Caterpillar
08/04/2026 – Q2 Caterpillar Earnings Call.

OPERATOR: Welcome to the Second 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 second-quarter of 2026 earnings call. I'm Alex Kapper, Vice President of Investor Relations. Joining me today are Joe Creed, Chairman and CEO; Kyle Epley, Chief Financial Officer; Stephanie Baughman, Senior Vice President of the Global Finance Services Division; and Ryan Coleman, Senior Director of IR. During our call, we'll be discussing the second-quarter earnings release we issued earlier today. You can find our slides, the news release and a webcast recap at investors.caterpillar.com under “Events and Presentations.” The content of this call is protected by U.S. and international copyright law. Any rebroadcast, retransmission, reproduction, or distribution of all or part of this content without Caterpillar's prior written permission is prohibited.

Moving to Slide 2, during our call today we'll make forward-looking statements, which are subject to risks and uncertainties. We'll also make assumptions that could cause our actual results to be different than the information we're sharing with you on this call. Please refer to our recent SEC filings and the forward-looking statements reminder in the news release for details on factors that, individually or in aggregate, could cause our actual results to vary materially from our forecast. A detailed discussion of the many factors that we believe may have a material effect on our business on an ongoing basis is contained in our SEC filings. On today's call, we'll also refer to non-GAAP numbers. For a reconciliation of any non-GAAP numbers to the appropriate U.S. GAAP numbers, please see the appendix of the earnings call slides. 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 highlight. Kyle will provide a detailed overview of results and 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.

JOE CREED: All right, Thanks, Alex. Good morning, everyone, and thank you for joining us. In the second quarter, Sales and Revenues were better-than-expected at $20.5 billion dollars, up 24 percent versus the prior year, driven by strong end market demand in all three of our primary segments. This is the first time in company history that we have generated over $20 billion dollars of sales and revenues in a single quarter. This milestone underscores both the essential work our customers do every day and the dedication of Caterpillar employees worldwide to solving our customers' toughest challenges.

We delivered adjusted profit per share of 8 dollars and 17 cents, an increase of 73 percent versus last year. Our backlog grew sequentially by $9 billion dollars to $72 billion dollars. This is an increase of approximately $35 billion dollars, or 92 percent, compared to second quarter last year. All three primary segments contributed to both the year-over-year and sequential backlog growth. Strong order rates and a growing backlog reflect broadening momentum across our business. In the quarter, we generated robust MP&E free cash flow of 5.1 billion dollars and deployed 2.2 billion dollars to shareholders through share repurchases and dividends.

Now I'll discuss second quarter results in more detail. As I mentioned, sales and revenues were $20.5 billion dollars and the increase versus prior year was primarily driven by strong growth in sales volume from higher sales to users in all three primary segments, AND favorable price realization. Second quarter sales and revenues were better-than-expected due to strong sales volume growth in Construction Industries and Resource Industries, while Power & Energy was broadly in line with our expectations. Adjusted operating profit margin was 21.9 percent. Second quarter adjusted operating profit margin was better than we anticipated primarily due to IEEPA tariff recoveries of 392 million dollars and lower than expected tariff costs. The margin benefit from better-than-expected sales volumes was mostly offset by higher SG&A and R&D expense. For tariffs introduced since the beginning of 2025, excluding IEEPA recoveries, costs were about 400 million dollars in the quarter. This was lower than the estimate we provided in April due to favorable adjustments to the computation of tariffs previously incurred. Kyle will explain in more detail in a moment, including the impact to each segment.

Now, I will review second quarter retail statistics. Sales to Users grew in all three of our primary segments. In Power & Energy, sales to users grew a robust 33 percent. Power Generation grew 72 percent, driven by very strong demand for large gensets and turbines used in data center applications. Sales to users in Oil & Gas increased 6 percent and were driven by reciprocating engines, turbines and turbine-related services sold into gas compression applications. Industrial sales to users were down due to a decline in engines sold into marine applications. Construction Industries' total sales to users grew for the sixth consecutive quarter, up 22 percent. Increases in North America were better than we anticipated, as the growth was driven by very strong rental fleet loading and equipment sold into non-residential and residential construction. Dealers' rental revenue continues to grow in North America requiring more investment in their equipment fleets. This quarter, rental loading was a positive contributor to sales to user growth as compared to second quarter last year when rental loading was a headwind. Sales to users increased in EAME due to strength in Europe and Africa but were lower than we anticipated due to softness in the Middle East. In Asia-Pacific, growth was driven by China, but softness outside of China kept the overall region below our expectations. Latin America grew as we anticipated. For Resource Industries, second-quarter sales to users increased 17 percent, which was in line with our expectations. Sales to users were higher year-over-year in Mining, as well as Heavy Construction and Quarry & Aggregates. Rail growth was driven by international locomotive deliveries.

Turning to slide 4, I will cover a few highlights since our last earnings call starting with Power & Energy. To support the demand growth in Power Generation and Oil & Gas applications, we are excited to resume production of our 10 Megawatt medium-speed gas reciprocating engine platform. This highly efficient platform is well-suited for prime power generation, and its power rating fits between our high-speed gas reciprocating engines and industrial gas turbines. In 2022, we stopped manufacturing this product and focused on supporting aftermarket sales and services given the limited industry opportunity at that time. And now, without significant investment, we are able to restart production by leveraging our existing supply base along with our internal capacity and capability. We plan to bring about 1.5GW of capacity back online, and shipments are expected to begin in the fourth quarter. This is a clear example of how our agility and diverse portfolio help us stay ahead of customer needs, respond quickly and turn opportunities into profitable growth.

Moving on to Construction Industries. In the second quarter, we delivered our first units to Major Projects, which is a specialized, fully Cat dealer-owned rental joint venture focused on supporting customers with multi-billion-dollar projects across North America. Major Projects will serve customers developing large scale infrastructure, including transportation, energy, manufacturing, and data center builds. It is a supplemental national rental solution to help deliver larger size-class construction equipment and capabilities where existing individual dealer rental fleets aren't sufficient to execute at scale. We believe Major Projects will expand our presence in the rental industry and make it easier for large contractors to do business with us and our dealers.

And finally, Resource Industries completed the acquisition of Skycatch in July, further enhancing our capabilities following the recent acquisition of RPMGlobal. Skycatch's technology captures high-frequency, high-precision, large-scale spatial data and pairs it with a suite of AI capabilities. That allows customers to identify, measure and interact with the data, resulting in improved decision-making, reduced delays and greater confidence in daily operations. This is another example of investment in technology-enabled growth that will help our mining customers operate more efficiently and achieve better outcomes.

Now, on slide 5, I'll provide an update on our outlook. We continue to see strong momentum in our end markets despite ongoing uncertainty due to geopolitical events. We are increasing our full year 2026 sales and revenues expectations to mid-to-high teens growth based on the healthy demand we are seeing across all three of our primary segments. We are also progressing on our capacity expansion plans, and we expect to increase our throughput in the second half of the year. As a result, we anticipate stronger full-year growth across all three primary segments compared to the outlook we gave in April. Services revenues are also expected to grow at a higher rate for the full year compared to our previous outlook. The improved outlook is also supported by the breadth and duration of our record backlog. As I mentioned, all three of our primary segments contributed to backlog growth. Power & Energy customers continue planning with us by sharing their long-term forecasts, and some are placing orders as far out as 2030. Currently, 59 percent of our $72 billion dollar backlog is expected to be delivered over the next 12 months. This percentage has been fairly stable over the past three quarters which demonstrates the momentum in all three primary segments. Moving on to adjusted operating profit margin. We expect the full year adjusted operating profit margin to be higher than we expected during our last earnings call reflecting the improved sales and revenues outlook. Excluding the favorable impact from IEEPA tariff recoveries in the second quarter, we expect full year adjusted operating profit margin to be near the bottom of the target range.

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.
While the situation around tariffs remains fluid, we continue to execute our mitigation plans. Kyle will provide more detail on our revised full-year estimate for tariffs in a moment. I am 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 in the top half of our annual target range, reflecting our improved outlook. I will now discuss our key end markets, starting with Power & Energy. Our positive outlook for 2026 continues to reflect strong demand in Power Generation AND Oil & Gas. Strong second quarter performance has set a solid foundation for continued growth for the remainder of the year. We continue to anticipate full year 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,

prime power demand continues to trend higher as customers look to Caterpillar's turbine and reciprocating engine products and services to support their need for power solutions.

After a record year for sales in 2025, Oil & Gas is expected to grow moderately again this year. Reciprocating engine sales are anticipated to increase, driven by strong demand in gas compression applications. We also see continued momentum in demand for reciprocating engine aftermarket parts. Solar Turbines' Oil & Gas sales are expected to grow while the backlog remains healthy as we continue to see solid order and inquiry activity. Demand for products in Industrial applications is expected to grow moderately 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. Non-residential investment in critical infrastructure programs, heavy construction and data centers is contributing to overall construction spending levels. We expect dealer rental fleet loading will continue to grow, including additional fleet loading for Major Projects in the third quarter. In EAME, Europe is expected to remain stable supported by non-residential construction, and construction activity in Africa is projected to remain strong. While the Middle East continues to be challenged, we currently anticipate only a limited impact on EAME sales to users.
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. We expect full-year growth in Latin America.
We are seeing continued positive momentum in Resource Industries with robust order rates and strong backlog growth. 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 & 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 now expect rebuild activity to increase moderately 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 a strategy highlight. Our refreshed enterprise strategy was built on our strong foundation of Operational Excellence, and we continue to operate under the discipline of the Operating and Execution Model. As we invest in our capacity to meet customers' increasing needs, we are finding creative ways to reallocate resources and optimize our operations as we grow to record levels. Let me share an example. Last November we announced an increase in our new turbine capacity of 2.5x

2024 levels. This capacity will serve Oil & Gas and Power Generation applications and be leveraged to provide rebuilds and services for our growing installed base for decades to come. To help bring some of the capacity online sooner, we were able to repurpose an existing 250,000 square foot facility in Wamego, Kansas which previously produced work tools for Cat construction equipment. We converted the facility in under 12 months for substantially less than building a new factory. From Wamego, we now package and ship our PGM 130 a product that is popular for data center power generation. This is one of many examples of how we are continuing to manage our business with discipline and maximize the use of our existing footprint to serve our customers and grow profitably. With that, I'll turn it over to Kyle.

KYLE EPLEY: Thank you, Joe! Good morning, everyone. I am going to take a few minutes to walk you through our overall second quarter results, including details about segment performance as well as the balance sheet and cash flow. I will then conclude with remarks on our expectations for the remainder of the year including the third quarter, and current full-year assumptions.

Beginning on Slide 7, sales and revenues were 20.5 billion dollars, up 24 percent versus the prior year, which was better than our expectations. Adjusted operating profit was 4.5 billion dollars, and our adjusted operating profit margin was 21.9 percent. Both were better than we anticipated.

Moving to Slide 8. The 24 percent increase in sales and revenues compared to the second quarter of 2025 was primarily driven by strong growth in sales volume and favorable price realization. The stronger sales volume was mainly driven by higher sales of equipment to end users across all three primary segments. Dealer inventory increased by 400 million dollars in Construction Industries compared to a decrease in the second quarter of 2025. The increase was higher than we originally anticipated, supported by our expectation of stronger sales to users the rest of the year, which reflects strong end market demand. Sales and revenues were above our expectations, mainly driven by stronger than expected sales volume in Construction Industries and Resource Industries. Power & Energy was generally in line with expectations.

Moving to operating profit on Slide 9. Operating profit in the second quarter increased by 50 percent to 4.3 billion dollars. Adjusted operating profit of 4.5 billion dollars increased by 54 percent versus the prior year mainly due to the profit impact of higher sales volume. The adjusted operating profit margin was 21.9 percent, which was a 430 basis point increase compared to the prior year. Margin was better than we anticipated primarily due to expected IEEPA tariff recoveries and lower than expected tariff costs. The margin benefit from better than expected sales volume was mostly offset by higher

SG&A and R&D expense. In the quarter, we recognized 392 million dollars in expected IEEPA tariff recoveries with a majority of this amount reflected in corporate items. For the tariffs introduced since the beginning of 2025, excluding IEEPA recoveries, the second quarter tariff costs were approximately 400 million dollars, and this was favorable compared to the 700 million dollar estimate 700 million dollar estimate we provided in April. This favorability was primarily driven by adjustments to the computation of tariffs previously incurred. The 400 million dollars of tariff costs were recognized within the segments and corporate items. Segment margins were impacted by 90 basis points in Power and Energy, 340 basis points within Construction Industries, and 260 basis points in Resource Industries. Within corporate items, there was a favorable adjustment for tariffs.

Moving to Slide 10, profit per share was 7 dollars and 77 cents in the quarter. Adjusted profit per share was higher than we had anticipated at 8 dollars and 17 cents. Restructuring costs in the quarter were 40 cents versus 10 cents last year. Excluding discrete items, the provision for income taxes in the second quarter of 2026 reflected a global estimated annual effective tax rate of 23 percent. Finally, the year over year impact from the reduction in the average number of shares outstanding, due to share repurchases, resulted in a favorable impact on adjusted profit per share of approximately 15 cents compared to the second quarter of 2025.

On Slide 11, I will now review the second quarter performance of the segments, starting with Power & Energy. For Power & Energy, sales of 8.2 billion dollars increased by 17 percent versus the prior year, which was generally in line with our expectations. The sales increase versus the prior year was mainly due to higher sales volume and favorable price realization. Second quarter profit for Power & Energy increased by 30 percent versus the prior year to 2 billion dollars. The segment's margin of 24.6 percent was an increase of 250 basis points versus the prior year. The increase was mainly due to the profit impact of higher sales volume and favorable price realization, which was partially offset by unfavorable manufacturing costs. Higher manufacturing costs were impacted by spend related to our capacity expansion, including higher depreciation. Segment margin was higher than anticipated primarily due to lower than expected manufacturing costs including tariffs.

Now moving to Slide 12, Construction Industries sales increased by 35 percent in the second quarter to 8.3 billion dollars primarily due to higher sales volume and favorable price realization. Higher sales volume was mainly driven by higher sales of equipment to end users. The 400 million dollars of dealer inventory increase and services revenues growth resulted in sales volume to be better than we expected. Second-quarter profit for Construction Industries was 1.9 billion dollars, a 57 percent increase versus the prior year. The segment's margin of 23.3 percent was an increase of 320 basis points versus the prior year mainly driven by the profit impact of higher sales volume. Price was also favorable in the quarter. Segment margin was higher than anticipated primarily due to the profit impact of stronger sales volume, partially offset by higher manufacturing costs including freight.

Turning to Slide 13. Resource Industries sales increased by 20 percent in the second quarter to 4.6 billion dollars, primarily driven by higher sales volume. Price was also favorable versus the prior year. Sales were better than we anticipated due to higher sales volume driven by favorable services revenues growth. Second-quarter profit for Resource Industries increased by 23 percent versus the prior year to 693 million dollars. The segment's margin of 14.9 percent was an increase of 40 basis points versus the prior year. This was mainly driven by the profit impact of higher sales volume, partially offset by unfavorable manufacturing costs. Segment margin was higher than anticipated primarily due to higher sales volume.

Moving to Slide 14. Financial Products revenues increased by 10 percent versus the prior year to 1.1 billion dollars, mainly due to higher average earning assets across all regions. Segment profit increased by 32 percent to 328 million dollars. The increase was primarily due to higher average earning assets, and favorable impacts from equity securities and margins at Insurance Services, partially offset by higher provision for credit losses at CAT Financial. Our customers' financial health remains strong. Past dues were 1.31 percent in the quarter, down 31 basis points versus the prior year, the lowest we have recorded since 1998. The allowance rate was 0.84 percent, surpassing the first quarter of 2026 as our lowest level ever reported in any quarter.
Business activity at CAT Financial remains healthy. Retail new business volume grew by 9 percent versus the prior year. In addition, used equipment inventory levels continued to remain low and conversion rates remain above historical averages as customers choose to convert their leases into buying the equipment at the end of their lease term.

Moving on to Slide 15. MP&E free cash flow was a record at 5.1 billion dollars in the second quarter. This was about a 2.8 billion dollar increase versus the prior year mainly driven by stronger profit. Capex spend was about 600 million dollars in the quarter. Moving to capital deployment. We deployed 2.2 billion dollars to shareholders in the second quarter. Share repurchases accounted for about 1.5 billion dollars, with the remainder reflecting our quarterly dividend payment. In June, we announced an 8 percent dividend increase, our 6th consecutive year with a high single digit quarterly increase. Our balance sheet remains strong. We have ample liquidity, with an enterprise

cash balance of 6.7 billion dollars. In addition there is 1.5 billion dollars in slightly longer-dated liquid marketable securities to improve yields on that cash.
Now let's go through our Outlook assumptions. Turning to Slide 16, I will start with the third quarter. We are continuing to monitor the environment, as geopolitical conditions remain fluid and complex. Based on what we see today, for the third quarter, we anticipate another strong quarter of 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 higher sales to users across all three primary segments versus the prior year.

If we look at the segments, we anticipate strong sales growth in Power & Energy in the third quarter versus the prior year driven by continued strength in Power Generation and in Oil & Gas, modest growth in Industrial applications as it continues to recover, and favorable price realization. In Construction Industries, we expect strong sales growth in the third quarter versus the prior year, mainly due to higher sales volume on strong sales to users, and favorable price realization. We expect a slight increase in dealer inventory in the third quarter but modestly lower than last year. As a result, the year over year impact from dealer inventory is expected to be a modest headwind to sales volume in the quarter. In Resource Industries, we also expect strong sales growth in the third quarter versus the prior year, primarily due to higher sales to users and services growth. We also anticipate favorable price realization but to a lesser extent than the second quarter.

Now, I will provide some color on our third quarter margin expectations versus the prior year. We expect higher adjusted operating profit margin at the enterprise level versus prior year primarily due to favorable price realization and higher sales volume. Partially offset by unfavorable manufacturing costs, including depreciation expense and freight, along with higher SG&A and R&D expenses due to the continued investment in strategic investments aligned with our 2030 goals that we rolled out at last years' Investor Day.

We anticipate tariff costs of around 600 million dollars which is similar to what we incurred in the third quarter of 2025. We expect about 50 percent of the tariffs to be incurred in Construction Industries and 25 percent in both Power & Energy and Resource Industries. Now on to third quarter margin by segment. In Power & Energy, we anticipate a higher margin percentage compared to the prior year on stronger volume and favorable price realization. This is partially offset by higher manufacturing costs including depreciation and expenses related to our capacity expansion projects. SG&A and R&D expenses are also expected to be higher. In Construction Industries, we anticipate a higher margin percentage compared to the prior year, primarily due to

favorable price realization and higher sales volume. This is partially offset by higher manufacturing costs including tariff and freight costs. Strategic investments related to technology are expected to increase SG&A and R&D expenses versus prior year.
In Resource Industries, we anticipate a similar margin percentage compared to the prior year due to higher sales volume and favorable price realization, partially offset by higher manufacturing costs, including tariff 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 versus prior 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 mid- to high- teens for the full year of 2026. This is an increase versus our expectations from last quarter. The increase in our full year sales and revenue expectation is supported by: Strong sales to users growth across all three primary segments driven by healthy end markets; Strong order rates across all three primary segments driving backlog growth; AND, increased throughput from our capacity expansion plans in the second half. We expect strong sales growth across each of our primary segments, mainly driven by volume and price.

For the enterprise, we typically see higher sales and revenues in the second half, as compared to the first, and we expect to follow that trend this year. We also expect a more typical reduction in Construction Industries dealer inventory of over 1 billion dollars in the fourth quarter. We plan to end the year higher than last year in anticipation of future end market growth. As a result, the year over year impact from dealer inventory is expected to be a headwind to Construction Industries sales volume in the second half of the year.

Now on to adjusted operating profit margin for the full year. Due to the increased sales and revenues outlook, full-year adjusted operating profit margin will be higher than we expected in April. Excluding the expected IEEPA tariff recoveries, our full year adjusted operating margin would be near the bottom of the range at a higher sales level. Compared to last year, higher adjusted operating profit margin will reflect favorable price realization, higher sales volume, partially offset by higher manufacturing costs including tariffs, depreciation expense and freight, and higher SG&A and R&D driven by compensation expense and strategic investment spend.

Excluding the expected IEEPA tariff recoveries of approximately 400 million dollars reported in the second quarter, we now expect full year 2026 tariff costs of around 2.2 billion dollars or at the low end of the range we previously provided. Our outlook does not include any additional IEEPA tariff recoveries in the second half of the year.

As we lap incremental tariff costs, the tariff impact to second half adjusted operating profit and margins is not expected to be significant. Moving on, we continue to expect restructuring costs of approximately 300 to 350 million dollars in 2026. Our estimated global - annual - effective tax rate remains approximately 23 percent for 2026, excluding discrete items. With the improved sales and revenues and adjusted operating margin outlook; we now expect MP&E free cash flow to be in the top half of our annual target range of 6 to 15 billion dollars. We expect second half MP&E free cash flow to be slightly higher than first half despite higher capex spend. Our capex spend for 2026 is anticipated to be approximately 3.5 billion dollars, similar to our previous expectation.

So now turning to Slide 18, to summarize. We delivered a strong first half, with better than expected sales and revenues and earnings; In this dynamic operating environment, we now anticipate mid- to high- teens sales and revenues growth in 2026; and anticipate Adjusted operating profit margin and MP&E free cash flow to be better than we had previously expected; We will remain disciplined and committed to operational excellence and the O&E Model; We will continue to look for ways to optimize our footprint and invest efficiently. We are maintaining a 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 over time; Finally, WE WILL continue to execute our strategy for profitable growth. And with that we'll take your questions.

QUESTIONS:

Operator^ (Operator Instructions) First question comes from the line of Michael Feniger from Bank of America.

Michael Feniger^ Quick clarification. The 10-Megawatt recip that you're bringing back online and can ramp [up] to 1.5 Gigawatts, is that part of the 65-Gigawatt target by 2030 or is this additive? And Joe, my core question is that there is a concern on AI and data center demand in the out years. When we think of that 65-Gigawatt capacity target by CAT by 2030, are you more or less confident today on the visibility that there will be enough demand in the out years? Even within the Power & Energy segment, are you seeing order rates for engines and turbines outside of data centers, like pipelines and gas compression, move higher? Is demand broadening out? What are you hearing in recent conversations that is shaping your view on the staying power through 2028, 2029 and 2030?

Joseph Creed^ I'll take the first one. The 65 Gigawatts is a round number that will move around a little bit on mix. The 10-Megawatt unit, that's our old MaK business that we -- it was primarily marine-focused in the past and wasn't performing the way after many years with low industry demand, but it's well-suited, and we did the gas engine development for Power Generation, and we have been able to bring that back. So, it was not included in the 65 [Gigawatts] (company clarification). But again, it's a lower volume. They're well-suited for this application and kind of fits nicely between or at the top-end of our high-speed reciprocating offering and in the low-end of our industrial turbine offering. So that's how you should think about that. We were able to bring it back quickly because we just stopped production just a few years ago.

There is a lot of discussion around AI demand. We have constant discussions with our customers. And all I can tell you is what our discussions with them is no one is slowing down at the moment. In fact, if we can get more units out, they're asking us to give them more units, but I think what you also point out is really important. I think, and maybe a little different for us, is we took a broad view when we analyzed putting this capacity in and took a measured approach. We said last time we'll have cash payback by the end of this decade. And as I mentioned, we're starting to take orders into 2029 and 2030 already.

We did this not just based on data center demand. That's obviously a big driver of it, but we have aftermarket growth objectives to take care of our growing installed base on large engines and turbines. These are used, as you pointed out, also in Oil & Gas. And remember, Oil & Gas had a record year last year, and we expect it to be -- we're on track for another increase this year.

When you look at the backlog, our Oil & Gas at the end of the second quarter, backlog compared to where it was a year ago, second quarter a year ago was not quite, but nearly 2x bigger. So, we are seeing great demand for Oil & Gas, particularly around gas compression. I think we're going to move a lot of natural gas in the next few years.

Then our large engines are also used in our mining equipment and marine applications as well. So, we feel pretty good where we sit today. We haven't seen any customers back off of demand. In fact, we're starting to get even more extended when you look at the backlog.

Tami Zakaria^ So a question on your sales to end users, was up about 20% for the first half. What do you look for the full-year in terms of -- I know you're guiding to mid-to high-teens revenue growth for the year. Do you plan to produce to retail demand this year? Or how should we think about channel restocking as it relates to the back half of this year?

Joseph Creed^ We expect STU growth momentum, and I think that's reflected by both strong orders in Resource Industries and Construction Industries. And also in the second quarter, we mentioned dealer inventory was a little higher than we expected, and that's really due to the momentum we continue to see in STU growth.

When it comes to dealer inventory, we do think we'll have a more normal seasonal pattern. We'll have a drawdown in the fourth quarter on Construction Industries dealer inventory. Last year, we didn't quite see as big of a drawdown which was a little bit unusual. So, we'll have those dynamics when you look at the back half of this year compared to the back half of last year. But when it comes -- we're seeing strong STUs in all three segments. I think that's a good thing.

We've also seen services continue to increase. So, where we sit today and the backlog increasing, you rightly also point out when it comes to the backlog, particularly in Resource Industries and Construction Industries, the backlog growth is great to see, but we're not in a constrained environment there. So, the backlog really there is somewhat of a function of us being able to produce to demand. So I'd like to see us produce more and keep up with STUs, and when we get that production in line with STUs, you would see some of that backlog actually come in and I think that's a good thing as long as we continue to see positive sales to users. So, we're pretty bullish on the back half of this year.

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

David Rasso^ I'm just trying to think through Construction Industries versus Power & Energy in the sense of just given we've kind of gone through the inventory swing from destock to restock a bit in Construction Industries. It looks like the volume growth there understandably from these high levels, which was better than I would have thought in 2Q, will slow. But the Power & Energy volume was a little less than I would have thought. With the capacity coming on, you would think that might be able to ramp up. So, can you just take us through your thoughts when you look out the next two, three, four quarters, the Construction Industries volume growth slowing and can Power & Energy volume growth pick up? I mean they're roughly now the same size external sales, even the margins are pretty similar. So just that sort of trade off a little bit?

Joseph Creed^ Yes, David, I think you have to look at the seasonality of those two segments is much different. So, as I mentioned, the inventory drawdown that we expect to see in the fourth quarter. We do expect dealer inventory, right now, our planning assumption is that we'll end this year higher than it ended last year for Construction Industries dealer inventory (Company clarification) because as you point out, we have strong momentum here, but the base keeps getting higher on the growth. So we'll keep an eye on that.

Power & Energy continues to ramp. I'm really pleased with the way that teams continue to get more production out of our existing asset base as well as bringing the capacity online. So, I think it's not -- the capacity is not coming online in massive cliff events. We're trying to get as many units out as we can. So, we've been a little bit ahead of schedule. We think we'll be able to get more and increase our production moving forward. But the percentage of increase in Power & Energy, as you rightly state, is not a demand issue right now. It's just going to be a matter of how fast we can continue to increase production.

Kyle Epley^ And David, this is Kyle. Just one reminder on the Construction Industries perspective, we kind of had a slow start to the first half of 2025 and then it started picking up in the back half of 2025 into the first half of this year. So that will be part of your comparison when you start looking at the second half of Construction Industries compared to the second half of 2025.

Operator^ We'll now take a question from Jamie Cook with Truist Securities.

Jamie Cook^ Congrats on a nice quarter. Joe, I was just hoping if you could talk through the composition of the backlog growth in the quarter, which was fairly impressive. How much of it was like large, chunky, big awards like PROPWR versus broad-based? Then just a follow-up question, is the incremental margins in Power & Energy were fairly impressive, given we're adding capacity, I think at like 39%. So is that reflective of pricing or capacity coming on quicker? I'm just trying to think of the setup for incremental margins in Power & Energy, just given how strong they are with everything we have going on with capacity additions.

Joseph Creed^ Yes, thanks Jamie. I'll start with kind of the first part. One of the things we were really happy about with the backlog was seeing an increase in all three [primary] segments (company clarification). We don't really kind of talk about the specifics in there. But as you look at the percentage delivery in the next 12 months, Power & Energy is much more extended. So it kind of shows on a percentage basis, they continue to increase. As I mentioned, inside Power & Energy as well, we saw continued strong demand for Oil & Gas come in, in orders that are also contributing to the backlog.

And as far as -- when it comes to the machine side of the business, Construction Industries is definitely much more broad-based. As you know when we take orders, Resource Industries can come in a little bit lumpy, and also the way deliveries work for Resource Industries, that can move around the backlog. And in Power & Energy, the Industrial side continues to come in, in a pretty steady basis, but most of the growth was in Oil & Gas and Power Generation. In Power Generation, they tend to be big orders when they come in. You see a difference when these prime power orders come in can move it. But we have a lot of customers asking for power and the months have been pretty consistent for us.

As far as the margins on your other question, I think tariffs were a little better than maybe we expected. So you would expect that to continue. We might see a little pressure on freight in the back half and some of the costs, just everything going on in the world. But we're also installing capacity that puts pressure on depreciation and maybe some of the efficiencies we see, but we are seeing great operating leverage and the Power & Energy team continues to perform really well.

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

Rob Wertheimer^ You've seen obviously some Power Generation providers being sold out and you touched on taking orders into 2029 and 2030. Some folks are maybe even sold out that far. I guess I'm not sure if you're willing to say whether you are sold out for 2027 and 2028. But my question is also how you're approaching it strategically as maybe gas recip becomes more attractive for either prime, flex power but maybe back up as tight as well and you could do back up with gas, it can flex the prime? How are you approaching -- are you saving any slots? Do you have slots up over the next couple of years? And maybe you could just talk generally about the mood towards gas recip prime, and how it's evolving?

Joseph Creed^ Yes, thanks Rob. We've seen, obviously lead times start to extend here. When it comes to gas prime, we're pretty extended. I mean we're towards the back half of 2028 and into 2029 on turbines, maybe just a little bit farther than that, little less on maybe diesel standby. But we're constantly working with customers. And again, one of the things I think that we've been able to do is the closer we plan with customers, getting them the power they need, when they need it, and making sure we schedule deliveries appropriately, allows us to take care of the maximum number of customers.

And so we're moving schedules around occasionally where we can to help customers. We do try to protect our long-time Oil & Gas customers who don't necessarily have the same level of planning horizon. We are trying to plan further out with them but making sure that we take care of that customer base [that] has been with us for a really long time. So we have some flexibility. But as you stated, I mean I think particularly large engines, we're into 2028 in gas prime, late 2028 for sure, and then turbines a little bit longer than that.

Operator^ We'll move to our next question from Steve Volkmann at Jefferies.

Steve Volkmann^ I'm wondering if we can talk a little bit about Construction Industries, Joe? I think you talked about rental fleet loading and this Major Projects that you're doing as well. Just trying to see if I can think about [a] breakdown sort of between what's going out to end users and what's going into the various rental fleets and sort of how you think about that going forward?

Joseph Creed^ We've seen strong STUs. This has been the momentum we've had for, I think we said the sixth quarter in a row, really strong STUs for Construction Industries. So I'm really pleased with the way that team is performing and our dealers are performing in Construction Industries, particularly in North America, but we have other regions we're doing really well, as well. The rental fleet loading has really picked up this year as opposed to last year. So it was a stronger portion of our STU growth in the second quarter, I expect it to be a pretty healthy piece of STU growth in the third quarter as we really just started loading the Major Projects fleet.

That will continue to grow, and we'll see how many projects we can get lined up with that -- with the new dealer JV and Major Projects. So rental loading has definitely become a bigger piece of STU growth for the moment. But we have great momentum, started early last year when we put the merchandising programs and we've been able to outperform the industry, and we just carried that momentum through the first half of this year.

Operator^ And moving next, we'll go to Kristen Owen at Oppenheimer.

Kristen Owen^ Just a follow-up on that last one. Since you talked about the rental loading and the Major Projects, those tend to go hand in hand. So could you help us understand what's happening in the rest of the Construction Industries backdrop, maybe private non-res, resi? Like what's still lingering out there? And any sign of improvement in those pockets of Construction Industries?

Joseph Creed^ I mean I'll comment maybe on the second quarter, what's driving it, but we continue to see large infrastructure projects drive some of the growth. Obviously data center demand as well drives -- has ancillary effect on Construction Industries. But the rental fleet loading we think will continue, particularly with Major Projects. And as you said, you have a little bit of line of sight to Major Projects as they get rolled out.

But one of the things as well it's not -- one of the positives here is when you get to residential and other parts of Construction Industries, they aren't particularly strong. So to me, that provides some potential upside for us into the future. So right now, it's pretty heavily focused on nonresidential and major infrastructure projects.

Kyle Epley^ Kristen, just to add some color, it's Kyle, just by region, we talked about North America continues to be strong, and Joe talked about it from a construction spend standpoint and non-resi investment. EAME is strong, especially in Africa. So that's been a real positive for us, and we expect that to continue. And even in other parts of the globe in Latin America, has been strong and even in China, off low levels, but China, we continue to see growth now for quite a few quarters in China above the 10-ton excavator off low level. So really, as Joe mentioned, a really positive across the board from a Construction Industries perspective on sales to users' growth.

Operator^ Our next question comes from Mircea Dobre at Baird.

Mircea Dobre^ I'm curious if you'd be willing to comment at all in Power & Energy on the service and aftermarket component of that business, not only sort of maybe where we currently are from a mix standpoint or sizing this business specifically. But as we look at the significant backlog and the deliveries that you have kind of stretching now into 2029-plus, how do you think this portion of the business, the aftermarket, the service component of the business, will scale up over time?

Joseph Creed^ Yes. I think we -- Power & Energy generally has had stronger services components to it than maybe Construction Industries where we have a lot of opportunity to grow services and continue to work on it. But as you think about the way this is evolving and the Prime Power opportunities that are coming online, those will continue to create services growth opportunities for us. By the time those get in place, you go through top-end overhauls you get to in-frames and overhauls and major overhauls, that's going to be mostly 2030, beyond 2030 growth opportunities for us in services. So that's how we think about it.

Oil & Gas is -- we don't have the sort of prime and standby type of nomenclature when we talk about Oil & Gas, but it all functions more like Prime, it's heavy-duty applications, drives great services opportunities for us. So as we grow the installed base, it definitely gives us great services growth opportunities. There will be some between now and 2030, but the lion's share of that will be beyond 2030, which is why having this capacity in place is also a good thing. The capacity is not just for full assembly and finished turbines and gensets and engines. A lot of that capacity goes into supply base as well as our internal component manufacturing and machining that allows us to support that aftermarket growth that we expect.

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

Angel Castillo^ Just wanted to go back to the orders. So you mentioned 4Q deliveries of the 10-Megawatt recip engine. I assume that means you already have some orders for this product. Just could you talk about the magnitude of that? And just also any kind of incremental costs in delivering or getting this capacity ramped up? Then just more broadly, you also talked about diesel engine orders out to 2028 or natural gas recip orders out to, I think late 2028 and turbines beyond that, 2029, 2030. Just any color on how the pricing backdrop on orders out that far is kind of shaping up and kind of evolving, just given, again, supply and capacity additions from others?

Joseph Creed^ Yes. Thanks, Angel. So the 10-Megawatt units, we have taken our first orders on that, and we wanted to make sure we had orders before we actually made the decision to bring that engine platform back online, because as I mentioned, we had made the decision to sort of shut that production down and really just support customers in the aftermarket.

So, we do have our first orders. We expect to deliver here in the fourth quarter. We'll ramp over the next 18 months to that 1.5 sort of Gigawatt number. But we're pretty confident that we're going to have the orders in those, at least in the next couple of years, or we wouldn't have made the decision to bring it back online and the investment to do it, given we are, I mean, supporting customers in the aftermarket, key components we've had available the supply base is available, and we've been able to use our existing internal capability and capacity to get that product back online, which I'm really excited about. So pretty minimal investment really in the rounding to do that, which is sort of made it an easy decision once customers were willing to commit.

As far as the extended orders, each one of them is a little bit different, but we do typically have price escalators on those and they can be tied to economic indicators. So we feel like pricing will be in line with kind of how we've been pricing in the past, but we do have escalators for those orders that are farther out.

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

Kyle Menges^ Great, thank you. I wanted to focus on the diesel standby business, and there's been some debate out there on the redundancy needed for training versus inference data centers. Then also if you're using behind-the-meter power versus grid connection. I'm curious what you're seeing as far as redundancy between those different applications and prime power infrastructures? Then also just a quick follow-up, are lead times also increasing for the diesel gensets?

Joseph Creed^ Yes. I mean, our diesel gensets are extended as well. I mean we're taking orders out into 2028, well into 2028 on diesel gensets. In fact, we're -- when it comes to diesel standby, we're actually seeing some customers ask us to inquire about moving down to the C32 platform, which is a bit of a smaller unit, just because of the -- we have product availability there. So each data center is a little bit different, particularly now when you're moving to behind-the-meter, we're not hearing a whole lot of customers tell us they're just going to go to no backup or no redundancy. How they choose to do that, I mean traditional hookups to the grid and data centers are still moving heavily down the diesel recip for backup. Demand continues to grow for that.

When you go behind-the-meter with gas solutions, sometimes they can still have gas recips also have some redundancy there. It really just depends on the project.

Operator^ Today's final question comes from the line of Jerry Revich from Wells Fargo.

Jerry Revich^ I'm wondering if you could just talk about your vision for CAT Rental, we're hearing from your dealers, plans to double the fleet over the next five years. They have 30% to 50% mix of alliance products. How do you see it playing out longer term in terms of the mix of business going forward? Do you see their mix looking more like the national rental companies that we see? Just talk a little bit about where you envision the service offering for Cat Rental 5-plus years out and the opportunity from a market share standpoint, since obviously it's been a smaller part of the mix for you folks historically?

Joseph Creed^ Yes. I mean, it's one of the keys to our Construction Industries growth strategy is to be successful in rental with our dealers. I think our dealers are a great asset and great partners for us to help grow in the rental business. There are disparities in performance between some dealers or some regions, but our goal is to continue to work with them to capture a lot of this rental opportunity.

Our dealer rental revenues continue to grow, and we're confident they can continue to grow that. That will lead to more fleet loading. If they're going to be successful in rental, they're going to have to have the full suite of equipment to support customers. Customers I don't think are going to rush to CAT dealers for our equipment if they can't also get the other rental equipment that they need. So that will continue to be part of the mix for our dealers and part of that strategy.

The Major Projects fleet really allows us -- it's a national fleet and allows us to move that fleet around to really supplement dealers where if a dealer has a major infrastructure project in their territory for a couple of years or 3 years, it's tough for them to invest in a fleet that size to keep up at that scale or knowing that that job may be somewhere else a few years from now in this rental -- Major Projects fleet is going to really help us supplement the dealers which should allow them also to grow, because they'll be the ones that are working on that project in a local territory, and then we'll use the Major Projects fleet to supplement their existing fleet. So rental is a great opportunity for us, and we're going to continue to push forward with the strategy.

So, with that, thank you all for joining us, and I really appreciate your questions. I'm really proud of our team and the record performance this quarter, in particular, the sales and revenues milestone we achieved the first time in our company history to exceed $20 billion in the quarter. With broadening momentum across all three of our primary segments, we'll remain focused on operational excellence and delivering for our customers to create long-term value for our shareholders.

With that, I'll turn it back to Alex.

Alex Kapper^ Thank you, Joe, Kyle, Stephanie 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 is available. You'll also find a second quarter results video with our CFO and an SEC filing of our sales to users data. Visit investors.caterpillar.com and then click on Financials to view those materials. If you have any questions, please reach out to me or Ryan Coleman. The Investor Relations phone number is (309) 675-4549.

Now let's turn it back to [Andrea] to conclude our call.