chains, we really need to see the amount of the tariff. It's going to depend on the product, the situation, where it's coming from, which market we're talking about. When we move sourcing on components, particularly critical components, it requires a lot of testing and validation to make sure it meets the Caterpillar quality and durability specs. So those take time. And so, we would obviously look throughout the year at potentially deeper cost reductions, depending on how this plays out. My preference is to protect our investments in our funding for items that we think are going to really help our future growth.

And then your question on price, there's a lot of things that go into pricing. And so we need to balance that in context with the amount of tariffs that we can't offset with these other mitigating efforts, along with market conditions, our competitive position. And just sort of remind you, our focus here is dollar OPACC growth. The current merchandising programs we put in place last year are yielding really positive results starting in the fourth quarter of last year, continued into the first quarter of this year. So, any actions we take there, I'm not saying we won't, but we'll have to consider volume impacts with that as well. So, it's a fluid situation. I think we would like to see a little more clarity. We're obviously going to take the actions that are required. But we sit in a really good position right now, being able to give you the variety of scenarios and feel comfortable we'll be in our target ranges in any of those scenarios.

Jim Umpleby^ This is Jim. I'd add in, obviously it's a very dynamic situation depending on what the administration in the end decides to do around tariffs. And so there have been certain statements made by members of the administration on China, for example, that the current tariff levels are not sustainable. And so again, we're cautiously optimistic here that there will be some trade deals struck and that the tariff impact will be lower than it is currently. So again, as Joe mentioned, we're being cautious and prudent here taking into account all factors that we have to keep in mind.

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

Robert Wertheimer^ Just first off, Jim, congratulations to you and really everybody at Cat for a remarkable kind of improvement over the past several years. And Joe, congratulations to you as well you're taking over in an interesting time. So, my question is going to be on Construction Industries. Okay. There's lots of cross-trends going on with kind of the dealer inventory build being de minimis in contrast to a normal quarter. The price being negative despite apparently stronger sell-through, and then maybe full year dealer inventory not declining. So, there's a lot of back and forth. I wonder if you can put color around what customers and dealers are really feeling. Is there just more optimism out there than you expected and that kind of explains most of it? You would have priced stronger if you thought it was this strong? I mean maybe just talk about how you're managing Construction Industries what those cross-trends are.

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Joseph Creed^ Yes. Thanks, Rob. I would say those metrics all sort of coincide with each other. We put the merchandising programs in place last year. They're yielding results. We've had multiple quarters in a row of better-than-expected sales to users. Frankly, better than the industry, which is a positive thing. So those are yielding good results. That caused us -- remember, we entered the first quarter with what we felt like was the high side of dealer inventory. So, we expected dealer inventory build in the first quarter to be lower than last year but still have a build. And those higher sales to users caused our dealer inventory to really not have a build in Construction Industries. And then also our backlog is going up as a result. So, dealers are ordering to replenish and that will also cause our seasonal pattern to be a little bit different. We probably won't have the level of burn-down of dealer inventory in the second half that we saw last year, which gives us confidence in the ranges of sales that we put out there.

When it comes to customer sentiment, I think it's the same as everybody. We prefer certainty, but there's cautious optimism, and that's resulted in continuing sales to users, trends in dealer ordering. I've been personally with a number of our dealers in North America, two weeks ago and then once this week with a handful of them, and what they're seeing and saying trends with the information we've given you today. So, where we sit right now, I feel like we put ourselves in a really good position to manage our way through the uncertainty.

Operator^ We'll go next to Tami Zakaria at JPMorgan.

Tami Zakaria^ Congrats to Jim on your stellar career at Caterpillar. And congrats to Joe. Big shoes to fill, but who else better than you? So my question is on the tariff impact, \$250 million to \$350 million. I just want to understand, how should we think about this for the remainder of the year as in the back half? Should we just annualize that number for now until this is lapped in the first quarter of next year? Or this is more like 1Q already had some impact, so \$250 million and \$350 million is the right range for 3Q and also 4Q?

Andrew Bonfield^ Yes. So, a couple of things, Tami. It's Andrew. First of all, just to remind you that, obviously not all the tariffs will impact for the full quarter. Some of it will be a little bit later. So that is not a full 100% for the full quarter. Secondly, obviously as we've said, we have not implemented all the mitigating actions we can take. And so hopefully, as time goes on, and we'll keep you updated, as we go through the year, we'll be able to mitigate some of that and offset some of that tariff impact as we go through.

Finally, also, obviously we are, as Jim indicated, let's see what the final actual range is, particularly if we do get some deals done. So, some of those, for example, around about just over 50% of our tariffs actually come from China. And that obviously is the highest level. And so again, if that gets moderated at some point in time that will actually mean quite a significant reduction in the cost base for us as well.

Operator^ And next, we'll go to Kyle Menges at Citigroup.

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Kyle Menges^ I just wanted to ask a little bit more on pricing within Construction Industries and Resource Industries, particularly for the back half. I mean it sounds like you might be exploring some mitigation on price. So, I'm just thinking, like, could we actually see, as we start to lap these merchandising programs, do we actually see within those segments pricing be flat to positive just as you lap the merchandising and then also maybe do some mitigation? And then just could you elaborate on just what you're hearing in the market from just competitors and what they're doing on price so far, especially the international ones that may be experiencing more tariff impacts?

Joseph Creed^ Yes. And as I said earlier, this is Joe, what we're seeing in the market, it's obviously a competitive environment. It's going to be different by region. We're happy with the merchandising programs that we put in place and the traction that's gained in better-than-expected sales to users and better orders for us, which will create better sales volume for us. I'm also pleased that it's not just in North America. We saw healthy activity in Africa and the Middle East and in South America as well. So, it's a competitive environment and we'll continue to watch it like we always do. And when it comes to pricing decisions, a variety of factors always go into that. And so, like I said earlier, I feel like we put ourselves in a really good position to manage our way through this. We'll monitor the situation and then we'll make any adjustments moving forward.

Andrew Bonfield^ Yes. And as regards to the phasing of the year, so in our sort of no-tariff scenario, that's basically assuming that there was no price increase in the second half of the year. So effectively though, we start lapping the impact of the merchandising programs, which start to come through stronger in the third quarter. There will still be some impact in the third quarter, moderating from where we are currently. And obviously as we move into the fourth quarter, we'll get year-on-year about the same. As far as the alternative case, we have not assumed any price increases at this point in time because, as we said, that is not with no mitigation whatsoever. Obviously, it's going to be somewhere between the two as we go through. Obviously at this stage, as Joe indicated, we're not taking action until we actually get more clarity obviously and then we'll have to weigh those pricing decisions up against what we see from a volume perspective and our competitive situation. So, all of those will be part of that equation.

Joseph Creed^ Yes. And then I just want to be clear, a lot of that pricing commentary is around Construction Industries, which is where I think a lot of the questions are coming. I want to remind everyone, each of our segments and business is in a different position, and we'll make the right appropriate decision for that part of the business.

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

David Raso^ Obviously congrats, Joe and Jim. For folks looking at the strong order growth, and skeptical comments about, oh, it's just a prebuy. But is it true though that you're saying you're not necessarily putting price increases in yet because you're waiting for the tariffs? But is it fair to say that you're not price protecting the backlog? Because I would think if I'm prebuying, I'm locking in a price, but if I'm putting an order in knowing there is variability on the price, it's a

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little more reflective of legitimate demand. So, are we price protecting the backlog or not? And also on the mitigation factors, right, you mentioned China is a big impact. But it appears you are moving some orders into the U.S. that were coming from China down to Piracicaba. So, I would think that's already some mitigating factor. So, I'm just trying to think about, is that mitigating factors sort of in the guide, or is that something that's you're not articulating? So, I'm just trying to get a sense of the mitigating factors from the move from China to Brazil. But most importantly, are we price-protecting the backlog of the orders that we got through March 31?

Joseph Creed^ Yes. Thanks, David. So, this is Joe. I would say remind you the two scenarios we gave in the lower scenario, we talked about before any mitigating actions. So, we'll obviously take what actions we can and we'll see how this situation that's very fluid plays out, and we'll continue to take the appropriate action. As to the first part of your question, I think there's a few things that I would point out there. I guess the specific answer to your question, in the backlog, depending on the part of the business, sometimes we have contractual arrangements and pricing, if we have frame agreements or Solar long orders or certain parts of the business. But generally speaking, we have flexibility on pricing in the backlog. Specifically to your question on the potential of a prebuy, we've seen no evidence of widespread pre-buying. Our team has been on the ground at Bauma. As I mentioned, I have been with North American dealers two times over the last month, and we just haven't seen that.

And if you think about our backlog, right, we saw growth in all three segments. Remember, for Energy & Transportation and Resource Industries, a majority of those orders that are in the backlog are backed by a true customer order. They're not dealer inventory stock. And even in Construction Industries, there may be a few customers, right, who will have CapEx budgets and maybe they're trying to push them up in the year, but by and large, if you don't have work, if you're uncertain about having work in the future, you're not probably going to buy a machine to try to get ahead of any sort of pricing. So again, we don't have any evidence of that right now and feel like we're in a really good position with the growth in our backlog.

Operator^ We'll go next to Jamie Cook at Truist Securities.

Jamie Cook^ Congratulations, Jim, and congratulations, Joe. I guess my question -- long period of time in looking at the margin performance of your company, and down sales and an uncertain macro, I mean the margins you put up this quarter and what's implied for the year, is fairly impressive and you talked to your backlog and your diversity of earnings.

But I guess my longer-term question for you is, obviously you guys have your longer-term margin targets that are pegged to a certain revenue level that's there, but I'm wondering, over time and in particular, Joe, perhaps this could be the story under your leadership, do you think the market underappreciates -- is there a story potentially for Cat where the volatility of margins over time should decrease? When we look at your margin target, I guess, the 10% to whatever 20-some percent, that over time margins can be within a more narrow range just because of the diversity of the earnings, the Operational & Execution model, the growth in services. I'm just

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wondering if there's a story there where margins can structurally move higher within a more narrow band. No pressure.

Joseph Creed^ Thank you. Thanks for setting me up there. What you say is correct, right, and this is a testament to Jim's leadership the last eight years and the strategy that we all as a team have put in place and continue to execute. We're comfortable with the margin ranges that we have out there. But when you focus on services, why services is such an important part of our strategy, our goal is to dampen some of the cyclicalities. We're always going to have cycles in certain parts of the business. We are seeing some tremendous secular trends in power. So the need for power and data centers gives us -- we're at a record backlog, so we have a lot more line of sight. We've worked really hard through the O&E model to instill discipline. And so I would expect all of those things to continue. And obviously the more we grow, the better shape we're going to be from a margin standpoint.

Andrew Bonfield^ Yes. And Jamie, let me just add, obviously the range was set based on a 2010 to 2016 timeframe. So that is obviously adjusted one year for inflation. So that's where the bottom end of the range came from. That does not necessarily mean we -- as we've made the business more resilient and the diversity of our end markets, the likelihood of going back to that low end of the range is less likely. So probably the bottom end of that 10% range probably is no longer really valid unless there is some extreme economic scenario where we saw that sort of level of sales again. So given everything we've done, services, and also around other segments, I think we're in a lot better position as well.

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

Angel Castillo^ Jim, wish you all the best. Joe, congrats on the new role. Looking forward to working with you more. Maybe just a little bit of a bigger picture question. With the current market backdrop and just the amount of uncertainty out there, could you just talk about your dealers' rental businesses and maybe what you're seeing more specifically in terms of customers kind of rent versus buy decisions? And then just really from a longer-term perspective, what does this ultimately mean for your Construction Industries business as we think about the potential for growth in that rental vertical versus maybe the potential headwinds either to pricing power or volume as you think about more of a rent versus buy?

Joseph Creed^ What we've seen in the first quarter, I can speak to what we're seeing right now right? I mean dealer rental [fleet] loading was down a little bit (company clarified after the call). That was expected. So, it was in line with what we expected. The dealer rental revenue continued to grow. We're in a great position to take care of our customers whether they want to rent equipment or whether they want to buy equipment. My goal is to make sure they're using Cat equipment. We haven't seen any massive change in that trend. We think rental is a great opportunity for us. So we continue to lean in with our dealer network to have a great rental offering for our customers as we move forward. So, I don't have anything really different to report on that front.

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Operator^ We'll move next to Stephen Volkmann at Jefferies.

Stephen Volkmann^ My congrats to everyone as well. I wanted to drill down into Energy & Transportation and Power Generation specifically. There's been some concerns around sort of what the adoption curve for various data centers, et cetera, is going to be. It sounds like you haven't seen any real change there. But I'm curious if you can comment on that. And then also on the capacity side, are you basically kind of sold out at this point or is there still a little bit more upside in terms of what you can get through the channel?

Joseph Creed^ I would say in this year, we're pretty full on large engines related to the data center standpoint. As I mentioned, well-servicing is down a little bit, so we could maybe get a little more Power Generation orders out because those engine platforms can move between products. We're focused on getting the capacity in. We have direct relationships with all the hyperscalers and large data center customers. So, we're in constant communication with them. And we're confident in the outlook that we have in front and the need for this capacity.

Our goal is to get as much product out to them to support their schedules as we can. There's been some articles going around, but we move schedules around for customers all the time. Aside from doing things like that that we would normally do, we're not seeing any weakness in our plans there.

Jim Umpleby^ And maybe just to add in from the Solar Turbines side, one of the things we're quite encouraged by is that we're seeing strong order and continuing very strong inquiry activity to sell our turbine-driven generator sets for prime power for data centers. You'll recall in our Investor Day a few years ago, we talked about the opportunity for distributed generation. And of course, in those -- that was a number of years ago and none of us saw the data center opportunity coming as quickly and as significantly as it has. So, we're very encouraged by, again, the orders that we've received to provide prime power for those data centers and also the very strong inquiry activity, particularly for our new larger gas turbine, the Titan 350, which is about 38, 39 megawatts.

Operator^ We'll move next to Kristen Owen at Oppenheimer.

Kristen Owen^ Congrats to Jim and Joe both. Understanding that it is difficult to assess at this stage, as we are sort of building out our models and assessing some of those sensitivities, wondering if you can help us unpack some of the bigger moving pieces around your demand deterioration assumptions that are in the back half in your tariff scenario. Just help us understand where you could see more or less of that impact, what could potentially be an opportunity, how that's offset with your backlog, just those big moving pieces around the demand deterioration assumption.

Andrew Bonfield^ So, in this scenario, obviously we've assumed negative economic growth in the second half of the year, which I think actually exceeds what most economists are expecting, and that's globally. So obviously the most sensitive area, obviously would be Construction

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Industries. So that would be where most of the sales deterioration would go from a segment perspective. Obviously, there will be a little bit of impact on both Resource Industries and Energy & Transportation, mostly driven by levels of activity. But the vast majority would be within Construction Industries, would probably be the bulk of it.

Alex Kapper^ All right. Audra, we have time for one more question.

Operator^ Today's final question comes from the line of Jerry Revich from Goldman Sachs.

Jerry Revich^ A pleasure to send off, Jim, with the last question here. Jim, congratulations on everything the team's done in tripling earnings power over the last eight years, really well done. And Joe, congratulations. Joe, I was hoping to ask you, can you just spend a minute or two just talking about your biggest strategic priorities over the next, call it, two to three years? Obviously near term, we're focused on global trade flows. But taking a step back, what are the biggest opportunities that you see going forward and your strategic priorities in the big seat?

Joseph Creed^ Yes. Thanks, Jerry. Obviously immediately, we're focused on taking care of our customers and executing our strategy. Maybe just as a reminder of my background, back in 2017 when Jim became CEO and put the strategy in place, I was Senior Vice President of Corporate Finance, which included running our strategy group. So, I was part of the core team, along with the Executive Office to put the strategy that we have today together.

I've had the pleasure to execute that strategy over the last six [years] out in the Energy & Transportation business (company clarified after the call). And that strategy has served us well and it's driving good results. And it served us well through some challenging times of COVID and supply chain challenges and other things. So things that we should expect to continue, our focus on Services. We have more work to do there to continue to grow Services. It's a good thing for our customers. It's a good thing for our dealers and a good thing for us. The O&E model, I believe, is the right framework for us to look at our business and how we allocate resources to growth opportunities, that's instill a great discipline in our business, which I think has led to the performance in contributed to the margin performance that we have. Our ultimate goal is still going to be growing OPACC dollars. That is what I believe correlates to the best shareholder return over time. Having said that, I'm comfortable with the margin framework as we talked about. And I think the strength of our strategy is helping us there. Cash deployment priorities, I'm committed to those as well. We're a Dividend Aristocrat, we want to remain that. We'll be consistently in the market with share repurchases.

But where I'm really focused is can we accelerate our growth opportunities? And how we're going to put those resources to work and fund the greatest opportunities there? And we have opportunities in all three segments. The last 18 months as Chief Operating Officer, I've been able to spend a lot of time with all the segments and the teams. We've mentioned and you're all well aware of the opportunities in Power Generation and demand for power, both distributed generation and data centers. We're going to move a lot of natural gas, I believe. We're well positioned there.

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The long-term need for minerals is going to really benefit Resource Industries. And then the continued need for critical infrastructure around the globe. We have specific opportunities, I think, to accelerate our growth in Construction Industries in certain areas, Building Construction Products and Rental.

We'll continue to try to get more adoption of our technology like autonomy and digital capabilities to support our customers. So there's a lot of opportunity over the next few months. We'll continue to look at are there areas that we can really lean in and accelerate the growth in those opportunities, while we obviously manage our way through today's environment. But I have a lot of confidence in our team and the experienced Executive Office team members that I have. We've worked together for a really long time. We have an amazing team. We have a talented group of Caterpillar employees around the globe and a great global dealer network. So I'm confident we'll be able to deliver great results moving forward.

So with that, I think that was our last question. Maybe before I pass it to Jim, I want to say it's an honor and a true privilege to be named the next CEO of Caterpillar and lead an extraordinary company that has been building a better world for 100 years. I'm excited to work alongside our talented team and the Cat dealer network as we focus on serving our customers. I'd also like to recognize Jim for his leadership and success throughout his distinguished 45-year career, and particularly his leadership for us over the last eight years as our CEO. I've really enjoyed working closely with Jim for many years, and I look forward to his support in the future in his new role. So with that, Jim, I'll turn it over to you for final remarks here.

Jim Umpleby^ Well thank you, Joe, and thanks, everyone. We appreciate all your questions as always, and I've really enjoyed working with all of you. And you've made us better. So thank you for that.

As I step back and reflect on all my time as CEO over the last eight years, I'm just incredibly proud of what our team has accomplished and our strong performance. Our strategy for long-term profitable growth has served us well as we focused on serving our customers, investing in the best opportunities for growth and, of course, rewarding shareholders. And Joe talked about some of the macro trends that are out there, and based on that and based on what I know is going to be outstanding leadership by Joe and the executive office moving forward, I really believe that Caterpillar's best days lie ahead.

So, I know that Joe and the whole Executive Office will do a great job leading our company as we embark on our second century of helping customers build a better, more sustainable world. And with that, I'll turn it over to Alex.

Alex Kapper^ Thank you, Jim, Joe, Andrew and everyone who joined us today. A replay of our call will be available online later this morning. We'll also post a transcript on our Investor Relations website as soon as it's available. You'll also find a first quarter results video with our

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CFO and an SEC filing with our sales to users data. Visit [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 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 our call. Thank you for joining.

You may all disconnect.