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# Caterpillar Inc.

Q4 2025 Earnings

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## CORPORATE SPEAKERS:

**Alex Kapper**

*Caterpillar Inc.; Vice President of Investor Relations*

**Joseph Creed**

*Caterpillar Inc.; Chief Executive Officer*

**Andrew Bonfield**

*Caterpillar Inc.; Chief Financial Officer*

## PARTICIPANTS:

**Mircea Dobre**

*Baird; Analyst*

**Michael Feniger**

*Bank of America; Analyst*

**David Raso**

*Evercore ISI; Analyst*

**Tami Zakaria**

*JP Morgan; Analyst*

**Chad Dillard**

*Bernstein; Analyst*

**Jamie Cook**

*Trust Securities; Analyst*

**Jerry Revich**

*Wells Fargo; Analyst*

**Robert Wertheimer**

*Melius Research; Analyst*

**Kristen Owen**

*Oppenheimer; Analyst*

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## PRESENTATION:

Operator^ Welcome to the Fourth Quarter 2025 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. Please go ahead.

Alex Kapper^ Thank you, [Audra]. Good morning, everyone. Welcome to Caterpillar's Fourth Quarter 2025 Earnings Call. I'm Alex Kapper, Vice President of

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Investor Relations. Joining me today are Joe Creed, CEO, Andrew Bonfield, Chief Financial Officer, Kyle Epley, Senior Vice President of the Global Finance Services Division, and Rob Rengel, Senior Director of IR. During our call we'll be discussing the fourth quarter earnings release we issued earlier today. You can find our slides, the news release and a webcast recap at [investors.caterpillar.com](https://investors.caterpillar.com) under Events and Presentations. The content of this call is protected by U.S. and international copyright law. Any rebroadcast, retransmission, reproduction or distribution of all or part of this content without Caterpillar's prior written permission is prohibited.

Moving to Slide 2, during our call today we'll make forward-looking statements, which are subject to risks and uncertainties. We'll also make assumptions that could cause our actual results to be different than the information we're sharing with you on this call. Please refer to 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. For today's agenda, Joe will begin by sharing his perspectives about our results and provide an update on our performance toward achieving our Investor Day targets. Then he'll share our full year outlook and insights about our end markets, followed by an update on our strategy. Finally, Andrew will provide a detailed overview of results and key assumptions looking forward. We'll conclude the call by taking your questions. Now, let's advance to Slide 3 and turn the call over to our CEO, Joe Creed.

Joseph Creed^ All right. Well thank you, Alex. And good morning, everyone. Thanks for joining us today. Our centennial year marked a significant milestone, and we achieved full-year sales and revenues of \$67.6 billion, the highest in Caterpillar's history. In a dynamic environment, with net incremental tariff headwinds of \$1.7 billion, we delivered full-year adjusted operating profit margin within the target range at 17.2% and adjusted profit per share of \$19.06. We also generated robust MP&E free cash flow of \$9.5 billion in 2025, allowing us to deploy \$7.9 billion to shareholders through share repurchases and dividends during the year. Our backlog grew to a record level of \$51 billion, an increase of \$21 billion or 71%

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compared to last year. All-time high sales and revenues, along with record backlog are evidence of the strength in our end markets and strong execution by our team.

Now let me take a minute to walk you through our fourth quarter results. Sales and revenues were \$19.1 billion, an all-time record for a single quarter. The increase of 18% versus the previous year was better than we expected and reflects higher volumes in all three of our primary segments while price realization was about neutral. In particular, volume growth was better than expected in Power & Energy as we were able to ship more product than anticipated at year-end. Adjusted operating profit margin was 15.6% and adjusted profit per share was \$5.16. Fourth quarter adjusted operating profit margin and adjusted profit per share were better than we anticipated due to stronger-than-expected volume growth in Power & Energy. In the quarter, the net incremental cost from tariffs was near the top end of our estimated range. Robust ordering activity across all three primary segments contributed to the very strong backlog growth.

Now, I'll review fourth quarter retail statistics for each of our three primary segments, starting with Construction Industries. Construction Industries' total sales to users grew for the fourth consecutive quarter, rising 11% and which exceeded our expectations. Increases in North America were better than expected due to strong growth in non-residential and residential construction. Rental fleet loading and our dealers' rental revenue also grew in the quarter. Sales to users declined slightly in EAME and Asia/Pacific, in line with our expectations. And we saw growth in Latin America which was better than anticipated. For Resource Industries, fourth quarter sales to users declined 7%, consistent with our expectations. Mining sales to users were lower year-over-year as customers exercised capital discipline in response to weaker coal prices. In Power & Energy, our largest and fastest-growing segment, sales to users grew a robust 37%, with another quarter of double-digit growth across all applications. Power Generation grew 44%, driven by strong demand for large gensets and turbines used in data center applications. Strong sales to users in Oil & Gas were driven primarily by turbines and turbine-related services. Industrial grew from relatively low levels, with the increase driven by sales to users in electric power applications. And finally, transportation increased primarily due to international locomotive deliveries.

Moving to Slide 4. Our full-year 2025 results showed meaningful progress toward achieving the 2030 targets we outlined at our recent Investor Day. As I mentioned,

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we delivered record sales and revenues of \$67.6 billion, resulting in 4% year-over-year growth. This increase was led by record sales in Power & Energy. Notably, in addition to record sales in Power Generation, we also achieved record sales in Oil & Gas due to strength in demand for gas compression. Despite tariff headwinds, full-year adjusted operating profit margin of 17.2% was within the target range for our level of sales and revenues. Full year Services Revenues totaled \$24 billion in 2025. We continued to connect more assets, growing the fleet to over \$1.6 million, and made great progress in other initiatives like condition monitoring prioritized service events, eCommerce sales and tech-enabled machines. Our Digital & Technology initiatives, along with a growing installed base, position us well to increase services revenues towards our goal of \$30 billion by 2030. Robust MP&E free cash flow allowed us to deploy \$7.9 billion to shareholders through \$5.2 billion of share repurchases and \$2.7 billion of dividends paid. We're proud of our continued dividend aristocrat status, paying higher dividends for 32 consecutive years, and remain committed to returning substantially all MP&E free cash flow over time. Andrew will share more about our cash deployment plans for 2026 in a moment.

Turning to Slide 5. I'll highlight the advancements we've made toward our 2030 targets in our three primary segments. In 2025, Construction Industries' growth outpaced the global industry supported by the success of our merchandising programs. As a result, full-year total sales to users growth was 5%, advancing our progress toward the 2030 goal of growing 1.25x from the 2024 baseline. In Resource Industries, customer interest in our autonomous hauling solution remains strong, and we are making steady progress toward our 2030 goal to triple the number of CAT autonomous haul trucks in operation compared to 2024. We ended the year with 827 autonomous haul trucks in operation, up from 690 at the end of 2024. Adoption is expected to accelerate given our proven solution, our expansion into quarries and our ability to support mixed fleets. For example, last month, Caterpillar and Sotreq, our dealer in Brazil, announced an agreement to provide Vale an autonomy solution for a mixed fleet of more than 90 trucks. Power & Energy delivered meaningful progress toward our 2030 goal to more than double Power Generation sales compared to 2024. In 2025, Power Generation sales exceeded \$10 billion, which is year-over-year growth of more than 30%. We're also on track in our multi-year effort to double our large engine capacity and more than double our industrial gas turbine capacity. As we've discussed, the additional capacity will serve a broad range of applications, and the phasing will occur between now and the end of 2030.

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Now, on Slide 6, I'll provide our 2026 outlook. Overall, we anticipate full-year sales and revenues to grow around the top of the 5% to 7% long-term compound annual growth rate target. As I mentioned earlier, our record backlog of \$51 billion provides strong momentum to start the year. We are also starting to get multi-year visibility in Power & Energy as we work closely with our customers to schedule factory orders in line with their project timelines. As a result, approximately 62% of our backlog is expected to deliver in the next 12 months which is lower than our historical average. Strong backlog coupled with healthy end markets supports our expectations for volume growth in all three primary segments. We also expect all three [primary] segments to benefit from positive price realization, about 2% of total sales and revenues, and continued growth in services revenues (company clarified after the call). Full-year adjusted operating profit margin should exceed 2025 levels, but remain near the bottom of the target range for our expected sales and revenues. Our adjusted operating profit margin expectation reflects the ongoing impact of tariffs as well as investments we are making to execute our growth strategy. I remain confident that we will manage the impact of tariffs over time as we aim to operate around the midpoint of our adjusted operating profit margin target range. Capital expenditures are expected to be around \$3.5 billion, driven primarily by our capacity expansion plans. And finally, MP&E free cash flow is expected to be slightly lower than 2025, reflecting the increase in capital expenditures.

Now I'll discuss our outlook for key end markets, starting with Construction Industries. Another year of sales to users growth is expected in 2026, supported by elevated order rates and a robust backlog. Overall, the outlook for North America remains positive, as sales to users [should] grow moderately versus last year, with construction spending remaining healthy due to IIJA funding and other critical infrastructure programs (company clarified after the call). We also anticipate accelerated investment in data centers, which will further bolster overall construction spending. Dealer rental fleet loading and rental revenue are both projected to increase compared to 2025. In EAME, economic conditions in Europe are expected to strengthen, and construction activity in Africa and the Middle East is projected to remain strong. In Asia Pacific, outside of China, moderate economic conditions are expected in 2026. We anticipate positive momentum in China off of low levels, with full-year growth in the above 10-ton excavator industry. Growth in Latin America is expected to continue at a similar rate to 2025.

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Resource Industries had positive momentum in the fourth quarter with growing backlog supported by healthy orders across a broad range of products. For 2026, sales to users are expected to increase, primarily driven by rising demand for copper and gold, and positive dynamics in Heavy Construction and Quarry and Aggregates. Most key commodities remain above investment thresholds, and customer product utilization is high while the age of the fleet remains elevated. With modest increases in commodity prices projected in 2026, we expect rebuild activity to increase slightly compared to last year.

And finally, for Power & Energy, the 2026 outlook is positive. Robust backlog growth in the fourth quarter was driven by continued momentum in both Power Generation and Oil & Gas. We anticipate growth in Power Generation for both CAT reciprocating engines and Solar turbines driven by increasing energy demand to support data center build-out related to cloud computing and generative AI. Additionally, we are starting to see orders for Prime Power trend higher as data center customers look for alternative power solutions to keep pace with their growth. For example, yesterday we announced an order for 2 gigawatts of reciprocating generator sets for a prime power application from American Intelligence & Power Corporation (AIP). The generators will be used to support the initial development phase of the Monarch Compute Campus, which has a total potential of about 8 gigawatts of power generation. This represents one of our largest single orders for complete power solutions. The value of the order will be reflected in our first quarter 2026 backlog, and we expect to deliver the generators starting in late 2026 through 2027. This exciting announcement is one of four orders we have booked with at least 1 gigawatt of Caterpillar equipment for data center prime power. After reaching record levels in 2025, Oil & Gas is expected to see moderate growth in 2026. Reciprocating engine sales are expected to increase, driven by strong demand in gas compression applications. Solar Turbines' Oil & Gas backlog remains healthy, with continued solid order and inquiry activity. And as a result, we expect another year of strong turbine sales, comparable to our record 2025 performance. Demand for products in Industrial applications is expected to grow moderately in 2026 as we see continued recovery from previous lows. In Transportation, we anticipate full year growth in rail services and locomotive deliveries.

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I'll close on Slide 7 with an update on our strategy. Since our Investor Day in November, the executive leadership team and I have engaged our employees and dealers around the globe to launch our refreshed enterprise strategy for profitable growth. Our mission statement, solving our customers' toughest challenges, is creating strong alignment around keeping customer needs at the center of everything we do. The strategy is centered on three pillars for profitable growth: commercial excellence, being the advanced technology leader and transforming how we work-- all built upon a foundation of continued operational excellence. I look forward to advancing the strategy with regional leaders and dealers throughout 2026. And finally, we were excited to kick off the year with a showcase and keynote at CES 2026 in Las Vegas, where we unveiled the next era of industrial AI and autonomy. This was an important opportunity to demonstrate our Advanced Technology Leadership by highlighting Caterpillar's significant role in creating the "invisible layer" of the tech stack: the critical minerals, reliable power and physical infrastructure that the digital world relies on to function. We made exciting announcements including the launch of our new CAT AI Assistant, which will allow customers to more easily buy, maintain, manage and operate their equipment. We also announced a commitment to the most important part of the invisible layer-- people. Caterpillar pledged \$25 million to ensure the future workforce has the tools they need to make advanced technology possible. 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. As usual, I will begin with a summary of the quarter and then provide brief comments on the performance of the segments. Next, I will discuss the balance sheet and free cash flow and conclude with comments on our high-level planning assumptions for 2026, as well as our expectations for the first quarter.

Beginning on Slide 8, sales and revenues of \$19.1 billion reflected an 18% increase versus the prior year. As Joe noted, this was an all-time quarterly record. Adjusted operating profit was \$3.0 billion, and our adjusted operating profit margin was 15.6%. We generated strong MP&E free cash flow of \$3.7 billion in the quarter and \$9.5 billion for the full year. This was our third consecutive year with more than \$9 billion of MP&E free cash flow.

Moving to Slide 9, I'll discuss our top-line results for the fourth quarter. Sales and revenues of \$19.1 billion exceeded our expectations, driven by stronger-than-

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anticipated volume in Power & Energy. Versus the prior year, stronger sales volumes supported the sales increase. Price was about neutral and roughly in line with our expectations. Volume growth reflected a 15% year-over-year increase in total sales to users, and a favorable impact from changes in dealer inventories. Total machine dealer inventory decreased by about \$500 million in the quarter compared to a \$1.6 billion decline last year. The decrease in the fourth quarter was larger than we had anticipated, primarily due to stronger-than-expected sales to users in Construction Industries. Services revenues increased in the quarter compared to 2024.

Moving to operating profit on Slide 10. Operating profit in the fourth quarter decreased by 9%, while adjusted operating profit of \$3.0 billion was about flat versus the prior year. As I mentioned, adjusted operating profit margin for the fourth quarter was 15.6%, slightly stronger than we had anticipated, driven by volume being better than expected partially offset by higher incentive compensation expense. Versus the prior year, the 270-basis points decrease was primarily due to higher manufacturing costs driven by tariffs. Excluding tariffs, our fourth quarter margin was higher than the prior year. For the full year, excluding the impact of tariffs implemented in 2025, margin was in the top half of the target range.

Moving to Slide 11. Profit per share was \$5.12 in the quarter. Adjusted profit per share was better than we had anticipated at \$5.16, excluding restructuring costs of \$0.52 and mark-to-market gains of \$0.48 for the remeasurement of pension and other post-employment benefit plans. When you exclude the impact of mark-to-market gains from other income and expense, we had a headwind of about \$73 million, which was mainly driven by the absence of foreign exchange gains related to MP&E balance sheet translation that occurred in the prior year. Excluding discrete items, the provision for income taxes in the fourth quarter of 2025 reflected a global annual effective tax rate of 24.1% as compared with 22.2% in 2024. This was in line with our expectations. 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 \$0.14 as compared to the fourth quarter of 2024 and benefited the full year by about \$0.66.

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Moving to Slide 12. I'll now discuss the segment results. Construction Industries sales increased by 15% in the fourth quarter to \$6.9 billion. This was roughly in line with our expectations as the stronger sales to users were about offset by a larger-than-expected decrease in dealer inventory and slightly unfavorable price realization. Compared to the prior year, higher sales volume reflected stronger sales to end users and the positive impact from changes in dealer inventories. Dealer inventory decreased less during the fourth quarter of 2025 than during the fourth quarter of 2024. Fourth-quarter profit for Construction Industries decreased by 12% versus the prior year to \$1.0 billion. The segment's margin was 14.9%, a decrease of 470 basis points versus the prior year. The margin decrease was primarily due to higher manufacturing costs driven by tariffs, which had an impact of about 600 basis points on margins. The margin was lower than we had expected due primarily to higher incentive compensation and a slightly unfavorable price realization, which offset the impact of stronger volume.

Turning to Slide 13. Resource Industries sales increased by 13% in the fourth quarter to \$3.4 billion which was in line with our expectations. Sales volume was slightly more favorable than we had anticipated while price realization was a slightly larger headwind than we had expected. Compared to the prior year, the sales increase was primarily due to higher sales volume, driven by the impact from changes in dealer inventories. Fourth quarter profit for Resource Industries decreased by 24% versus the prior year to \$360 million. The segment's margin of 10.7% was a decrease of 510 basis points versus the prior year, primarily due to higher manufacturing costs driven by tariffs which had an impact of about 490 basis points. The margin was lower than we had anticipated, primarily due to higher short-term incentive compensation, higher tariffs, and a slightly unfavorable price realization.

Now on Slide 14. Power & Energy sales increased by 23% in the fourth quarter to \$9.4 billion. Sales exceeded our expectations, driven by stronger-than-anticipated volume, particularly in Power Generation and Oil & Gas. Compared to the prior year, sales increased primarily due to higher sales volume and favorable price realization. Fourth quarter profit for Power & Energy increased by 25% versus prior year to \$1.8 billion. The segment's margin of 19.6% increased by 30 basis points versus the prior year on the higher volume. The tariff impact was about 220 basis points. The margin was stronger than we had anticipated primarily due to favorable volume. Price was also slightly more favorable than we had anticipated.

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Moving to Slide 15. Financial Products revenues increased by 7% versus the prior year to about \$1.1 billion, primarily due to a favorable impact from higher average earning assets partially offset by the impact from lower average financing rates. Segment profit increased by 58% to \$262 million. This was due in part to a favorable impact from higher margins at Insurance Services due to lower loss ratios. Higher average [earning assets], and a lower provision for credit losses also benefited profitability (company clarified after the call). Our customers' financial health remains strong. Past dues were 1.37% in the quarter, down 19 basis points versus the prior year and our lowest year-end on record. The allowance rate was 0.86%, the lowest [level] ever reported in any quarter (company clarified after the call). Business activity at Cat Financial remains healthy. Retail credit applications increased by 6%, and our retail new business volume grew by 10% versus the prior year. In addition, demand for our used equipment remains healthy on relatively stable pricing while inventories remain at historically low levels. Conversion rates remain above historical averages as more customers choose to buy equipment at the end of their lease term.

Moving to Slide 16. As I mentioned, we continued to generate strong MP&E free cash flow with \$9.5 billion in 2025 which was slightly higher than 2024 despite an \$800 million increase in capital expenditures. In 2025, we deployed about \$7.9 billion or 84% of our MP&E free cash flow to shareholders. We continue to expect to return substantially all MP&E free cash flow to shareholders over time. This quarter, we expect to enter into a larger accelerated share repurchase compared to the \$3 billion ASR we executed in early 2025. Our balance sheet remains strong with an enterprise cash balance of \$10.0 billion at the year-end. In addition, we held \$1.2 billion in slightly longer-dated liquid marketable securities to improve yields on that cash.

Now on Slide 17. Before I begin, I'll remind you that my comments today assume the Rail division is within Power & Energy, as was the case through year-end 2025. In March of this year, we will file an 8-K recasting our historical periods to reflect the movement of our Rail division to Resource Industries. This will establish an appropriate baseline for evaluating future segment-level performance and expectations. If necessary, we will also update any of our segment-specific forward-looking assumptions impacted by this change. Obviously, there will be no impact on the enterprise-wide assumptions.

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Now let me start with our expectations for the full year. As Joe mentioned, we expect enterprise sales and revenues to grow versus the prior year, likely around the top end of that 5% to 7% CAGR target on higher volume and favorable price realization. We anticipate sales growth across each of our primary segments, with Power & Energy delivering the strongest year-over-year rate of growth, supported by the robust backlog. Growth in this segment will be paced by the timing of bringing our capacity increases online over the next few years. Our planning assumption is that the \$500 million decline in machine dealer inventory in 2025 will be offset by an increase by the end of 2026, a tailwind to 2026 sales. As Joe mentioned, we expect favorable price realization to account for a roughly 2% increase in sales for the full year. For perspective on the quarterly sales cadence, we anticipate the lowest sales of the year to occur in the first quarter, which aligns with our normal seasonable pattern. On Enterprise adjusted operating profit margin, excluding the impact of tariff costs, we expect to be in the top half of the target range at our anticipated sales level, supported by favorable price realization and volume. Specific to volume growth, we anticipate the attributable profit pull-through or incremental margin to reflect our recent operational performance, which has been impacted by tariffs in contrast to prior years. We are committed to investing for long-term profitable growth which includes capacity investments which will impact depreciation expense and higher Digital & Technology spend. We believe these investments will support future absolute OPACC dollar generation, which I remind you is our definition of winning.

Including the impact of tariffs, we expect margin to be near the bottom of the target range. I'll provide some perspective but let me explain how we intend to report to you about tariffs as we move forward. The absolute dollar value of new tariffs imposed in 2025 was \$1.8 billion. Mitigating actions can come in two forms. First are those that reduce the direct tariff exposure bill which will include actions like sourcing changes. These reduce the actual dollar value of tariffs paid. Second, there are cost control actions and pricing which help reduce the impact on our profitability. Most of the actions taken in 2025 related to cost controls, which could be specifically attributed to tariff mitigation, and these amounted to around \$100 million, resulting in a net incremental tariff impact of \$1.7 billion. Looking forward, it will become increasingly challenging to parse out and track whether a cost control or a price action is directly tied to tariff mitigation versus being taken in the normal course of business. Therefore going forward, we will report absolute incremental

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tariff cost, which will only take into account those mitigating actions that reduce the absolute value of the tariff exposure. As a reminder, the incremental tariffs we will report are measured against the 2024 base year. For the full year, incremental tariff costs are expected to be around \$2.6 billion, which is \$800 million higher than incurred in 2025. If we did not take the actions we plan to take in 2026, this bill would be around 20% higher. We expect incremental tariff costs of around \$800 million in the first quarter [of 2026], a level similar to the fourth quarter of 2025 (company clarified after the call). The run rate should improve towards the second half of the year as we take actions to reduce our tariff exposure. Finally, please remember that tariffs are volume-sensitive. We will continue to take actions to manage our costs in the normal course of business and remain committed to operate within our adjusted operating profit margin target range with the goal of being around the midpoint of the range over time.

Now concluding our expectations for the year, we expect restructuring costs of roughly \$300 million to \$350 million. Our global annual effective tax rate is anticipated to be 23%, excluding discrete items. MP&E free cash flow should be slightly lower than 2025, reflecting the higher CapEx of around \$3.5 billion in 2026.

Now turning to Slide 18. To assist you with your modeling, I'll provide color on the first quarter. Starting with the topline, we expect stronger sales and revenues versus the prior year. We anticipate stronger volume including sales to users growth and a tailwind from machine dealer inventories. We expect a more typical machine dealer inventory build this quarter, aligning with the seasonable pattern which is the first quarter build in excess of \$1 billion. This compares to flattish levels in the first quarter of 2025. We also anticipate a favorable impact from price realization. In Construction Industries in the first quarter, we anticipate strong sales growth with the increase versus the prior year driven by volume and favorable price realization. We expect continued sales to users growth with our confidence supported by the strong order rates and backlog. In addition, we anticipate a sizable benefit from changes in dealer inventories, given a more typical seasonable build in the first quarter. In Resource Industries, we anticipate strong sales growth versus the prior year driven by volume, including healthy sales to users growth and a favorable impact from changes in dealer inventory. Price realization should be relatively flattish, though we anticipate favorability as we move through the year. In Power & Energy, we anticipate sales growth versus the prior year, driven by strength in Power Generation and Oil & Gas, along with favorable price realization.

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As is typical, we expect first quarter sales in Power & Energy will be the segment's lowest of the year and sequentially lower than the fourth quarter of 2025. This expectation aligns to the seasonable pattern.

Now I'll provide some color on our first quarter margin expectations. Excluding incremental tariff costs, we expect a higher adjusted operating profit margin percentage year-over-year, supported by strong volume and price realization, partially offset by higher manufacturing costs and SG&A and R&D expenses tied to our strategic investments. As a reference, we would expect some seasonable margin uplift in the first quarter compared to the fourth quarter of 2025. Including incremental tariff costs at a level similar to the fourth quarter, or around \$800 million, margin is expected to be lower versus the prior year. Now on to first quarter margin expectations by segment. In Construction Industries, excluding incremental tariff costs, we anticipate a higher margin percentage compared to the prior year on favorable price realization and volume, partially offset by higher manufacturing costs. In Resource Industries, excluding incremental tariff costs, we anticipate slightly lower margin percentage compared to the prior year as favorable volume is more than offset by unfavorable manufacturing costs and higher SG&A and R&D expenses including spend on strategic investments in autonomy. We do anticipate some unfavorable mix impact as we expect proportionally higher sales of original equipment compared to the prior year. In Power & Energy, excluding incremental tariff costs, we anticipate a higher margin percentage compared to the prior year, driven by favorable volume and price realization, partially offset by higher manufacturing costs particularly spend including higher depreciation related to our capacity expansion projects. During the first quarter, we anticipate around 50% of the incremental tariff costs will be in Construction Industries, 20% in Resource Industries, and 30% in Power & Energy. All segment margins are expected to be lower than they were in the first quarter of 2025 after taking into account incremental tariffs.

So, turning to Slide 19, let me summarize. In a year marked by uncertainty, our team delivered record sales and revenues; maintained adjusted operating profit margin within our target range; and achieved a healthy adjusted profit per share of \$19.06. We generated \$9.5 billion of MP&E free cash flow, our third consecutive year of generating over \$9 billion. For 2026, we anticipate sales growth across all three primary segments driven by stronger volume and price. We also anticipate services revenues growth. Excluding the impact of incremental tariffs, we expect

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adjusted operating profit margin to be in the top half of our target range but near the bottom including tariffs. We expect MP&E free cash flow to be slightly lower than 2025, reflecting [higher capital expenditures] (company clarified after the call). We continue to execute our strategy for long-term profitable growth.

With that, we'll take your questions.

### QUESTIONS:

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

Mig Dobre^ The thing that obviously stood out most in the quarter was just a very impressive order growth and backlog growth that you have had. I guess my question related to this, may be twofold. First, can you comment a little bit about what's happening in some of the other segments outside of maybe Power & Energy or power generation? And then as you sort of think on a go-forward basis, if I understand correctly, you've got roughly \$20 billion of backlog that is not going to be delivered in the near term. And it sounds like this figure might further grow as we think about Q1. So how do you think about these deliveries that now are stretching into 2027 and beyond? And I'm asking, through the lens of price cost, making sure that you are ensuring that you have the proper margins and the proper pricing, given how volatile just the cost picture and the tariff picture has been.

Joseph Creed^ Thanks for that question. There's a lot in there. I'll try to make sure I get to most of them. So, we are really excited. I'm really excited about how we finished the year with our backlog at \$51 billion, [71%] higher than year-end prior and \$11 billion higher than where we finished the third quarter(company corrected after the call). So as you suggest, I'll talk about it and frame it in the way of order rates that we saw in the fourth quarter, and they were strong in all three [primary] segments(company clarified after the call). It's not just Power & Energy. Construction Industries had one of its best quarters from an order standpoint ever, supported by both a growing industry; we think confidence in the industry in '26 from us and our dealers and strength in our STUs. We've continued to outperform the industry and we hope to try to do that again here in 2026. I'd say for Construction Industries as well, just keep in mind, we're also returning to a more normal seasonal pattern. So the selling season coming in the spring and us getting

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ready for that, we entered 2025 at a much slower pace. So, we're getting back to more normal seasonal patterns in Construction Industries. Resource Industries had a great order run rate in the quarter. It's one of the best quarters since 2021 that we've seen, and that's supported by strength in Heavy Construction in North America as well as some good Mining orders, particularly in South America related to copper mining and then obviously Power & Energy had a really strong order intake quarter as well.

Power generation continued to be strong. We're seeing more deals, a little more mix into prime power, like the one that we announced yesterday which obviously wasn't in this backlog figure, it will come in, in the first quarter. We've had four now prime power orders of greater than a gigawatt. We've had a handful of other sizable orders that were less than [a gigawatt] (company clarified after the call). The other thing there is we're seeing strong orders in Oil & Gas, particularly for gas compression. So, the more power that is needed out there. We're going to move a lot of gas. We have to feed turbines and engines to continue to provide that power. So, we had a really, really strong quarter from an order standpoint. And again it was strength across the board. When it comes to visibility further out, I think that's a good thing for us. One of the things that we're trying to do, particularly, most of that's in Power & Energy, is work closely with our customers to schedule their orders in our factory to deliver when they need them in their project timing. What that allows us to do is make sure we're not sending things ahead of time and we can satisfy more customers and make sure every order gets the customer when they need it. Obviously as you suggest, we're taking orders farther out for those type of orders, we have frame agreements for a lot of customers. Those will have inflationary indices tied in there for pricing and for non-frame agreements, we usually have escalators if they're out past the normal 12-month type period. So again, really, really happy with the order performance that we had in the fourth quarter and the outlook that we have ahead of us.

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

Michael Feniger^ Just the 50 gigawatts of power by 2030, that number you guys provided at Investor Day, can you just give us a sense where that kind of finishes into '26 and '27. The genesis of the question is there's always worries that with everyone raising capacity, if data center slows, do we get into an overcapacity type of market, how much of this 50 gigawatt is going into other markets outside of data

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centers, energy, gas compression, downstream? I mean you're booking these orders, I know Mig talked about pricing, but how are you also thinking about terms and conditions, service agreements, prime moves to back up? Just how are you guys thinking of also preparing yourself for down the road as you've seen boom and bust in the past?

Joseph Creed^ So when it comes to the capacity increase, all of our industries kind of work with our customers and figure out what the forecast is. So there can be puts and takes, forecast to move around. But we sort of gauge the capacity we need based on what we see in all industries. We're going to make sure like I said, we're going to move a lot of natural gas in the next few years, so we're going to make sure we take care of our Oil and Gas customers as well as Power Generation. I think rightfully, as you point out in there, some of the things that are also in that capacity, it's not all just assembling finished product, right? There's supply base and there's components, machining and component capacity for us to make sure we can grow services. So when we take prime power or gas compression applications that run continuously, right? Those will hit overhaul cycles, and those are great services [revenues] for us, and we need to make sure we have capacity in place to do that as well(company corrected after the call). So, all that's taken into consideration. We're on schedule. We were able to ship a little bit more at year-end in our large engine facility than we anticipated, which is a great thing. We need to be able to sustain that throughout 2026, and we expect a big chunk of capacity, the first real big step up to come towards the end of this year and heading into 2027. Then the turbine investment started a little later, it will start to come on a little bit after that. So we continue to stay close to our customers. I mean we talk to hyperscalers and large data center customers weekly. And make sure we stay in line with our plans. And like I said, we're starting to take orders farther out, and I think that's a good thing.

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

David Raso^ I'm trying to reconcile the sales guide for '26, right, the roughly 7%. If you look at the backlog that ships in the next 12 months, on a year-over-year basis, it's up about 44%. The orders for backlog that ships in the next 12 months are up 36%. Your view of retail being up in '26. Just trying to understand why such a low sales growth given the order momentum, the size of the backlog and you see retail up in '26? And if you can indulge me just a clarification, maybe I missed it. The tariff

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impact, the \$800 million, does that include expected pricing for '26 netting against a gross number? Or is it before any pricing actions?

Andrew Bonfield^ So first, let me answer the second part of your question. It does not take into account any pricing actions, the 2% pricing action we talked about is completely separate. So, this is just the incremental cost, that we will actually incur or pay for tariffs in 2026. Then when you talk about the backlog and the sales guide, the one thing I'd just point out to you, and Joe mentioned it was last year, if you remember, we actually did, in particular, in Construction Industries, there was virtually no increase in dealer inventory in the first quarter which was unusual. So one of the factors that you have to take into account when you're looking at backlog is the fact that, obviously Construction Industries' backlog is stronger, but part of that is for the machines for the \$1 billion-plus increase in dealer inventory that we expect in the first quarter which is a difference versus the prior year. So that's one factor. Overall, just to remind you that in Power & Energy, we are capacity constrained. Obviously, we are basing our estimates based on the capacity we have today. As Joe mentioned, we are obviously trying and we've managed to build and bring a little bit earlier online. But obviously that is not certain at this stage. So obviously if we are able to bring something on, there will be some upside in the second half of the year.

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

Tami Zakaria^ So the AIP announcement last night, could you give some color on what the battery energy storage system opportunity could be for an order of that magnitude in addition to recip engines, could it be half and half, 25-75, 75-25? Or any color on the revenue mix with an engine and BESS would be helpful. And related to that, do you have enough capacity for best products? Should there be more deals like this?

Joseph Creed^ Most of that order is going to be in generators and natural gas generators I think you saw as part of the Joule, it's a complete system, similar to Joule. So when we do have batteries in there, it's a small portion of the overall total. So most of it is gas generator sets. And as far as capacity goes, that's all part of our capacity planning. So we feel like we can continue to keep up with the growth in prime power and hopefully continue to see more mix shift that way, because as we said, that would help from a services standpoint, and we'll have to look at

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components further out because it would obviously even be more upside to services in the kind of 3 to 5 years after delivery of those gensets. So exciting opportunities for sure.

Operator^ Our next question comes from Chad Dillard at Bernstein.

Chad Dillard^ A couple of questions for you on prime power. So for that application, what's the future role of backup diesel generators versus best? When you're talking to the customers, like how are you thinking about how that evolves over the next several years? Then also with regard to your capacity ramp in Power Generation do you think you can keep the revenue momentum growing in '26 versus '25, I think it was up 30%, or should we be anchoring more towards that 20% CAGR that you've laid out for Power Generation?

Joseph Creed^ Couple of questions there. I think the last one first, as Andrew stated, it's not a demand issue for us. It's really going to be can we bring on supply faster? Kind of what we have in the revenue guide now is what we have high confidence in. If everything turns up heads, remember, it's not just us. We have to bring our supply base along with us. We're going to get out as much product as we can. And obviously that would provide a little bit of upside if we can continue to outpace our current plans for bringing the capacity online. When it comes to these prime power applications, most of what we're seeing so far is still having backup power and they're also with gen sets, not with batteries. In fact, in these they're using our fast-start gas gensets for backup power versus diesel when they do a couple of the big orders we've seen for gas prime power. So right now, we're not seeing 100% battery backup. It's mostly generators.

Operator^ We'll move next to Jamie Cook at Trust Securities.

Jamie Cook^ Congratulations. Sorry, Joe, another question on backlog, just given the strength was there anything sort of one-time in that backlog growth number or pull forward perhaps an announcement that you weren't able to press release, given the understanding the AIP that goes into next quarter? But I was just wondering if there's a pull forward in your understanding there'll be lumpiness quarter-to-quarter, but do you still see an expectation where you can grow your backlog double digit as we exit 2026 for the full year? Then just, again, the growth you're seeing, do you think you're outgrowing the market for whatever reason,

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competitive positioning product dealer? I'm just wondering if you're getting a greater share of the market relative to your peers.

Joseph Creed^ Yes. Thanks, Jamie. As far as orders in the quarter, on your first question, I think nothing of significant note where we had something that we couldn't announce. There are a couple of things outside of Power & Energy. We talked about Construction Industries I would also say the strong orders in Resource Industries, again, Resource Industries can be a lumpy business, and those orders come in big orders, and it's not steady. So we're happy to see the orders that came in. I don't know that you can count on repeat every quarter of that. As we exit, we'll see where we exit this year, right? We want to ship a lot of product in. I appreciate you asked this question last time as well. The backlog is a nuanced number. We need it to go up because we're adding capacity and other things. But if I can slow that growth in the backlog because I can significantly get more product out while orders are still increasing, that's obviously a good thing as well. So we're focused on winning as much of the business as we can. We outpaced the industry in Construction Industries. I think we are definitely an [industry leader] in Power and Energy for what we provide in that space, just from a scale standpoint(company clarification after the call). We have the widest offering below 38 megawatts between turbines and engines and burn a lot of fuel. So, we feel really good in our competitive position. From a lead time standpoint, they are extended, but still we're one of the fastest solutions out there for data centers who are trying to get up and running quickly. So, we'll see how the year plays out, but we have great momentum and hopefully and planning on and expect the momentum to continue throughout this year.

Operator^ Our next question comes from Jerry Revich at Wells Fargo.

Jerry Revich^ I'm wondering, Joe, if you could just talk about the turbine business, you have spoken about potential for it to be used in some peaker plant applications by utilities. Any update on how those conversations are tracking when we might see those use cases? Then in the prepared remarks, you folks spoke about comparable shipments in '26 versus '25 for turbines, but you're ramping up really significant deliveries in Titan 350s, I thought '26 versus '25. So I just want to make sure I'm not missing any outside shipments in the fourth quarter or any other moving pieces there?

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Joseph Creed^ I mean we're seeing most the 350 first units have gone out and we're trying to ramp 350. So it's relatively new product that's going out there. So Solar had a record year in 2025. We expect something comparable in 2026. We announced the capacity increase for Solar. But again, we just announced that middle of last year, late last year. So that's not going to really have a significant impact into 2026 results. I think we'll see a mix to the larger frames like the 350 as we're shipping a few more of those in 2026 as well. Then we continue to work all the deals that we can for power. Traditionally Solar's business has been very heavy weighted towards Oil and Gas. That business is still really strong. But now we're starting to see more of the mix shift into Power Generation as well. So, we're anxious to get that capacity program moving along and we'll provide updates as we move throughout it. We'd love to get more product out. But right now, that's what we have line of sight to in 2026.

Operator^ Our next question comes from Rob Wertheimer at Melius Research.

Robert Wertheimer^ So the project scope at the Monarch data center looks interesting. I wonder if you could give us a mini education. I think that they're going to use the waste heat from the Cat engines to provide cooling to power chillers. There's been an argument that combined cycle in conjunction combined cycle turbines with steam turbine attached are higher efficiency. I don't quite know how to compare the efficiency with this. But obviously using the way seat is good. And in Joule, I think there was backup diesel with prime reciprocating and gas. In this case, are you just over sort of overbuilding the gas reciprocating and there's no diesel involved? And last question, do you get a lot of inquiries on this sort of thing? Or is there a robust kind of quoting and activity pipeline behind it?

Joseph Creed^ Rob, I need my engineers or Jason to talk to you on the technical specs of it. But as you're looking at customers who are wanting speed to market, bringing your own power is definitely one of the ways that they can do that and we can support them. And I think once you make that decision to go to gas, prime power and kind of have your own mini power plant there with the gen sets, we've been able to sit with them and say okay let's make it as efficient as possible. So obviously if we can use the heat to help with the cooling and use that energy on site. It makes the whole project more efficient and the competitiveness of it much better from a financial standpoint. We continue to work with all of our customers on that. I think we'll continue to make headways. We also announced partnerships

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with Vertiv. We're trying to find ways to make these solutions as cost-effective and efficient as possible for our customers. We're having a lot of these discussions. Joule, I think in the early days, if I'm not mistaken, was diesel backup, but then switched to actually gas-fired fast-start backup power as well. So all natural gas. I think the latest one is natural gas as well. So that's one of the great things about our portfolio. Up to 38 megawatts, we have all sorts of different solutions, and we can configure it however is best for that customer site, what type of fuel availability they have and the size and what they're trying to do to make it the most efficient. So, we have a team that really sits with customers and has turbine experts and recip experts on it. We have a lot of microgrid experience, and essentially, that's what these are. So, we're working with customers to put the best solution forward. I think it's going to be exciting. We have more and more discussions around it daily.

Alex Kapper^ [Audra], we have time for one more question.

Operator^ Today's final question comes from the line of Kristen Owen with Oppenheimer.

Kristen Owen^ I'm going to ask a rare question on Construction Industries. And just help us unpack the demand drivers that you're seeing there, how much of this is just a return to a normalized replacement level? How much of this is actually supported by data center activity? And how much should we expect is embedded in your market share growth for 2026?

Joseph Creed^ So I'll make some comments, Andrew, you can chime in here, but we expect North America to continue to be strong. Obviously, the data center build-out is not just good for Power and Energy, that drives a lot of construction activity as well. There are a number of other construction projects moving along. And as we said in our prepared remarks, we continue to see that strength here in North America. IJA spending still continuing to go on. The Middle East, in particular, continues to be really strong. Then we expect China has been really low, and we'll hopefully see some positivity there in above 10-ton excavators coming off a low levels as we enter into this year. From a competitive standpoint, we made great progress and we're able to outperform the industry last year with the strength of our merchandising programs. We have exciting things to continue to roll out. We continue to work on our rental strategy with our dealers. We'll have some things to share at CONEXPO as well when it comes to our Building Construction Products

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equipment and the smaller part of the Construction Industries lineup, which has a ton of momentum in the industry. So, we feel pretty good about our ability in Construction Industries. Some of that order strength is getting back to that more normal seasonal pattern. But we have great confidence around the industry and where it's heading.

So, with that, I want to thank you all for joining us today and we appreciate your questions and interest in Caterpillar. I'm really proud of our team. We had exceptional performance in 2025 as they delivered record sales and revenues, adjusted operating profit margin that was within our [target] range, and robust MP&E free cash flow(company clarified after the call). These results demonstrate the strength of our end markets and our team's disciplined execution. So with a record backlog, we enter the new year with strong momentum and a continued focus on delivering long-term value for our customers and our shareholders.

Now I'll turn it back to Alex.

Alex Kapper^ Thank you, 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 can also find our fourth quarter results video with our CFO and an SEC filing with our sales to users data. Click on [investors.caterpillar.com](https://investors.caterpillar.com) and then click on "Financials" to view those materials. If you have any questions, please reach out to 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.