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First Quarter 2026 Earnings Call

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CORPORATE SPEAKERS:

Alex Kapper

Caterpillar; Vice President of Investor Relations

Joseph Creed

Caterpillar; Chairman, Chief Executive Officer

Andrew Bonfield

Caterpillar; Chief Financial Officer

Kyle Epley

Caterpillar; Senior Vice President of the Global Finance Services Division, Incoming Chief Financial Officer

PARTICIPANTS:

Robert Wertheimer

Melius; Analyst

Jerry Revich

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Evercore ISI; Analyst

Tami Zakaria

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Morgan Stanley; Analyst

Michael Feniger

BofA; Analyst

Jamie Cook

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PRESENTATION:

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Operator^ Welcome to the First Quarter 2026 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, and welcome to Caterpillar's first-quarter of 2026 earnings call.

I'm Alex Kapper, Vice President of Investor Relations. Joining me today are Joe Creed, Chairman and CEO; Andrew Bonfield, Chief Financial Officer; Kyle Epley, Senior Vice President of the Global Finance Services Division and incoming CFO; and Rob Rengel, Senior Director of IR. In our call we'll be discussing the first-quarter earnings release we issued earlier today. You can find our slides, the news release and the webcast recap at investors.caterpillar.com/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 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 highlighting initiatives across our segments. Then he will discuss our full year outlook and insights about our end markets, followed by a strategy update. Andrew will provide a detailed overview of results, and Kyle will share key assumptions looking forward. We will conclude by taking your questions. Now let's advance to Slide 3 and turn the call over to Joe Creed.

Joseph Creed^ Thanks, Alex. And good morning, everybody. Thanks for joining us. Our team delivered a strong start to the year, driven by resilient end markets and disciplined execution in a dynamic operating environment.

Sales and revenues were \$17.4 billion, up 22%, and we delivered adjusted profit per share of \$5.54, an increase of 30% versus last year. Backlog grew to a record level of \$63 billion, an increase of \$28 billion, or 79%, compared to the first quarter last year. All three primary segments contributed to both the year-over-year and sequential backlog growth.

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Also, total first quarter orders were an all-time record, providing a solid foundation for continued positive momentum. Our strong balance sheet and MP&E free cash flow allowed us to deploy \$5.7 billion to shareholders through share repurchases and dividends in the quarter. Solid sales and revenues growth, combined with robust order activity, demonstrate the strength of our business and our focus on solving our customers' toughest challenges. Now I'll discuss first quarter results in more detail.

Sales and revenues were \$17.4 billion, an increase of 22% versus the previous year and in line with our expectations. Adjusted operating profit margin was 18%. First quarter adjusted operating profit margin and adjusted profit per share of \$5.54 were better than we anticipated mainly due to favorable manufacturing costs including lower-than-anticipated tariff costs. Costs related to tariffs introduced since the beginning of 2025 were approximately \$600 million in the quarter. This was favorable to the estimate that we provided in January primarily due to an adjustment to the computation of tariffs in 2025. Andrew will provide a little more details in a moment. Now, I will review first quarter retail statistics. Sales to Users grew in all three of our primary segments.

In Power & Energy, sales to users grew a robust 32% with growth across all applications. Power Generation grew 48% driven by strong demand for large gensets and turbines used in data center applications with an increasing mix towards prime power. Sales to users in Oil & Gas increased 16% and were driven by reciprocating engines, turbines and turbine-related services sold into gas compression applications. Industrial growth was driven by engines sold into multiple applications.

Construction Industries' total sales to users grew for the fifth consecutive quarter, up 7%., Increases in North America were slightly better than we anticipated mostly due to non-residential construction. Rental fleet loading increased, and our dealers' rental revenue continued to grow in the quarter. Sales to users declined slightly in EAME and were below our expectations due to timing in key projects in Europe. Middle East was slightly lower but was partially offset by better-than-expected activity in Africa. Asia/Pacific was about flat, and below our expectations due to timing of customer deliveries while growth in Latin America was slightly better than anticipated.

For Resource Industries, first-quarter sales to users increased 6%, which was below our expectations, primarily due to timing of customer deliveries. Mining sales to users were higher year-over-year with growth across most product lines. Heavy Construction and Quarry & Aggregates were about flat. Rail remained at relatively low levels.

Turning to Slide 4.

I will cover a few highlights since our last earnings call from each of the segments, starting with Power & Energy. Yesterday we announced another exciting opportunity to provide PROPWR up to 2.1 Gigawatts of large gas generator sets for prime power generation in support of data center, oil & gas and industrial applications. The orders will enter the backlog on a rolling basis. We

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expect to deliver generator sets over the next five years and anticipate long-term Services growth opportunities in the future. This represents the sixth agreement with at least 1 Gigawatt of Caterpillar equipment for prime power applications.

Moving on to Construction Industries, last month at CONEXPO, we launched CAT Compact: a streamlined customer experience designed for small contractors and growing businesses that value simplicity and speed. It brings everything together in one destination -enabling customers to buy, rent and service compact equipment with ease. We believe this will expand our relevance in the compact equipment industry and make it easier for small customers to do business with us and our dealers, contributing to our 2030 target for CI of 1.25x sales to users growth.

And finally, Resource Industries completed the acquisition of RPMGlobal in February, bringing a leader in mining software technology into our portfolio. As we highlighted at our Investor Day, RPMGlobal's capabilities complement our existing technology, strengthening our ability to deliver integrated solutions that help customers improve safety and productivity across their operations. We see this as a long-term investment in technology-enabled growth that will help solve our mining customers' toughest challenges.

Now, on Slide 5, I'll provide an update on our outlook.

While there is increased uncertainty due to geopolitical events and elevated energy prices, our end markets have been resilient. We are closely monitoring the environment, and we are not forecasting a material impact to our 2026 outlook at this time.

We now anticipate low double-digit growth for full-year 2026 sales and revenues. The increased outlook is driven by resilient end markets and solid execution by our team. Notably, we are tracking ahead of our large engine capacity expansion plans for the year. Order rates are very strong across a wide range of products driving backlog growth in all three primary segments. We also expect growth in services revenues for the full year.

As a result, we anticipate stronger growth across all three primary segments compared to the outlook we gave during our last earnings call. With the improved sales and revenues outlook, full-year adjusted operating profit margin will be higher than we expected in January. As a reminder, our operating profit margin target range is progressive with sales and revenues. Adjusted operating profit margin is estimated to remain near the bottom of the target range corresponding to the now higher top-line expectations.

Our full-year margin expectation reflects the strategic investments we are making to execute our growth strategy as well as the ongoing impact of tariffs. The situation around tariffs remains fluid while we continue to execute our mitigation plans. Kyle will discuss our revised estimate for tariffs in more detail. 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. We are also increasing our MP&E free cash flow expectations to be higher than 2025 reflecting

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our improved outlook and strong topline growth. To further support our outlook, I'll discuss our key end markets, starting with Power & Energy.

The 2026 outlook remains positive. Robust backlog growth was driven by continued momentum in both Power Generation and Oil & Gas. We anticipate growth in Power Generation for both reciprocating engines and turbines driven by increasing energy demand to support data center build-out related to cloud computing and generative AI. We continue to see demand for Prime Power trend higher as data center customers look for alternative power solutions to keep pace with their growth. Oil & Gas is expected to see moderate growth for the year. 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. As a result, we anticipate another year of strong turbine sales. Services revenues in Oil & Gas are also expected to increase for the year. Demand for products in Industrial applications is projected to grow modestly in 2026.

For Construction Industries, we continue to expect full-year sales to users growth supported by strong order rates. Overall, the outlook for North America remains positive, as sales to users are anticipated to grow versus last year. Construction spending remains at healthy levels supported by the IIJA with the remaining funds to be spent over the next few years. Also, investment in critical infrastructure programs and data centers is contributing to overall construction spending levels. Dealer rental fleet loading and rental revenue are both projected to increase compared to 2025. In EAME, Europe is expected to remain stable supported by non-residential construction, and construction activity in Africa is projected to remain strong. While softening in the Middle East is anticipated, as of now we expect the impact on EAME sales to users to be limited. In Asia Pacific, outside of China, softer economic conditions are expected. In China, we anticipate moderate conditions, with full-year growth in the above 10-ton excavator industry off of low levels of activity. Growth in Latin America is expected to continue.

We are seeing continued positive momentum in Resource Industries with strong backlog growth. Robust order rates across most products drove the highest quarter for order intake since 2012. 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. Customer product utilization is high and the age of the fleet remains elevated. While some commodity prices have increased recently, customers remain focused on the long-term. We continue to expect rebuild activity to increase slightly compared to last year. Rail services and locomotive deliveries are both anticipated to grow for the year.

Now let's turn to Slide 6 for an update on our strategy. Over the past year, and even since our Investor Day last November, our largest customers and the broader data center industry have significantly increased their expectations for capital spending. That has translated to accelerated order rates for us. In fact, since we first announced our initial capacity expansion plans in January of 2024, our large reciprocating engine backlog has grown by more than 3.5x. Customers are committing to longer-term orders with some orders well into 2028. In addition to

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order growth for backup power, we are also seeing higher demand for prime power applications which will lead to long-term service opportunities and higher demand for aftermarket components. As we have discussed, our large reciprocating engine capacity also serves a wide range of applications in addition to Power Generation, including Oil & Gas, and Mining, which all are expected to benefit from long-term secular growth trends. As a result of these trends, I'm excited to announce that we are increasing our large reciprocating engine capacity from 2x 2024 levels to nearly 3x 2024 levels.

Over the last two years, we have maintained a disciplined strategy of scaling capacity in direct alignment with our growing backlog and long-term order visibility. By working closely with our customers to forecast their future requirements, we ensure that our capacity expansions are additive to our OPACC growth. Today's announcement reflects a continuation of this disciplined and measured approach. The additional investment will begin as soon as possible but will primarily occur from 2027 through 2029. As a result, MP&E capital expenditures are expected to average between 4 and 5% of MP&E sales through 2030. Based on our record backlog and customer forecasts, we estimate a positive cash payback on the entire large reciprocating engine investment -- including what was previously announced -- by the end of this decade. As a result of the additional capacity, we are increasing our 2030 Growth Targets. We now expect the compound annual growth rate for total enterprise sales and revenues to be between 6 and 9% from 2024 to 2030. The target for Power Generation sales has increased to more than 3x sales by 2030 from a 2024 baseline. We continue to see attractive growth opportunities across all our segments due to our role in providing the "invisible layer" of the tech stack: the critical minerals, reliable power and physical infrastructure that the modern world depends on. We believe we are well positioned to deliver long-term profitable growth.

And finally, earlier this month we announced that Kyle Epley will succeed Andrew Bonfield as CFO effective tomorrow. It's been a great privilege to work with Andrew. His leadership has been instrumental to Caterpillar's success. He brought exceptional financial expertise, a relentless focus on disciplined decision-making, and a deep commitment to our customers and shareholders. He has made our global finance organization a strategic advantage, and his impact will endure long after his retirement. I have worked closely with Kyle for over 20 years and have great confidence in his ability to build on Andrew's legacy. He is an outstanding leader with deep institutional knowledge and a proven track record of partnering with the business to deliver results. Kyle was also deeply involved in developing our refreshed strategy and will help drive achievement of our 2030 growth ambitions. With that, I'll turn it over to Andrew and Kyle.

Thank you, Joe. And good morning, everyone. I'll begin with a summary of the first quarter and then provide more detailed comments, including performance of the segments. I'll then discuss the balance sheet and free cash flow. Kyle will conclude with remarks on our expectations for the second quarter and our current full-year assumptions.

Beginning on Slide 7, sales and revenues was \$17.4 billion, up 22% versus the prior year, which was in line with our expectations. Adjusted operating profit was \$3.1 billion, and our adjusted operating profit margin was 18.0%- both were stronger than we had anticipated.

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Moving to Slide 8. The 22% increase in sales and revenues compared to the first quarter of 2025 was primarily driven by strong growth in sales volume and favorable price realization. The stronger volume was mainly driven by the impact from changes in dealer inventories and higher sales of equipment to end users. As we expected, dealers recorded a seasonable inventory build in Construction Industries, compared to the slight decrease in the first quarter of 2025. The build was slightly higher than we originally anticipated, supported by the expectation of stronger sales to users for the rest of the year. Sales were in line with our expectations, with favorability in Power & Energy and Construction Industries, offset by lower than anticipated sales in Resource Industries.

One note before I move forward: We will now report changes in dealer inventories in total and for Construction Industries only, removing the total machines analysis. Remember that typically over 70% of dealer inventory in Power & Energy and Resource Industries is backed by firm customer orders. So dealer inventory changes in these segments are mainly a function of timing within the commissioning pipeline - and less indicative of changes in demand or demand planning. Construction Industries' products are generally more reflective of dealer inventory available on the lot, and this level of transparency along with sales to users should help you more accurately model this segment.

Moving to operating profit on Slide 9. Both operating profit and adjusted operating profit in the first quarter of 2026 increased by 20% to \$3.1 billion mainly due to the profit impact of higher sales volume and favorable price realization, partially offset by unfavorable manufacturing costs and higher SG&A and R&D expenses. The adjusted operating profit margin was 18.0%, which was only a 30 basis point decrease compared to the prior year despite higher tariff costs. Margin was stronger than we had expected. This was mainly due to favorable manufacturing costs, including lower tariff costs, and beneficial cost absorption and lower freight. Excluding the impact from tariffs, our first quarter margin was significantly higher than the prior year reflecting the higher sales volume and favorable price. For the tariffs introduced since the beginning of 2025, the first quarter costs were approximately \$600 million. This was favorable compared to the \$800 million estimate provided in January primarily due to an adjustment related to the computation of tariffs incurred in 2025. This adjustment is reflected in operating profit within corporate items and only impacts the first quarter. Segment margins are not impacted.

Moving to Slide 10, profit per share was \$5.47 in the quarter. Adjusted profit per share was higher than we had anticipated, at \$5.54 excluding restructuring costs of \$0.07 versus \$0.05 last year. Adjusted profit per share included a discrete tax benefit of \$0.15 in the quarter. The favorable adjustment to our tariff costs benefited the quarter by about \$0.31. Excluding discrete items, the provision for income taxes in the first quarter of 2026 reflected a global estimated annual effective tax rate of 23.0%. 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 \$0.13 compared to the first quarter of 2025.

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On Slide 11, I'll review the performance of the segments, starting with Power & Energy. Keep in mind that our comments now reflect the realignment of the Rail division moving from Power & Energy to Resource Industries. For Power & Energy, sales of \$7.0 billion increased by 22% versus the prior year. Sales exceeded our expectations driven by strength in Power Generation. The sales increase versus the prior year was mainly due to higher sales volume. First quarter profit for Power & Energy increased by 13% versus the prior year to \$1.5 billion. The segment's margin of 20.6% was a decrease of 170 basis points versus the prior year, mainly driven by tariffs, which had about a 270 basis point impact on the segment's margin. As we expected, higher manufacturing costs were also impacted by spend related to our capacity expansion, including higher depreciation. Favorable volume and price were a partial offset to the manufacturing costs increase. The margin was stronger than we had anticipated primarily due to the benefits of some specific mitigation efforts to reduce tariff costs. Sales volume also supported the stronger than expected margin.

Now moving to Slide 12. Construction Industries sales increased by 38% in the first quarter to \$7.2 billion. This was higher than we expected, mainly due to stronger than anticipated volume from higher dealer inventory build supported by continued momentum in our end markets. The 38% sales increase was primarily due to very strong sales volume growth and favorable price realization - which included a benefit from geographic mix. Higher sales volume was mainly driven by changes in dealer inventories, with a more typical \$1.5 billion increase in the first quarter as compared to a slight decrease in the prior year. As Joe noted, sales to users growth was healthy, with a 7% increase in the quarter. First-quarter profit for Construction Industries was \$1.5 billion, a 50% increase versus the prior year. The segment's margin of 21.4% was an increase of 160 basis points versus the prior year mainly driven by the favorable price realization and the profit impact of higher sales volume. This was partially offset by tariff costs, which had an impact of about 550 basis points on the segment's margin. The margin was stronger than we had expected, mainly due to the lower than anticipated manufacturing costs, including cost absorption and the profit impact of stronger sales volume.

Turning to Slide 13. Resource Industries sales increased by 4% in the first quarter to \$3.8 billion, driven by higher sales volume and favorable currency impacts. However, the year began a bit slower than we had anticipated, primarily due to timing, as volume was affected by some short-term production delays. First-quarter profit for Resource Industries decreased by 39% versus the prior year to \$378 million. The segment's margin of 10.0% was a decrease of 700 basis points versus the prior year driven mainly by tariff costs, which had an impact of about 500 basis points on the segment's margin. Margin was lower than we had anticipated primarily due to the lower than expected sales volume and the timing of discounts, which impacted price realization within the segment - on a short-term basis.

Moving to Slide 14. Financial Products revenues increased by 9% versus the prior year to \$1.1 billion, mainly due to higher average earning assets across all regions. Segment profit increased by 14% to \$245 million. The increase was primarily due to higher average earning assets and margins at Insurance Services, partially offset by higher SG&A expenses. Our customers' financial health remains strong. Past dues were 1.39% in the quarter, down 19 basis points versus

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the prior year. The allowance rate was 0.86%, matching the fourth quarter of 2025 for our lowest level ever reported in any quarter. Business activity at Cat Financial remains healthy. Retail credit applications were roughly flat while retail new business volume grew by 8% versus the prior year - our highest first quarter in over 15 years. In addition, used equipment inventory levels continued to remain low and conversion rates remain above historical averages as customers choose to buy equipment at the end of their lease term.

Moving on to Slide 15. MP&E free cash flow was nearly \$600 million in the first quarter, which was higher than we expected and about a \$350 million increase versus the prior year, impacted by stronger profit. The quarter included our annual payment for 2025 short-term incentive compensation. Capex spend was about \$700 million.

Moving to capital deployment. We deployed \$5.7 billion to shareholders in the first quarter. After the dividend payment, approximately \$5 billion was for share repurchases, which included a \$4.5 billion Accelerated Share Repurchase or ASR that may last for up to nine months. Our balance sheet remains strong. We have ample liquidity, with an enterprise cash balance of \$4.1 billion in addition to \$1.3 billion in slightly longer-dated liquid marketable securities to improve [yields] on that cash (company clarified after the call).

After more than 90 quarterly or biannual earnings calls, it is finally time for me to retire. I could not have scripted a better set of results to be my final call. It has been an honor and privilege to serve alongside the CAT team and to work with Joe and Jim, the Board, our executive office, and our employees and dealers around the world as we've delivered on our strategy through a wide range of environments. I'm extremely proud of what this team has accomplished, and I am confident in the foundation we've built together and the growth opportunities ahead. I also want to thank the investment community for the thoughtful engagement during my tenure at Caterpillar. Finally, Kyle has worked closely with me since I began at Caterpillar and I have watched his development as a key member of Caterpillar's leadership team. His knowledge of the business and involvement in the development of the strategy was an invaluable help to me as CFO and I could not have been more pleased that the Board elected him as my successor. As I step away, I am confident that Caterpillar is well positioned for the future and that the finance organization is in very capable hands with Kyle Epley as CFO. With that, thank you again.

Kyle Epley^ Thank you, Andrew. I am honored to be the next CFO of Caterpillar, and Andrew, I am very grateful for you and all the guidance you have provided to me over your years at Caterpillar. Now let's go through our Outlook assumptions.

Turning to Slide 16., I will start with the second quarter. We maintain a watchful eye on the environment as the geopolitical landscape remains complex. Our assumptions are based on what we see today and what we believe is most likely. Keep in mind that our assumptions reflect the realignment of the Rail division within Resource Industries. We filed an 8-K in late March to recast historical periods and establish an appropriate baseline for you to evaluate segment-level performance and expectations. Based on what we see today, for the second quarter, we anticipate

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another quarter of strong sales growth versus the prior year. We expect volume increases and favorable price realization in each of our three primary segments.

We anticipate volume growth will be driven by a higher growth rate in sales to users compared to the first quarter [rate], with a minimal change in Construction Industries' dealer inventory (company clarified after the call). If we look at the second quarter by segment, we anticipate strong sales growth in Power & Energy in the second quarter versus the prior year driven by continued strength in Power Generation and in Oil & Gas, and favorable price realization.

We expect strong sales growth in Construction Industries in the second quarter versus the prior year, mainly due to strong sales to users supported by the backlog, and favorable price realization. We anticipate a more typical sequential sales increase in the second quarter as compared to the first -in contrast to the sizable sales increase we saw a year ago following a lighter first quarter, which was impacted by the lack of a dealer inventory build.

In Resource Industries, we also expect strong sales growth versus the prior year, primarily due to higher sales to users. We also anticipate favorable price realization, with the primary driver being geographic mix.

Now I will provide some color on our second quarter margin expectations versus the prior year. Excluding tariff costs, we expect higher margins at the enterprise level primarily due to price realization and higher volume, but partially offset by higher manufacturing costs, and SG&A and R&D expenses. Higher manufacturing costs assume unfavorable cost absorption and investments to support higher volume and capacity investments, including depreciation. SG&A and R&D expenses will reflect investments and higher compensation expense.

Despite the ongoing impact of tariffs, we also expect higher margins in the second quarter versus the prior year. We anticipate tariff costs of around \$700 million. This remains a headwind compared to the impact last year which was around \$400 million. We expect about 50% of the tariff costs to be incurred in Construction Industries and 25% in both Power & Energy and Resource Industries.

Now on to the second quarter margins by segment.

In Power & Energy, including tariffs, we anticipate a slightly higher margin percentage compared to the prior year on stronger volume and favorable price realization. This is partially offset by higher manufacturing costs, including tariff costs and expenses related to our capacity expansion projects.

In Construction Industries, including tariffs, we anticipate a higher margin percentage compared to the prior year on stronger volume and price, particularly offset by higher manufacturing costs primarily driven by tariffs and SG&A and R&D expense.

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In Resource Industries, including and excluding tariff costs, we anticipate a lower margin percentage compared to the prior year due to higher manufacturing costs and SG&A and R&D expenses. Higher compensation expense and strategic investments related to technology, including autonomy, are driving the higher SG&A and R&D expenses. Favorable price realization and higher volume are expected to be a partial offset. Note that, for Resource Industries, we anticipate the benefit from price realization to improve as we move through the year.

Now on Slide 17, let me provide a few comments on the full year. As Joe mentioned, we now anticipate sales and revenues growth in the low double digits for the full year of 2026. This is an improvement versus our expectations from last quarter. The increase in our full year sales and revenues expectation is supported by: solid sales to users growth amid resilient end markets; the fact that Power & Energy is tracking ahead of our 2026 capacity growth plans; and, continued robust fundamentals and industry growth in North America. We expect strong sales growth across each of our primary segments, driven mainly by volume and price.

Now on to margins for the full year. Excluding the tariff costs, we expect to be in the top half of the adjusted operating profit margin target range. Compared to the prior year, favorable price realization and volume are partially offset by higher manufacturing costs related to capacity, and higher SG&A and R&D related to increased incentive compensation and strategic investment spend. Including tariffs, we continue to anticipate that the adjusted operating profit margin will be near the bottom of the target range. However, with the improved sales and revenues outlook, full-year adjusted operating profit margin will be higher than we expected in January.

As I mentioned, the situation is complex, but we now anticipate full year 2026 tariff costs in the range of \$2.2 to \$2.4 billion, based on our current volume assumptions. This figure reflects our estimated 2026 full year impact of tariffs implemented since the beginning of 2025 and in place over the course of this year. This compares to the \$2.6 billion estimate we provided last quarter.

Let me provide some additional context on our tariff assumptions. The bottom line is, our expectation for tariff costs in the second through fourth quarters has not changed significantly since January. Based on the recent ruling on IEEPA tariffs by the U.S. Supreme Court, we removed these tariffs from our estimate and added Section 122 tariffs. We expect to ramp up our actions to mitigate our tariff costs in the back half of the year. The recent updates to Section 232 guidance have a roughly neutral effect, and we are not currently including any IEEPA-related refunds as a result of the Supreme Court's decision.

Moving on, we continue to expect restructuring costs of approximately \$300 to \$350 million in 2026. And, our anticipated global estimated annual effective tax rate remains approximately 23% for 2026, excluding discrete items. We now anticipate MP&E free cash flow will be higher than the \$9.5 billion last year, an improvement versus our expectations last quarter reflecting our improved outlook, while our capex forecast for 2026 remains approximately \$3.5 billion. As Joe discussed, we are increasing our large reciprocating engine capacity from 2x to nearly 3x 2024 levels, with additional capex spend occurring primarily from 2027 to 2029. We now anticipate

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MP&E capex spend to average approximately 4% to 5% of MP&E sales through 2030. Capital spend for our large engine capacity expansion is supported by strong demand signals and confidence in a positive cash payback by the end of this decade. We believe these investments will support future absolute OPACC dollar growth, which is our definition of winning.

So now turning to Slide 18, let me summarize. We delivered a strong start to the year, with better than expected earnings. In a dynamic operating environment we now anticipate higher sales and revenues growth in 2026 compared to a quarter ago. We will remain disciplined and measured in our strategic investments while maintaining our strong balance sheet, and we will continue to return substantially all of our MP&E free cash flow to our shareholders through dividends and share repurchases. Finally, we will continue to execute our strategy for profitable growth. With that, we will take your questions.

QUESTION & ANSWER:

Operator[^] (Operator Instructions) And your first question comes from the line of Rob Wertheimer from Melius. Your line is open.

Robert Wertheimer[^] Congratulations to Andrew and Kyle. It's been a pleasure getting to know you both. My question is on large engine capacity expansion. It sounds like most end markets for big engines are pretty good. But is there any one that kind of predominated in making the additional capacity expansion decision, whether prime or backup power, oil & gas, whatever? Should we think about the timing as being kind of linear or lump sum at the end of the expansion period in 2029? Thank you.

Joseph Creed[^] You think of the size of those industries right now and where the growth is really happening. We are seeing -- one of the things I'm really happy about is it's not just Power & Energy, we've had really good Oil & Gas quarters as well over the past few quarters from an order standpoint and health of the business. But just the pure size of it is mostly driven by Power Generation and that's where we're putting the capacity in. And even over the last six months, the last two quarters, we've seen the orders go up pretty consistently. And if you go back to the industry with data centers and just the amount of CapEx announced in that industry since a year ago is quite significant. So that's the main driver of why we feel comfortable putting this capacity in place, we have the benefit that it does serve multiple industries, and I do think we're going to move a lot of natural gas, and I'm excited about the Oil & Gas business and what its outlook is over the next few years.

It's still a lot of prime power. So, we still see a lot of cloud. It's not just AI. When we move into use of AI, we're going to use a lot more data. So, the backup power opportunity provides a good base for us. But it is fungible capacity and we are seeing a lot more mix towards prime. And then also that drives when it's gas compression or prime power drives a lot of aftermarket which this capacity will also allow us to serve that aftermarket opportunity which I think gives us great services growth opportunity beyond 2030. From a timing standpoint, with the second part of

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your question, we're going to try to put this capacity in as soon as we can. The data centers are trying to move quickly. We've been talking to customers. So, we're going to start right away. I think you should see heavy investment in '27, but we'll be investing still in '28 and '29. We also hopefully, our expectation is to get incremental units out of this latest capacity announcement as early as 2027 as well. So, it will happen fast.

Operator^ We'll move next to Jerry Revich at Wells Fargo.

Jerry Revich^ Congratulations, Andrew and Kyle. Joe, I'm wondering if we could just go back to your prepared remarks, you mentioned you booked Prime Power large Recips for now six data center projects, considering just the full scope of products that you folks have for across the behind the meter offering, can you just talk about what you're seeing in the architecture plans? We're hearing about increasing use of recips plus turbines in series of projects going forward. And if that happens, you folks would be in a pretty good position. So, I'm wondering if you just outlined, is that what you're seeing, what kind of developments are you seeing in architecture and if you're willing to give us the number of Gigawatts booked for Recip buying power, that would be helpful.

Joseph Creed^ I don't know that I even have on the top of my head the number of Gigawatts on Prime Power, but from a trend perspective, I think when you step back, what you're saying is exactly what we're seeing from our customers, each side is a little bit different. So, I think all that depends on the site, the size of the facility, their access to gas, the footprint and power demand. So, our teams are in early with customers. And you're right, I think we do have an advantage of having -- when you're going to string together a number of products behind the meter and you need multiple products, us having turbines and Recips is an advantage for us, we can configure it one way or the other or a mix and a lot of its driven by timing to and how fast we can get on product. So, each one is a little bit different, but it does present an opportunity for us. And I think we're seeing as a trend more and more data center sites asking for behind-the-meter power. And so that's translated into, as I said in prepared remarks, I think six announcements over 1 Gigawatt, but also multiple projects as well that are less than 1 Gigawatt where we're supporting customers with Prime Power.

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

David Raso^ I just want to thank Andrew, obviously one of the best CFO runs I've seen in my career. So congrats, enjoy your retirement. And obviously congratulations, Kyle. I want to talk long-term targets. The change from a 6% CAGR to now a 7.5%, you can account for that almost, really almost more than the change just from the increase in your target today for Power Gen sales going from double to triple over that same timeframe. And just given the ecosystem around power when it's that strong, be it Oil & Gas, construction, mining, I'm just curious why you left every other part of the business with the same view. I would just think there'd be some ecosystem benefit if you're raising your power gen thoughts that dramatically.

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Joseph Creed^ Thanks, David. So when you think about it, you're right, when you do the math, it comes out to the increase in Power Gen, but that's really what's different, right, today from where we were at our Investor Day. As I mentioned, you look at the amount of CapEx spent by the data center industry, particularly as it relates to power, we need to add capacity to do that. So that's incremental opportunity for us. Keep in mind, we have healthy growth ambitions, and we projected those out when we had our Investor Day. So, it wasn't like the other two segments didn't have growth. We have growth across all three [primary segments] (company clarified after the call). So, we're pretty comfortable with the new 6% to 9% raise, and we're happy to be able to raise it, particularly so soon after really putting those targets out just in November.

Operator^ We'll take our next question from Tami Zakaria at JPMorgan.

Tami Zakaria^ So with an improved top line outlook for the long term that you just updated this morning, wondering what keeps your view on the margin opportunity unchanged versus the Analyst Day. Wouldn't you expect better fixed cost absorption? Maybe D&A steps up, but I would expect pricing could also be better given surging demand. So trying to understand what underpins this sort of high 20% incremental margin versus historically you have seen higher.

Andrew Bonfield^ Yes, Tami, it's Andrew. Just if you remember when we actually set the targets, remember, they're progressive margin targets. At the moment, they go out to \$100 billion. At some point in time that may be updated as we get closer. But remember that we had progressive targets of around 31% [adjusted operating profit pull-through at the midpoint of the range] which is the same average that we had than the previous margin targets which we think is fair and reasonable (company clarified after the call). The aim always is to do better, and that's always one of the things we'll continue to focus. But today we have headwinds, for example, caused by tariffs. So, our target is really to get back to the middle of the range over a period of time and to mitigate the impact of tariffs as we speak. But that's really the driver. I think we're also in a situation when we add capacity because we do accelerate the depreciation. Just to remind you, that does have a drag on margins as well particularly in Power & Energy over the next few years as they bring that on. So, it's not all incremental margins based on the old capacity rate. So, you don't get quite the same amount of leverage as you would have done previously.

Joseph Creed^ Yes. I think that's an important point that Andrew made, right? The progressive targets as we're adding sales, it's a 31%. That's just to stay at the same point in the range that we are. We're at the bottom. And as we've said many times, our goal is to work our way back up towards the middle of the range. So, to do that, we're going to have to have better pull-throughs in that 31% as we work our way out. So that's primarily the reason. And we are spending, right, and we're adding the capital to do this. If you look at where we've been in the past, the last seven or eight years, we've not needed the capital to increase our sales because it's come back within the footprint that we have before. Now we're moving to higher sales levels than we've ever had in the company. So, we're going to have to spend a little money to get there.

Operator^ We'll take our next question from Angel Castillo at Morgan Stanley.

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Angel Castillo^ I just want to echo everyone's congratulations to Andrew, I wish you all the best, and Kyle, looking forward to working with you. I wanted to spend a little bit of time on the capacity addition. I guess can you talk about just the decision to add more capacity in the large engines as opposed to perhaps increasing investments on the gas turbine side? I guess I'm trying to understand if at all, this is any kind of read-through on how you view the supply/demand of either product? And then I know you said essentially the capacity here is fungible between prime and backup. But curious if you could just talk a little bit about more specifically the backup supply/demand backdrop. I think we've been seeing some rising concerns that as we kind of move to an 800V DC or behind the meter that you could potentially see more and more of that being kind of displaced or designed out? And again you have the benefit of having that fungibility, but just curious if you could talk about that supply/demand and what you're hearing from your customers on that backup opportunity.

Joseph Creed^ I think part of the explanation there is a large part of the base increase in the capacity is backup power, right? Which is what we've done to back up data centers, and we've been leading that for a long time and we continue to see growth. That will be driven by continued more data on the cloud. So more tokens are being used, more data is going to be needed. We look at our own internal -- look at what we're trying to do internally with automating our factories and automation, what we're doing in the office, what we're doing with autonomy and our machines, right? We're going to use a lot more data and we just look at the growth and the use that we're going to have, and we're not the only company out there doing that. So I think use will continue to go up. All these projects for right now that we're seeing for prime power, we're not seeing customers not have backup power or making sure that they have the ability to run with backup plans. They're not just going with one option. So we haven't seen that trend continue. So I think the backup power is going to continue to be there. Not every data center is going to go behind the meter either and those are going to drive a lot of backup demand. So as we look at it, we feel pretty confident in this investment in raising in capacity. Look, I've been around a long time. I know there are no such thing as sure things. But when you think about all the capacity investments we've made in my career, this is a better line of sight to getting the return than anyone we've ever made. And we don't need to be at all this capacity to be OPACC positive and grow OPACC. So that gives us confidence to make this investment at this point in time.

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

Michael Feniger^ Andrew, congratulations. Just when we think of 2030, that 50 Gigawatt number you guys laid out at the Investor Day is there any way we can get an update on that given the announcement today? And Joe, just when we look at the pricing in Power & Energy, it's still around this 2% number. I realize there's going to be some new products and maybe there's not a lot of like-for-like, but just generally speaking, should we be expecting that number to gradually rise through this year and into '27 as we see some of this backlog get delivered? Just directionally, how should we kind of think about that figure going forward?

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Joseph Creed^ I'll take the second one first. From a pricing standpoint, I think two things I would say we're taking orders well out in the future. We take orders that are multiple years out, they have price escalators in there typically that are agreed with frame agreements. So we plan to see -- it won't be today's pricing, it will be whatever the appropriate pricing at the time is. When it comes to the capacity increase -- well the other thing on pricing, keep in mind, Power & Energy is a big segment. So that 2% is over the entire segment. So obviously where we're capacity constrained, we're able to do a little bit more, a large part of that business is Industrial and smaller. Power Generation, Marine, there are other parts of the business for the smaller product, where we aren't constrained. It's a competitive environment. So that number you're seeing is weighted across the entire segment. When it comes to capacity, so the 3x and the way we've said 2x capacity now going to [nearly] 3x, that's sort of factory output in the way we look at it in units (company clarified after the call). From a Gigawatt standpoint, we gave the 50 Gigawatts. The mix is a little bit different in this. So, you can't really equate this increasing Gigawatts to what's in the 50 base, but we estimate this will give us another 15 Gigawatts capacity annually when we're done with this installation.

Operator^ Our next question comes from Jamie Cook, Truist Securities.

Jamie Cook^ Congrats on another great quarter. And thank you, Andrew, for all your help throughout the year. Congrats on a fantastic career and look forward to working with you, Kyle. Congrats as well. I guess my question, to Joe, sorry back on Power & Energy again. I guess Tami asked the question on why margins shouldn't be going up which you answered. I guess my other question with regards to margins. Should we assume the variability of margins narrowed relative to, I think the 400 bps pegged on each revenue cycle or throughout the cycle just to power your visibility and service aftermarket becomes a larger percentage of the business you're thinking the volatility margin should narrow. And then just the follow-up, just again you're announcing capacity increases, a top line increase relative to just where we were in November. Is there anything going on structurally from a market share opportunity for Caterpillar that perhaps we're underappreciating?

Joseph Creed^ We probably addressed that margin question, right? We're really happy with Power & Energy operating margins. When you think about one of the reasons we sort of reorganized ourselves, there's a lot of synergies that we get with the Rail group being with [Resource Industries], but it also gives you a good view of our Power & Energy business (company clarified after the call). And I think if you compare where we're at from an operating margin standpoint to the industry, we are leading in that space, and we have a really, really healthy business and its continuing to grow, and it's an area we continue to invest. I don't know that as that business grows, I don't think that we have any intention right now on narrowing that operating margin range. There are a lot of things that can go in to make that happen. Just look at our backlog growth, in this quarter, one of the things that I'm excited about, we added another almost \$12 billion sequentially. We did almost the same thing from the third quarter to the fourth quarter last year, and we saw the percent of backlog delivered in the next 12 months come down quite a bit because it was heavily Power & Energy was a big part of that. We're pretty similar this time which shows that all three of the [primary segments] are taking healthy orders right

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now (company clarified after the call). So our intent is to grow all three of our [primary] segments (company clarified after the call). And so we don't have any intention of narrowing the bandwidth on the margin targets.

Andrew Bonfield^ And just to remind you, Jamie, remember, our definition of winning is absolute OPACC growth in dollar terms and not necessarily margins. So, the margins will always be there to give flexibility to enable us to invest. I mean one of the great things we're doing is we are putting substantial investment of dollars behind to get to those growth targets which I think is really a positive even in an environment where we are seeing higher costs as a result of tariffs.

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

Chad Dillard^ So how is CAT helping the Tier one and Tier two suppliers ramp Power Gen capacity along with CAT? Curious to get your perspective on where you see the biggest bottlenecks are. And then also by 2030, what share of, I guess now 65 Gigawatts of large engine production will be prime vs back up?

Joseph Creed^ I don't know in 2030, I'm not sure we can tell you exactly the mix between prime and backup. What we're seeing right now is a trend much more towards prime, but backup is growing quite significantly at the same time as we said, I don't know that you'll see a mix change. I think both of them are going to change. By then, the more prime we sell the more gas compression we sell the more Oil & Gas, we'll also see a heavy shift towards the aftermarket as well for 2030 and beyond for services growth opportunities. As far as working with the supply base, that is a big part of the investment is not only within our four walls, but it's also working with the supply base to make sure that they can ramp and we have a big team that's working nonstop with them to make sure a lot of its forecast visibility. So the more visibility we can give them to the forecast, the better they can react. And that's one of the reasons, frankly, why we've been able to be running a little bit ahead of schedule on the capacity we're installing right now is we've had great performance out of the supply base. So right now we don't see any major issues. And that's the first quarter and being ahead is allowing us to have more confidence which is why we gave a little bit better outlook for this year as we think we can maintain that as we go throughout the rest of this year.

Operator^ We'll move next to Kyle Menges at Citigroup.

Kyle Menges^ Congrats to Andrew and Kyle. I wanted to follow up on some of the Resource Industries commentary. It sounds like in Resource Industries, backlog is growing nicely at a pretty significant quarter of order intake. I'd just love to hear kind of what's driving that. How much of it is perhaps new mines versus existing mines coming back and replacing fleet? And yes, I just would love to hear more of what's driving the strength in the Resource Industries backlog.

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Joseph Creed^ When it comes to new versus existing, there aren't a tremendous amount of new mines that are going in, you kind of see where they're at. We continue to work with customers. The age of the fleet is pretty old. So, we'll see customers continue to update their fleets. And as we look forward as well the technology that we can bring in on new equipment, we think will help drive some of that fleet turnover as well. But it's really driven right now by strong Mining, particularly copper and gold that's driving the backlog growth. The other thing in Resource Industries to keep in mind, the North America construction industry has been very resilient when you think about what's driving it, and that has a carryon effect into Heavy Construction. So that's also in the Resource Industries backlog and contributing to the strength that we've seen in the orders there.

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

Operator^ Today's final question comes from the line of Mig Dobre from Baird.

Mircea Dobre^ Andrew, thank you, and all the best to you in retirement. Maybe we can continue the conversation on mining here. Your comments on orders being the strongest since 2012 really kind of stood out to me. I mean it's a little bit at odds with negative pricing still with margins, which I understand impacted by tariffs near term. But I guess my question is, as you see this demand cycle manifest itself, how do you think about the segment operationally? Whether we're talking about the manufacturing footprint, whether we're talking about pricing, can we actually see mining get back to the kind of margins that you've experienced back at the prior feedback in 2012?

Joseph Creed^ We had slightly negative pricing in the first quarter, and that's a little bit due to timing. And keep in mind, the Mining delivery cycle is much longer. So as we take orders, delivery, what we're delivering now the orders from quite a while ago, when you look at the Resource Industries segment now it has the Rail group in it. So I think you just make -- going back to 2012 is not going to be apples-to-apples when we look at it. But we're going to continue to invest in the business. The strong orders are a great sign of what we think is to come. It's a competitive industry as well. So we want to make sure we're being competitive as we go into each tender.

The other thing I would keep in mind when it comes to margins, particularly right now Resource Industries' relative size to the other segments, a little bit smaller on the top line. So, we're going to make the investments that we think we need to be competitive in autonomy and other things. So, if you have an autonomy investment, in Resource Industries and you have an autonomy investment in Construction Industries, it's going to have an outsized impact on the operating margin percent in Resource Industries for now. But as we continue to build that segment and we get operating leverage back, we would definitely expect the operating margins to get better. We think they'll get better even this year from what you saw in the first quarter. But as we continue to grow the segment, our goal would be to get those operating margins up as we move forward.

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So, thank you for all the questions and your engagement today. One, I just want to say congratulations to Kyle, I look forward to working closely with him executing our strategy. And Andrew, again thank you for everything that you've done. You've been an amazing CFO. And if you look at the track record of the company during your tenure is probably like no other CFO we've ever had. So you will be missed, and we appreciate everything you've done, but you're leaving us in a great place and in great hands. And thank you all for joining us. We truly appreciate your questions. I'm very proud of the Caterpillar team's strong performance in the first quarter. Our first quarter results demonstrate the resilience of our end markets and our disciplined execution. With a record backlog and a focus on delivering for our customers, we're well positioned to continue creating long-term value for our shareholders. With that, I'll turn it back over to Alex.

Alex Kapper^ Thank you, Joe, Andrew, Kyle, 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 CFO in an SEC filing with our sales to users data. Click on investors.caterpillar.com. And then click on financials to view those materials. If you have any questions, please reach out to me or Rob. The Investor Relations general phone number is (309) 675-4549. Now let's turn it back to Audra to conclude our call.

Operator^ Thank you. That concludes our call. Thank you for joining.

You may all disconnect.