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Caterpillar Inc.

Second Quarter 2025 Earnings

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CORPORATE SPEAKERS:

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Caterpillar Inc.; Vice President of Investor Relations

Joseph Creed

Caterpillar Inc.; Chief Executive Officer

Andrew Bonfield

Caterpillar Inc.; Chief Financial Officer

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Oppenheimer; Analyst

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Citigroup; Analyst

PRESENTATION:

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

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Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Alex Kapper. Thank you. Please go ahead.

Alex Kapper[^] Thank you, Audra. Good morning, everyone. And welcome to Caterpillar's Second Quarter of 2025 Earnings Call. I'm Alex Kapper, Vice President of Investor Relations. Joining me today are Joe Creed, Chief Executive Officer; Andrew Bonfield, Chief Financial Officer; Kyle Epley, Senior Vice President of the Global Finance Services Division; and Rob Rengel, Senior Director of Investor Relations. During our call we'll be discussing the second quarter earnings release we issued earlier today. You can find our slides, the news release and a webcast replay at investors.caterpillar.com under Events and Presentations.

The content of this call is protected by U.S. and international copyright law. Any rebroadcast, retransmission, reproduction, or distribution of all or part of this content without Caterpillar's prior written permission is prohibited. Moving to Slide 2. During our call today, we'll make forward-looking statements, which are subject to risks and uncertainties. We'll also make assumptions that could cause our actual results to be different than the information we're sharing with you on this call. Please refer to our recent SEC filings and the forward-looking statements reminder in the news release for details on factors that individually or in aggregate could cause our actual results to vary materially from our forecast. A detailed discussion of the many factors that we believe may have a material effect on our business on an ongoing basis is contained in our SEC filings. On today's call we'll also refer to non-GAAP numbers. For a reconciliation of any non-GAAP numbers to the appropriate U.S. GAAP numbers, please see the appendix of the earnings call slides. Now let's advance to Slide 3 and turn the call over to our CEO, Joe Creed.

Joseph Creed[^] Thank you, Alex. And good morning, everyone. Thanks for joining us today. The Caterpillar team demonstrated solid operational performance in a fluid environment this quarter. Sales were in line with our expectations, and we delivered adjusted operating profit, and adjusted operating profit margin above our expectations. We continue to see strong orders across our segments as demand remains resilient supported by infrastructure spending and growing energy needs. As a result, backlog grew by \$2.5 billion with increases across all three primary segments. Our strong ME&T free cash flow allowed us to deploy about \$1.5 billion to shareholders through share repurchases and dividends during the quarter. As you know the environment continues to be dynamic, the net impact of tariffs was around the top end of our estimated range for the quarter and is likely to be a more significant headwind to profitability in the second half of 2025. We'll provide more details in a moment.

I'll start with my perspectives about this quarter's performance, then I'll discuss our outlook along with insights about our end markets. And then finally, Andrew will provide a detailed overview of results and key assumptions including the net impact of incremental tariffs looking forward.

Turning to Slide 4. Sales and revenues were down 1% versus last year. The decrease was primarily due to unfavorable price realization, partially offset by higher sales volume and higher Financial Products' revenues. Second quarter adjusted operating profit margin was 17.6%.

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Although the net impact from incremental tariffs is around the top end of our estimated range, lower-than-expected manufacturing costs resulted in adjusted operating profit margin above our expectations. We achieved quarterly adjusted profit per share of \$4.72.

Compared to the second quarter of 2024, machine sales to users were about flat. Energy & Transportation continued to grow as sales to users increased 9%, driven primarily by Power Generation and Industrial applications. For Construction Industries, sales to users were up 2% year-over-year, in line with our expectations. In North America, sales to users were 3% higher than the prior year and better than we anticipated due to growth in both residential and nonresidential construction, partially offset by lower rental fleet loading. However, despite lower rental fleet loading, dealers' rental revenue continued to grow in the quarter. Sales to users increased in EAME primarily due to growth in Africa and the Middle East. However, overall growth in EAME was below our expectations due to weakness in Europe. In Asia-Pacific, sales to users declined slightly. Although China was about flat versus the prior year, the second quarter was below our expectations due to lower activity following a stronger-than-expected first quarter. Sales to users in Latin America declined but were slightly better than we anticipated. In Resource Industries, sales to users declined 3%, which was in line with our expectations. While Mining was slightly worse, primarily due to the timing of off-highway truck deliveries, sales to users in heavy construction, and quarry and aggregates were slightly better than we anticipated. In Energy & Transportation sales to users increased by 9%. Power Generation grew by 19%, primarily due to demand for reciprocating engines for data center applications. Turbines and turbine-related services for Power Generation were down slightly due to timing. Oil & Gas sales to users increased overall with the increase in turbines and turbine-related services partially offset by a decrease in reciprocating engines due to the timing in gas compression. Industrial sales to users grew from a relatively low level and were driven by sales into electric power applications. Transportation decreased due to lower marine sales to users, and the timing of international locomotive deliveries.

Moving to dealer inventory and our backlog. In total, dealer inventory increased by approximately \$100 million versus the first quarter of 2025. Machine dealer inventory was down approximately \$400 million, in line with our expectations. As I mentioned, backlog increased sequentially by \$2.5 billion, driven by strong order rates in all three of our primary segments. Our backlog is at a record level of \$37.5 billion.

Moving to Slide 5. I'll now discuss our outlook. Looking ahead to the second half of 2025, I'm increasingly optimistic about the top line expectations. I'm pleased with another quarter of increased ordering activity and backlog growth, continued sales to users growth in Construction Industries, and strong demand in Power Generation.

However, as I mentioned, the incremental tariffs announced in 2025 and expected to be in place by August 7th will be a headwind to profitability during the remainder of the year. While we have taken initial mitigating actions to reduce the impact, tariff and trade negotiations continue to be fluid. We will remain flexible and we intend to implement longer-term actions once there is

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sufficient certainty. We are considering all options to further reduce the impact of tariffs going forward.

For the third quarter, we anticipate sales to grow moderately versus the prior year. Sales growth is expected to be driven by higher volumes in all three segments. Excluding the impact of incremental tariffs, third quarter adjusted operating profit margin is expected to be similar to the prior year. Including the net impact from incremental tariffs, we expect third quarter enterprise adjusted operating profit margin to be lower versus the prior year. Given the strength of our record backlog, we expect full year 2025 sales and revenues to increase slightly versus 2024. This represents an improvement since our outlook last quarter, and our full year outlook from the beginning of the year. Full year services revenues are expected to be about flat versus 2024. This is slightly lower than our previous expectations due to lower-than-anticipated machine rebuild activity throughout the year. Excluding the impact of incremental tariffs, full year adjusted operating profit margin is expected to be in the top half of our target margin range.

Including the net impact from incremental tariffs we expect full year adjusted operating profit margin to be in the bottom half of the target margin range. This estimate includes the initial mitigating actions already implemented and currently planned throughout the rest of the year. We also expect ME&T free cash flow to be around the middle of the \$5 billion to \$10 billion target range. Andrew will provide more details on key assumptions for the third quarter and full year in a moment. To further support our sales outlook, I'll now share the latest view of our end markets.

Starting with Construction Industries. As I mentioned earlier, we're encouraged by another quarter of sales to users growth, strong order rates across many of our regions and backlog growth. Customers continue to be responsive to the attractive rates we're offering through Cat Financial. And as a result, we anticipate full year growth in Construction Industries sales to users despite softness in the global industry. In North America, overall construction spending remains at healthy levels and infrastructure projects funded by the IIJA continue to be awarded. We now expect full year growth for sales to users, which is an improvement from the outlook we provided in January. Full year dealer rental revenues are also expected to grow as dealer rental fleet loading is expected to increase in the second half of the year. In Asia-Pacific, we anticipate full year sales to users growth. China has shown positive momentum to start the year, and we expect full year growth in the above 10-ton excavator industry, but from a very low level of activity. In Asia-Pacific outside of China, we expect economic conditions to be soft. In EAME, we expect moderate sales to users growth for the year driven by healthy construction activity in Africa and the Middle East and improving economic conditions in Europe. Despite weaker construction activity in Latin America, we expect sales to users growth for the year.

Moving to Resource Industries. We currently anticipate lower sales to users in 2025 compared to last year as customers continue to display capital discipline. However, we see positive momentum with strong order rates and backlog growth, particularly for large mining and articulated trucks. Although most key commodities remain above investment thresholds, declining coal prices have caused an increase in the number of parked trucks. As a result, we

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expect slightly lower rebuild activity throughout the second half of the year. Overall, customer product utilization remains high and the age of the fleet remains elevated. We also continue to see growing demand and customer acceptance of our autonomous solutions. We believe the evolving energy landscape will support increased commodity demand over time providing further opportunities for long-term profitable growth.

And finally, in Energy & Transportation. The backlog growth was driven by robust order activity in Power Generation, Oil & Gas, and Transportation. We expect full year growth for Power Generation as demand remains strong for both prime and backup power applications driven by increasing energy demands to support data center growth, related to cloud computing and generative AI. We continue to stay close to our largest data center customers and receive regular feedback on their long-term demand. In Oil & Gas, we expect moderate growth in 2025. For reciprocating engines and services, we continue to expect softness in well servicing due to ongoing capital discipline by our customers, industry consolidation and efficiency improvements in our customers' operations. We do see positive momentum in demand for reciprocating engines used in gas compression applications. Solar Turbine's Oil & Gas backlog remains strong, and we see healthy order and inquiry activity. With our investment to increase large engine capacity in process, we're continuously improving manufacturing throughput to meet customer needs across a broad range of applications. Demand for products in industrial applications is expected to improve from previous lows. Transportation is expected to remain stable.

Before turning the call over to Andrew, I want to briefly reflect as I approach my first 100 days as CEO. I'm optimistic and excited about the possibilities ahead. As I visit with customers, employees, dealers and investors around the world, I'm proud to see our global impact, the Caterpillar team's relentless commitment to customer success. I'm also pleased that Christy Pambianchi joined the executive office on May one as Chief Human Resources Officer to focus on recruiting and developing the best talent to deliver our strategy for long-term profitable growth. I look forward to sharing more about our strategic priorities and the incredible growth opportunities that lie ahead during our upcoming Investor Day in November. Now I'll turn it over to Andrew for a detailed overview of results and key assumptions looking forward.

Andrew Bonfield[^] Thank you, Joe. And good morning, everyone. I'll begin with a summary of the second quarter and then provide more detailed comments including some on the performance of the segments. Next, I'll discuss the balance sheet and free cash flow before concluding with comments on our current assumptions for the remainder of the year, and in particular, the third quarter.

Beginning on Slide 6. Sales and revenues were \$16.6 billion, a 1% decrease versus the prior year. This was in line with our expectations. Adjusted operating profit was \$2.9 billion, and our adjusted operating profit margin was 17.6%. Both were better than we expected. Profit per share was \$4.62 in the second quarter, compared to \$5.48 in the second quarter of last year. Adjusted profit per share was \$4.72 in the quarter, compared to \$5.99 last year. Adjusted profit per share excluded restructuring costs of \$0.10 in the quarter.

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Other income and expense was unfavorable by \$71 million versus the prior year, primarily driven by an unfavorable foreign currency impact of \$122 million from ME&T balance sheet translation in the quarter, compared to a favorable impact of \$20 million last year. Excluding discrete items, the estimated annual effective global tax rate was 23.0%. The year-over-year impact from the reduction in the average number of shares outstanding, primarily due to share repurchases, resulted in a favorable impact on adjusted profit per share of approximately \$0.17.

Moving to Slide 7. I'll discuss our top line results for the second quarter. Sales and revenues decreased by 1% compared to the prior year, primarily due to unfavorable price realization which was partially offset by higher sales volume and Financial Products' revenue growth. As I mentioned, sales were in line with our expectations.

Moving to operating profit on Slide 8. Operating profit in the second quarter decreased by 18% to \$2.9 billion. Adjusted operating profit decreased by 22% versus the prior year to \$2.9 billion, mainly due to unfavorable manufacturing costs that largely reflected the impact of higher tariffs, and the impact of unfavorable price. Deferred compensation expense also negatively impacted operating profit in the quarter due to strength in the equity markets. This is an item we do not forecast as it is offset by the total return swaps, which were reported as income in other income and expense. The adjusted operating profit margin was 17.6%, a decrease of 480 basis points compared to the prior year. Margins exceeded our expectations primarily due to favorable manufacturing costs driven by cost absorption. As Joe mentioned, the net impact from incremental tariffs was around the top end of our estimated \$250 to \$350 million range for the quarter. With the decrease in certain tariff rates during the quarter, we lifted some holds on inbound shipments such that the high inbound shipment volumes more than offset the lower tariff rates. Tariffs impacted all three primary segments, and part of the charge was not allocated to the segments, but recorded in corporate items. Also please keep in mind, the impact is net of mitigating actions in the quarter, which were of the no regrets type, mainly short-term actions around cost controls.

Moving to Slide 9. I'll review the performance of the segments. Starting with Construction Industries, sales decreased by 7% in the second quarter to \$6.2 billion, primarily due to unfavorable price realization. Sales were about in line with our expectations as favorable currency impacts roughly offset unfavorable price realization. Despite sales to users growth, volume was slightly negative due to a dealer inventory headwind. Price realization was more unfavorable than we had anticipated, as our attractive merchandising programs stimulated higher-than-expected sales to users in North America. By region, Construction Industries' sales in North America decreased by 15% versus the prior year. In Latin America, sales decreased by 20%. Sales in the EAME region increased by 13%. In Asia-Pacific, sales increased by 6%. Second-quarter profit for Construction Industries was \$1.2 billion, a 29% decrease versus the prior year. The segment's margin of 20.1% was a decrease of 600 basis points versus the prior year. The decrease was mainly due to unfavorable price realization. In addition, the net impact of incremental tariffs in Construction Industries had a negative impact of around 170 basis points. Excluding this impact from tariffs, the margin was slightly lower than we had anticipated primarily due to the headwind from price realization which I mentioned a moment ago.

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Turning to Slide 10. Resource Industries' sales decreased by 4% in the second quarter to \$3.1 billion. Sales were about in line with our expectations. The 4% sales decrease was primarily due to unfavorable price realization. Second-quarter profit for Resource Industries decreased by 25% versus the prior year to \$537 million. The segment's margin of 17.4% was a decrease of 500 basis points versus the prior year. This was mainly due to unfavorable price realization, the net impact of incremental tariffs, and the profit impact of lower sales volume including unfavorable product mix. The net impact of incremental tariffs in Resource Industries was approximately 230 basis points. Excluding this impact from tariffs, the margin was slightly higher than we had anticipated due to favorable manufacturing costs including freight and material.

Now on Slide 11. Energy & Transportation sales of \$7.8 billion increased by 7% versus the prior year. Sales were in line with our expectations. The sales increase versus the prior year was mainly due to higher sales volume and favorable price realization. By application, Power Generation sales increased by 28%, Oil & Gas sales increased by 2%, Industrial sales increased by 1% and Transportation sales were lower by 7%. Second-quarter profit for Energy & Transportation increased by 4% versus the prior year to \$1.6 billion. The increase was primarily due to favorable price realization and the profit impact of higher sales volume, partially offset by unfavorable manufacturing costs largely due to tariffs. The segment's margin of 20.2% was a decrease of 60 basis points versus the prior year. The net impact of incremental tariffs in Energy & Transportation was approximately 110 basis points. Excluding this impact from tariffs, the margin was slightly higher than we had anticipated due to favorable price realization and manufacturing costs.

Moving to Slide 12.

Financial Products revenues were approximately \$1.0 billion in the quarter, a 4% increase versus the prior year, primarily due to a favorable impact from higher average earning assets in North America. These were partially offset by an unfavorable impact from lower average financing rates mainly in North America.

Segment profit increased by 9% to \$248 million. The increase was mainly due to a favorable impact from equity securities and a favorable impact from higher average earning assets, partially offset by higher provisions for credit losses and an unfavorable impact from lower net yield on average earning assets. The increase in the provision primarily reflected the absence of a non-recurring reserve release, which was a benefit in the prior year. Our customers' financial health remains strong. Past dues were 1.62% in the quarter, down 12 basis points versus the prior year. This is the lowest second quarter in over 25 years. The allowance rate was 0.94%, remaining near historic lows. Business activity at Cat Financial remains healthy. Retail credit applications and retail new business volume both grew by 5% versus the prior year. Retail new business volume is at its highest levels for a second quarter in over 10 years, reflecting the attractiveness of our sales merchandising programs. In addition, used equipment inventory levels remain low and conversion rates remain above historical averages, as customers choose to buy equipment at the end of their lease term.

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Moving on to Slide 13. ME&T free cash flow was about \$2.4 billion in the second quarter, approximately \$100 million lower than the prior year as stronger operating cash was more than offset by higher CapEx spend. We continue to anticipate CapEx spend of around \$2.5 billion for the year. Moving to capital deployment. We deployed about \$1.5 billion to shareholders in the second quarter. Share repurchase spend accounted for about \$800 million, with the remainder reflecting our quarterly dividend payment. In June, we announced a 7% dividend increase, our fifth consecutive year with a high single-digit quarterly increase. Our balance sheet and liquidity positions remain strong. During the quarter, we issued bonds totaling \$2 billion at attractive financing rates, and net debt in ME&T was \$5.2 billion. We ended the quarter with an enterprise cash balance of \$5.4 billion. In addition, we held \$1.2 billion in slightly longer-dated liquid marketable securities to improve yields on that cash.

Now on Slide 14, let me start with a few comments on the full year. We are increasingly optimistic about our top line expectations based on what we see today. As Joe mentioned, demand signals have remained healthy including backlog growth across our three primary segments. Against this supportive backdrop, we now anticipate slightly higher sales this year, with a stronger second half than is typical. This represents an improvement since our outlook last quarter. To explain, we anticipate higher machine volume including sales to users growth in the second half versus the prior year. Also, we continue to expect machine dealer inventories will be about flat for the full year, which implies some net build in the second half versus a decrease in the corresponding time period in 2024. Energy & Transportation sales should grow in the second half as well, driven by the strength of our backlog and robust order activity. We expect some adverse price realization in the second half versus the prior year, although this will be at a lower level than in the first half.

Now moving on to margins. Excluding the impact of incremental tariffs, the full year adjusted operating profit margin is expected to be in the top half of our margin target range. However, including the net impact from incremental tariffs, we now expect full year margins will be in the bottom half of the target range, on slightly higher sales and revenues versus 2024. Excluding this tariff impact, our second half margins are expected to be stronger than the prior year. However, we anticipate they will be lower when incorporating the net impact of incremental tariffs. Based on the incremental tariffs announced in 2025 and expected to be placed on August the 7th, we expect the net impact from incremental tariffs for 2025 will be around \$1.3 to \$1.5 billion, net of some mitigating actions and cost controls. This assumes higher net incremental tariff impacts in both the third and fourth quarters compared to the second quarter level. Due to the timing of recent rate changes, the headwind is likely to be larger in the fourth quarter when compared to the third quarter.

As Joe mentioned, we expect ME&T free cash flow will be around the middle of the \$5 to \$10 billion target range, or around \$7.5 billion. We now expect restructuring costs of approximately \$300 to \$350 million in 2025. This is higher than we previously expected due to the timing of an anticipated loss on the divestiture of non-U.S. entities. On taxes, we are evaluating the impact of recently enacted U.S. legislation and do not currently expect this change to have a material

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impact on our 2025 effective global tax rate, which we had previously estimated to be 23.0% for 2025, excluding discrete items.

Turning to Slide 15. To assist you with your modeling, I'll provide our third quarter assumptions. Based on what we see today, we anticipate third quarter sales will grow moderately versus the prior year with higher volumes across all three primary segments. By segment, in Construction Industries, we expect a sales increase in the third quarter versus the prior year on volume growth driven by strong sales to users. The year over price comparison begins to ease this quarter. We expect our sales merchandising programs will continue yielding results, supporting strong sales to users, but a headwind to our price realization in the quarter, with the unfavorable impact roughly half the size we saw in the second quarter of 2025. This headwind should continue to diminish in the fourth quarter. In Resource Industries in the third quarter, we expect slightly higher sales versus the prior year, primarily due to higher volume, partially offset by unfavorable price realization. The impact of price is expected to be similar to what we saw in the second quarter versus the prior year. In Energy & Transportation in the third quarter, we anticipate sales growth versus the prior year driven by continued strength in Power Generation. We also expect higher sales in Oil & Gas driven by Solar turbines and turbine-related services. Price realization should remain favorable as well.

Now I'll provide some color on our third quarter margin expectations. Excluding the net impact from incremental tariffs, we expect the third quarter enterprise adjusted operating profit margin will be similar to the prior year, with higher sales volume about offset by unfavorable price realization and higher SG&A and R&D costs. Including the net impact from incremental tariffs, we anticipate a lower enterprise adjusted operating profit margin in the third quarter versus the prior year. As I mentioned, the tariff headwind should be larger than the second quarter, which reflected just a partial quarter's impact. We anticipate a net cost headwind of about \$400 to \$500 million in the third quarter.

Now I'll make a few comments regarding our segment margin expectations for the third quarter. In Construction Industries, excluding the impact from the incremental tariffs, we expect a similar margin compared to the prior year, with higher sales volume, about offset by unfavorable price realization. Including the net impact from incremental tariffs, we anticipate lower margins in Construction Industries versus the prior year. We expect about 55% of the third quarter tariff impact will be incurred in Construction Industries. In Resource Industries, excluding the impact from incremental tariffs, we anticipate a lower margin versus the prior year, mainly due to lower price realization and higher SG&A and R&D costs. The net impact from incremental tariffs will reduce it further. We expect about 20% of the third quarter tariff impact will be incurred in Resource Industries. In Energy & Transportation, excluding the impact from incremental tariffs, we anticipate slightly higher margin versus the prior year, mainly due to higher volume and favorable price realization, partially offset by higher manufacturing costs. Including the net impact from incremental tariffs, we anticipate similar margins compared to the prior year. We expect about 25% of the third quarter tariff impact will be incurred in Energy & Transportation.

So, turning to Slide 16, let me summarize.

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We are increasingly optimistic about our underlying businesses and now anticipate slightly higher sales for the full year, including a stronger second half. Business activity and customer financial health remain strong, as do our balance sheet and liquidity positions. With the net impact from incremental tariffs, we currently expect to be within the bottom half of our target range for adjusted operating profit margins and around the middle of the target range for ME&T free cash flow. We continue to execute our strategy for long-term profitable growth.

And with that, we'll take your questions.

QUESTION & ANSWER:

Operator[^] (Operator Instructions) Your first question comes from Tami Zakaria with JPMorgan.

Tami Zakaria[^] I appreciate the quantification of the tariff headwinds. My question is not related to this year, more medium to longer term in nature. So, without the tariff impact, your operating margin would have been in the top half of the target, which is absolutely impressive. So, I'm curious how you're thinking about mitigating some of these tariff headwinds as you look in the medium to long term? Do you plan to change sourcing, or recoup some of the headwinds through pricing? Or should we expect part of this tariff headwind to be sort of structural and embedded in your long-term operating margin target range that you provide? So, any color on how to think about tariffs and margins in the medium to long term?

Joseph Creed[^] Thanks, Tami. This is Joe. Before we sort of dive into that and unpack it. I think one thing that's important to understand is maybe taking a step back and looking at the global nature and complexity of our business, the diversity of our business. We're a global business. We're proud of our global footprint that enables us to take care of customers all around the world. But as part of that global business, the U.S. represents our largest footprint. We have over 50,000 employees in the U.S. We operate out of 65 key locations in 25 different states.

We have been, and continue to be a net exporter out of the U.S. Since 2016, our exports, in fact, have grown 75%. And over that same time period, we've been able to increase our hourly production workforce by around 29% [in the U.S.] (company clarified after the call). We consider the breadth and diversity of our portfolio and the global end markets that we serve as a competitive advantage for us. But it does add some complexity in our supply chain. And we have a lot of different products and segments.

We've built a global supply chain that's unique to us. It works for us. It's been developed over a significant amount of time and the strategy behind that supply chain allows us to increase our footprint here in the U.S., like I just mentioned, but at the same time being globally competitive on our cost structure as we serve customers around the globe. So, I think you've seen that transpire and the way we've executed results over the last five years or so and has generated good results for us.

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So, in the context of how we're thinking about tariffs, we just need a little bit more certainty. We've learned a little bit more, obviously in the last week or so in some of the announcements that are out. We're still working to understand the implications of those in the details. We still believe there's a little bit of uncertainty out there, and as we get farther down the road and gain more clarity, we'll take the appropriate actions. Some of those actions, and you kind of mentioned all of them, I think all of them are on the table. Obviously, some of the actions are quicker for us to implement and quicker for us to see results versus moving a footprint requires some investment and can take a significant amount of time.

So, I think it's in the context of how we're looking at it over time, we're going to mitigate the impact of tariffs. Exactly which lever we're going to pull, we're looking for a little more clarity before we reach into those. That doesn't mean we've been doing nothing. As Andrew mentioned, we're taking no regrets type actions. We're trimming costs on discretionary spending, things that can be done quickly, easily reversed. Where we have limited dual sourcing, and it's beneficial to us, we're making those moves. We're working on certification of USMCA compliant products. We'll continue to do all those things in the short term. And we continue to analyze and try to figure out which of the long-term levers we want to pull, and in what order. But we're going to keep everything on the table, and we're going to manage this over the medium term.

Operator[^] We'll move next to David Raso at Evercore ISI.

David Raso[^] The demand profile that you're building exiting '25 and '26 is obviously encouraging, right? Dealer inventory is down, nice book-to-bill, and the backlog looks like, your next 12 months shipping and backlog is going to be over 80% of the implied second half sales. I mean it's never been that high. I mean it averages 55-ish percent. Even in the last couple of years, you were never that high. So, it does appear you have the demand profile, the low dealer inventory. But in a way, having the backlog covering that much already, I'm curious and even what you just said, completely prudent not to make any dramatic moves on supply chain moves. Is there a way to reprice the backlog? I'm just curious because the idea of having the backlog coverage is very encouraging. I'm just curious to sort of maybe get a lift going as we start, say, '26 on the margins, even with the tariff impact. Is there a way to reprice the backlog and maybe get the margin growth year-over-year say, as early as the beginning of '26?

Joseph Creed[^] I'll let Andrew chime in, too. Thanks for the question, David. Generally speaking, we have flexibility on pricing in the backlog depending on which segment and the products that we have. As we look specifically, I think your questions around margins and pricing specifically, we want to take into context the entire business. We're, as you pointed out rightfully, we have good momentum in the business operations. Our backlog continues to grow in all three segments. As you think about pricing towards the back half of this year, we'll lap those price merchandising programs. So, the headwind will become a little bit less year-over-year as we move towards the end of the year. We're definitely focused on margins, but our ultimate goal is absolute dollar OPACC (Operating Profit After Capital Charge). That's going to drive dollar profitability and cash flow and good returns for everyone. So, we're going to get the balance right. I think also, you keep in mind when it's merchandising programs with Cat

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Financial and rates, over time, that's beneficial for us. So we get some of that back. So, we're going to look at it.

We haven't made any decisions definitively at this point in time. But as you stated, we're definitely happy with the momentum that we have. And as we move towards the back half of this year, we'll continue to look at all the levers that we have. I'd like to see how much we can mitigate on tariffs, specifically other ways before we use pricing as a lever. And then I think the other context to look at this is as we lap and get back to the fourth quarter where it's less of a headwind year-over-year.

Two years ago, particularly in the machine side of the business, we were in a constrained environment where we pulled back on discounting. So, there's a level of this, I'm not saying all of it, but there's a certain level of it that is when you get to an unconstrained more normalized environment, we're returning to more normalized competitive merchandising programs. But we're happy with the programs that are in place. They are driving incremental volume. Net-net, in Construction Industries, the impact of the merchandising and volume in the second half, we anticipate to be a positive impact to our business. So that's a dial that we have to keep a close eye on, and we'll manage it appropriately.

Andrew Bonfield[^] And obviously what it does mean David, is we have good momentum going into 2026, which is the most important thing. And just to remind you, obviously, always at the end of the day, operating leverage is always the most optimal way to manage margins for a company like Caterpillar. So that's one of the other areas we'll continue to keep an eye on and focus on.

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

Jamie Cook[^] Congrats on a nice quarter. I mean it sounds like the underlying margin performance of the company doing better excluding tariffs, specifically to Energy & Transportation, Joe, it's now the biggest segment for Caterpillar in terms of sales and in terms of profit. I'm just wondering to what degree are some of the capacity additions weighing on your sales output and on your margins in 2025? And where we expect to be, I guess, as we exit 2025 in terms of capacity -- the level of capacity that we've added and what that could mean for incremental sales margins as we look past 2025?

Joseph Creed[^] Jamie. We're definitely happy with Energy & Transportation and where it sits right now both from a performance standpoint and a backlog standpoint. As you rightfully point out, each of our segments is in a different position. So, when we talk about merchandising and pricing, Energy & Transportation is in a little different situation. We're seeing positive pricing in Energy & Transportation. We continue to get more throughput through the factory. We were able to host many of you there a few weeks ago. So, you got to see the size and scale of the capacity investment that we're making. And so, we're happy that we're able to get more throughput and continue to increase our output from the factory. That's not capacity related. That's really more

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working with our supply chain and efficiencies in the factory and trying to get out more product. I think you'll continue to see that as we move into 2026.

But the biggest sort of capacity coming online, I would think of it in terms of end of next year heading into '27, where we will hopefully see a little bit of a step change. But it's not linear. It's also not a cliff event, but we continue to improve and try to improve output every single month. So, order rates continue to be strong. We're really happy with what we're seeing there. And as far as the efficiency goes, I would say inventory levels, and you guys were there; you saw a lot of it inefficiency when you're trying to get more product out. At the same time you're doing a big capacity investment at the factory. From my standpoint, clearly, we're not operating at the most efficient level that we could, but we're trying to make sure we keep up with demand. So, as the capacity comes online, I would like to see us become more efficient and get to more normal operations as well. So, I think there's a ton of upside here. We're extremely happy with the Energy & Transportation business right now and it's on a great trajectory.

Operator[^] We'll go to our next question from Robert Wertheimer with Melius Research.

Robert Wertheimer[^] Basically the same question that you just touched on. So could you talk about whether orders being placed now, are you taking orders to expanded reciprocating engines capacity that you have coming online as you mentioned like '26 and '27 and onward at Lafayette? And then we haven't really touched on Solar capacity very much. Your opportunities there have expanded visibly in data center. I wonder if you might speak to capacity constraints there or whether you've increased capacity at Solar as well?

Joseph Creed[^] Yes. We're taking orders pretty extended when it comes to data centers. It doesn't mean we can't take orders inside the timeframe. But as I mentioned in my prepared remarks, we're planning with the largest data center customers years in advance. So, we have line of sight to their schedules out into the time I think what you're referring to as when the capacity comes online. Are we full between now and then? No. I mean we could still work some product in sooner, but we're definitely taking orders out that far and have good line of sight to what we think demand is when that capacity comes online. And when it comes to Solar, we continue to increase production there. We're pleased with the interest and uptake in the new Titan 350 platform. We're continuing to see I would say, almost unprecedented interest in Power Generation when it comes to Solar turbines. And so, we're happy with where we're at. We're able to keep up at the moment. We continue to work with the supply base to increase our output. And we'll keep an eye on that and see how that transpires as we move forward.

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

Kristen Owen[^] I wanted to follow up on the tariffs piece of this. Just helping us understand while it is still a dynamic environment. What are the key tariff-related uncertainties that we should be watching for? Just want to make sure that we have all of that captured in the current guide and trying to assess the risk that number will change in the back half of the year as we learn more.

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Andrew Bonfield[^] Kristen, as you know obviously there have been some and a fairly limited number of agreements actually made so far. So, there are a number of countries reports today. Switzerland is not an impact on us. But for example the Swiss, all considering, are trying to negotiate. So there may be more countries that come in. So, anything that is a country which is obviously still not subject to a heads of terms or an agreement would be an area which could change. There are also some 232 and 302 investigations, which could have an impact on us as well. So it goes both ways, and we'll have to keep an eye on that. That's why we say the situation still remains very fluid and is subject to change.

Operator[^] Next, we'll go to Chad Dillard at Bernstein.

Charles Dillard[^] I just want to go back to your comment about -- because building some inventory sequentially through the balance of the year to get to flat year-on-year. Just, wanted to get a sense for, I guess, your decision on that? And then just where are you seeing the difficulty to get better to make that decision? And what do customers say?

Andrew Bonfield[^] Dealers are independent businesses and they make decisions about what inventory levels they hold. This is really just a planning assumption that we make based on what we're seeing from order rates that are coming in from dealers. We're assuming that based on what orders they've been placing now that we're getting close to actually a period of time where a dealer comes in, it will be filled by the end of the year. We based our expectations on what we're seeing on sales to users. We would expect machines to be about flattish for the year. And that's really the driver of that assumption. Again, this is complex. [Around] 150 dealers, 190-odd countries around the world (company clarified after the call). And a large product range, and we give you one number. So, it's quite a complex activity, but that's generally what we're saying as a planning assumption. And that's based on what we're seeing from an order rate perspective from dealers at the moment.

Joseph Creed[^] And I guess from my standpoint, the takeaway from that is if I'm sitting here the way I think you guys should think about it is we're in a different seasonal pattern than we normally are because we've had much stronger sales to users despite maybe some softness in the global construction industry. So where normally would have a drawdown in inventory in the second half, we don't expect to see that same pattern this year, which should give us a boost to our sales relatively speaking to what you would normally see in seasonality, which is why we think we're going to have a nice second half of the year this year.

Operator[^] We'll move next to Mig Dobre at Baird.

Mircea Dobre[^] Sorry, I have to go back to tariffs as well. I guess what I'm wondering here is your thoughts in terms of longer term, how much of this tariff drag you think you will be able to mitigate? Is there a component that's just sort of structural and it implies maybe permanently lower margins for your business? And recognizing that things are still changing as we think about the first half of 2026, is it appropriate to kind of flow through the drag that you talked

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about in the fourth quarter into the first half of '26, and basically make the assumption that maybe things don't really get better until we have easier comparisons on the tariff front, starting with Q2, Q3?

Joseph Creed[^] I think I'll start. Andrew, feel free to chime in here. I think it's way too uncertain. And as Andrew just mentioned, things are still moving around to call anything permanent, right? So, we're not thinking in those terms right now. We have a lot of levers at our disposal over time and all options are on the table for us to mitigate as we move forward. We're just waiting for a little bit of more certainty as we said. And when it comes to 2026, it's way too early for us to talk about. We normally wouldn't but it's in this environment, especially just look how much has changed in the last quarter since we talked. So, it's too early to talk about 2026. Hopefully, we'll have more clarity over the coming days and weeks, and we'll continue to keep everybody updated as we move throughout the year. But the way I would think about 2026 is in the context of the discussion we've had. We've got great operational performance right now. We've got great momentum, and we've raised our outlook for the rest of this year on the top line. And we think we're going to have a strong second half. And obviously that builds great momentum as we head into next year. So, we'll update everyone on 2026 later in the year, but I think it's just too soon.

Andrew Bonfield[^] As a reminder, our actual focus is on profitable growth. So it's growing absolute OPACC dollars and margins are important. That's the reason why we have guidelines. But obviously that's not necessarily the entire focus. So, you would always have to trade off where you would see potential volume impact versus price impact. So that will be one of the things we'll work on as we get closer to the end of the year and update you as normal in January.

Operator[^] Next, we'll move to Steve Volkmann at Jefferies.

Stephen Volkmann[^] Maybe I just I'll stay with this thread because I guess the final piece of the puzzle here is sort of the competitive dynamic. And I'm curious what you're seeing from competitors? It sounds like your PINS may actually be up a little bit here. But how do you balance sort of what they're doing and what you're doing in your PINS targets?

Joseph Creed[^] We're focused on taking care of our customers and what we can do. Obviously, we're happy with the way things are going and the merchandising programs. We're getting a great response in Construction Industries, especially on those programs. As we mentioned, our sales to users continue to be up, particularly in North America, but globally for Construction Industries up and despite some softness in the global construction industry. So from a performance standpoint, we feel like we're very competitive right now. Obviously, we continue to monitor that and make any adjustments as we move forward. But we have great momentum as you suggest, and we'll keep managing it and intend to keep that going.

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

Michael Feniger[^] Joe, just on your earlier comment on Construction Industries and the guidance for machine dealer inventories finishing the year flattish. I mean I believe Q4 last year, there was

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a destock over \$1 billion, close to \$1.6 billion. You're expecting retail sales to be positive. They've been positive. Just -- are we -- is Construction Industries exiting this year? In Q4, are we up double digits as we exit this year in construction based on where the inventory levels are, what you're seeing on retail sales? And just a follow-up on that, the merchandising program, you're explaining it to success. Should we think that pricing headwind is neutral as we exit the year? Or it just starts to kind of narrow at a notable pace? Just any direction would be helpful there.

Andrew Bonfield[^] Yes. We do expect a strong fourth quarter for Construction Industries on top of a strong performance of sales to users in the third quarter. That would be because, as you quite correctly point out the absence of that dealer inventory decrease that we saw last year of around \$1.6 billion in machines in the fourth quarter, which obviously impacts both Resource Industries as well as Construction Industries, although the vast majority was in Construction Industries. So, I think that's a reasonable assumption you're making with that regard. As far as price is concerned, the merchandising program has really started to kick in, in the third quarter of last year. So, we are starting to lap that. That's why it's starting to decrease, while we're expecting it to halve in the third quarter for Construction Industries. We expected that to narrow further in the fourth quarter. There will still be some impact in the fourth quarter, and there will still be some drag through into 2026, subject to any other decisions we take around pricing, which we may take as we move into 2026.

Operator[^] We'll move next to Steven Fisher at UBS.

Steven Fisher[^] So, it sounds like you have a more positive outlook in Construction Industries for the second half including some rental fleet reloading. Can you talk about what you see driving that? Is that already based on what dealers are telling you? And if it's picking up, just tying that to the merchandising programs, I know that you're lapping them year-over-year, but if things are picking up, kind of just thoughts around why you think you still need the merchandising incentive from here?

Andrew Bonfield[^] So, with regard to the merchandising programs, just to remind you, one of the benefits of actually doing a -- one of the things that's most attractive to many of our customers is a low interest financing. The benefit of that is, obviously rather than giving you an upfront discount, it is built. You do recall that as a cost in the quarter that it is incurred. But effectively, over time over the period of the financing deal, you recover some of that through margin. We estimate that somewhere around 50% of the total cost. So it's an attractive program. I think everyone knows that interest rates have stayed higher, longer than people were expecting. So low-interest rate deals are very attractive, particularly for retail customers and it helps them to make a decision about buying a machine. So, we will still use that as a mechanism to make buying Cat equipment a priority for those people. So that's really the fact there. With regard to rental. Rental revenue has been rising. As you know, rental fleet loading tends to be a little bit lumpy. Dealers tend to do it at points in time depending on -- particularly around their heavy rents. What equipment is actually exiting? So sometimes customers will rent a machine for a period of time and then actually buy that machine at a period of time based on the rent. We've

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been through a period of time year-over-year, where that loading has diminished. We expect now to start to see that to come back to a more normalized level as we move into the second half of this year.

Joseph Creed[^] And as we mentioned, dealer rental revenue has been growing despite the fact they hadn't loaded in the first half. So, we think that some of that is the timing of load, and we'll start to see that pick up in the second half.

Operator[^] And our final question comes from Kyle Menges at Citigroup.

Kyle Menges[^] You could talk about just the Resource Industries backlog and level of visibility into '26. And I know you're expecting volume to be positive, it sounds like in the second half. So just what you're seeing in the backlog and hearing from customers that's giving you confidence in that positive volume growth sustaining into 2026? And then I guess second part of the question would just be -- it sounds like you're seeing some weakness in coal. It would be helpful maybe if you could remind us your rough exposures by commodities? I know coal has come down as an exposure. It would be helpful to hear how much it is today of the exposure versus exposure to other commodities?

Joseph Creed[^] I think one thing we said is RI STUs will be a little bit soft here in the second half, but our order rates are healthy and the backlog is up, particularly around large trucks, articulated trucks, we're seeing strong demand there. And so, we're not talking about 2026 yet, but when it comes to those products, we are taking healthy orders, and those are a little bit longer lead times. So, we're happy with where we're at. We'll talk a little more about '26 as we head towards the end of the year. But the encouraging signs are the backlog are up, order rates continue to be strong. And so, we'll just -- I guess I'll leave it at that.

Andrew Bonfield[^] Yes. And we do not give our exposures by commodity, but we have mentioned in the past. The coal revenues are low single digits as a percentage of total revenue, and that obviously is diminishing over time.

Joseph Creed[^] All right. Well thank you, everyone. I'd like to say thanks for joining us today. We always appreciate your questions and your interest in Caterpillar. I'm proud of the team for what has been what I consider a really solid execution in the second quarter, and we're really excited about what's ahead and look forward to having a strong second half. So with that, I'll turn it over here to Alex.

Alex Kapper[^] Thank you, Joe, Andrew and everyone who joined us today. A replay of our call will be available online later this morning. We'll also post a transcript on our Investor Relations website as soon as it's available. You'll find a second quarter results video with our CFO, and an SEC filing with our sales to users data. Visit investors.caterpillar.com and then click on "Financials" to view those materials. As Joe mentioned and as we stated in the press release announcing our Investor Day, we look forward to hosting you on November 4th. We'll provide more details in the coming weeks ahead. If you have any questions, please reach out to me or

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Rob Rengel. The Investor Relations general phone number is (309) 675-4549. Now let's turn it back to Audra to conclude our call.

Operator^ Thank you. That concludes our call. Thank you for joining. You may all disconnect.