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PRESENTATION:

Operator^ Welcome to the second-quarter 2024 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, Ryan Fiedler. Thank you. Please go ahead.

Ryan Fiedler^ Thank you, Audra. And good morning, everyone. Welcome to Caterpillar's second quarter of 2024 earnings call. I'm Ryan Fiedler, Vice President of Investor Relations. Joining me today are Jim Umpleby, Chairman and CEO; Andrew Bonfield, Chief Financial Officer; Kyle Epley, Senior Vice President of the Global Finance Services Division; and Rob Rengel, Senior Director of IR. During our call we'll be discussing the 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 two. 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 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 turn to Slide 3 and turn the call over to our Chairman and CEO, Jim Umpleby.

Jim Umpleby^ Thanks, Ryan. Good morning, everyone. Thank you for joining us. I'd like to start by thanking our global team for their strong execution in the first half of the year. In the second quarter, we achieved higher adjusted operating profit margin, record adjusted profit per share and generated robust ME&T free cash flow. Our results continue to reflect the benefit of the diversity of our end markets as well as the disciplined execution of our strategy for long-term profitable growth. I'll begin with my perspectives about our performance in the quarter and will provide an update on our full year expectations. I'll then provide some insights about our end markets followed by an update on our sustainability journey.

Moving to quarterly results. Sales and revenues were down 4% in the second quarter versus last year, slightly below our expectations. Services increased in the quarter. Our adjusted operating profit increased to \$3.7 billion, a record. Adjusted operating profit margin was better than we expected and improved to 22.4%, up 110 basis points versus last year. We achieved record quarterly adjusted profit per share of \$5.99, up 8%. We also generated \$2.5 billion of

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ME&T free cash flow in the quarter. In addition, our backlog increased to \$28.6 billion, up \$700 million versus the first quarter of 2024.

Before I get into the detail of the quarter and outlook for our segments, I'll update our expectations for the full year based on our first half results. Earlier in the year, we estimated that sales and revenues would be broadly similar for the full year. For the first half, the top line came in marginally below our expectations and ended 2% below the prior year. We now anticipate our sales and revenues will decline at a roughly similar rate in the second half versus the prior year in part due to our latest assumptions for dealer inventory, principally in Resource Industries. Overall sales to users in Construction Industries are running slightly lower than we anticipated, partially offset by stronger-than-expected sales in Energy & Transportation. Services revenues continue to grow.

Although sales and revenues have been marginally below our expectations, adjusted operating profit margins have been stronger than we anticipated. Earlier in the year, we expected our adjusted operating profit margin to be in the top half of the target range at the corresponding level of sales. Due to the strength of our performance in the first half of the year, we now expect overall adjusted operating profit margins to be above the top of the target range for the full year.

For the second half, we expect adjusted operating profit margins to be better than we previously anticipated or about flat to the second half of 2023, which Andrew will describe. The strength of our performance to date and our improved second half adjusted operating profit margin expectations gives us confidence to guide above our target range. Overall, our expectations for the full year adjusted operating profit and adjusted profit per share are now higher than it was during our last earnings call. We also anticipate that ME&T free cash flow will remain in the top half of the free cash flow target range.

Turning to Slide four and our second quarter results. In the second quarter of 2024, sales and revenues declined 4% to \$16.7 billion. Sales volume declined slightly more than we expected while price realization including geographic mix, was better than we anticipated. Dealer inventory also declined in the second quarter. Compared to the second quarter of 2023, overall sales to users decreased 3%, slightly below expectations. For machines, which includes Construction Industries and Resource Industries, sales to users declined by 8%, slightly more than expected. Energy & Transportation continued to show strength as sales to users increased 10%. Sales to users in Construction Industries were down 5%. In North America, sales to users were slightly lower than anticipated primarily due to weaker-than-expected rental fleet loading. Government-related infrastructure projects remained healthy. Residential sales to users in North America were up as demand for new housing remained resilient. Sales to users declined in EAME primarily due to weakness in Europe relating to residential construction and economic conditions. Sales to users in Asia/Pacific declined while Latin America increased.

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In Resource Industries, sales to users declined 15%, a slightly smaller decline than we expected versus a very strong second quarter in 2023. Mining, as well as Heavy Construction and Quarry and Aggregates were lower mainly due to softness we've previously discussed for two products, articulated trucks and off-highway trucks.

In Energy & Transportation, despite the ongoing weakness in Industrial, sales to users increased by 10% as we continue to see strength across most applications. Oil and Gas sales to users benefited from strong sales of turbines and turbine-related services. We also saw increased sales of reciprocating engines into gas compression while well servicing Oil and Gas applications were lower. Power Generation sales to users grew as market conditions remained favorable including strong data center growth. Transportation sales to users increased while Industrial declined as expected from the strong levels last year.

Our results continue to reflect the benefit of the diversity of our end markets as well as the disciplined execution of our strategy for long-term profitable growth. Moving to dealer inventory. In total, dealer inventory decreased by \$200 million versus the first quarter. For machines, dealer inventory decreased by \$400 million and remains within our typical range.

As I mentioned, backlog increased to \$28.6 billion, up \$700 million versus the first quarter of 2024. Energy & Transportation drove the increase as we continue to see strong demand for Solar Turbines and reciprocating engines for Power Generation.

Adjusted operating profit margin increased to 22.4% in the second quarter, a 110-basis point increase over last year, which was better than we anticipated. Margin exceeded our expectations primarily due to lower-than-expected manufacturing costs and slightly better-than-expected price.

Moving to Slide 5. We generated ME&T free cash flow of \$2.5 billion in the second quarter. We deployed more than \$1.8 billion of cash for share repurchases and about \$600 million in dividends in the second quarter. In June, we announced an additional \$20 billion share repurchase authorization with no expiration date. We remain committed to consistent share repurchases. Since 2019, when we communicated our intention to return substantially all ME&T free cash flow to shareholders over time, our net share count has decreased by approximately 18%. In addition, we increased our dividend by 8% in the second quarter, which is our fourth straight year of a high single-digit quarterly increase. We remain proud of our Dividend Aristocrat status and continue to expect to return substantially all ME&T free cash flow to shareholders over time through dividends and share repurchases.

Now on Slide 6. I'll describe our expectations for our three primary segments moving forward. In Construction Industries, after a record 2023, sales to users in the second half are now expected to decline slightly versus last year. In North America, we now anticipate slightly lower Construction Industries sales to users for full year 2024 than we did previously primarily due to

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weaker-than-expected rental fleet loading. Government-related infrastructure projects are expected to remain healthy. In Asia/Pacific, outside of China, we still expect soft economic conditions to continue. We anticipate demand in China will remain at a relatively low level for the above 10-ton excavator industry. In the EAME, we anticipate that weak economic conditions in Europe will continue, somewhat offset by continued healthy construction demand in the Middle East. Construction activity in Latin America remains mixed, but overall, we are expecting modest growth. In addition, we are expecting the ongoing benefit of our services initiatives will positively impact Construction Industries.

Next, I'll discuss Resource Industries. After a strong performance in 2023 in Mining as well as in Heavy Construction and Quarry and Aggregates, we continue to anticipate lower machine volume versus last year primarily due to off-highway and articulated trucks. We currently anticipate a decrease in Resource Industries dealer inventories in 2024 versus a slight increase last year. We expect to see higher services revenues including robust rebuild activity. Customer product utilization remains high, the number of parked trucks remains low, and the age of the fleet remains elevated, and our autonomous solutions continue to see strong customer acceptance. Customers continue to display capital discipline, however we continue to believe the energy transition will support increased commodity demand over time, expanding our total addressable market and providing further opportunities for long-term profitable growth.

Moving to Energy & Transportation. In Oil and Gas, in total, we expect a stronger year overall in 2024 versus last year. After a strong 2023, we expect reciprocating engine sales in Oil and Gas to be flat to slightly down primarily due to ongoing softness in well servicing. We still expect gas compression to be up for the full year. However, we expect it to soften in the second half. For Solar Turbines, we continue to expect volume growth in the second half as our backlog remains strong for Oil and Gas. CAT reciprocating engine and Solar Turbines demand for Power Generation is expected to remain strong largely due to continued data center growth relating to cloud computing and generative AI. Industrial demand is expected to remain at a relatively low level compared to 2023 in the second half. In Transportation, we anticipate growth as the year progresses in both high-speed marine and rail services.

Moving to Slide 7. I'll provide an update on our sustainability journey. We are contributing to a reduced carbon future and continue to invest in new products, technologies and services to help our customers achieve their climate-related objectives. In April, Caterpillar and Vale signed an agreement to test battery electric large mining trucks as well as to conduct studies on ethanol-powered trucks. Progress has been made on both initiatives since the agreement was signed including conducting a joint study on a dual fuel solution for haul trucks operating on ethanol and diesel fuel. We are supporting Vale's sustainability objectives.

In June, we added CAT CG260 gas generator sets to our portfolio of commercially available power solutions capable of running on hydrogen fuel. Previously, our portfolio with this capability ranged from 400 kW to 2,500 kW. The addition of the CG260 provides up to 4,500 kW of

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electric power for continuous, prime and load management requirements and is approved to operate on gas containing up to 25% hydrogen by volume.

Caterpillar offers retrofit kits to upgrade CG260 generator sets already installed with these same hydrogen capabilities. In addition to our hydrogen capabilities in reciprocating engines, Solar Turbines has been a leader with its ability to burn a wide variety of fuels including hydrogen, natural gas and biofuels.

Today, Caterpillar has a large and growing lineup of technologies to support customers in their sustainability journey. These two examples highlight how we are helping our customers build a better, more sustainable world. With that, I'll turn it over to Andrew.

Andrew Bonfield^ Thank you, Jim. And good morning, everyone. I'll begin with a high-level summary of the quarter. Then I'll provide more detailed comments on our second quarter results including the performance of the segments. Next, I'll discuss the balance sheet and free cash flow and then conclude with comments on our assumptions for the remainder of the year.

Beginning on Slide 8. Although sales revenues were slightly below our expectations, we had strong operating performance in the quarter including higher adjusted operating profit margin and record adjusted profit per share, both of which were stronger than we had anticipated.

Sales and revenues of \$16.7 billion decreased by about 4% compared to the prior year. Adjusted operating profit increased by 2% to \$3.7 billion. The adjusted operating profit margin was 22.4%, an increase of 110 basis points versus the prior year. Profit per share was \$5.48 in the second quarter compared to \$5.67 in the second quarter of last year. Adjusted profit per share increased by 8% to \$5.99 in the quarter compared to \$5.55 last year. Adjusted profit per share excluded restructuring costs of \$0.51 per share mainly due to a loss on the divestiture of two non-U.S. entities. This compares to restructuring costs of \$0.05 per share and a discrete deferred tax benefit of \$0.17 per share, which were both excluded in the second quarter of 2023.

Other income of \$155 million for the quarter was a \$28 million benefit versus the prior year and was primarily driven by favorable impacts from commodity hedges. The provision for income taxes in the second quarter, excluding discrete items, reflected a global annual effective tax rate of 22.5% compared with 23% in the second quarter of 2023.

Finally, the year-over-year impact from the reduction in the average number of shares outstanding primarily due to share repurchases over the past year had a favorable impact on adjusted profit per share of approximately \$0.29.

Moving on to Slide 9. I'll discuss our top line results in the second quarter. Sales and revenues decreased by 4% compared to the prior year as lower volume was partially offset by favorable

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price realization. Lower volume was mainly driven by the impact from the changes in dealer inventories. As you may recall we anticipated a sales decline this quarter versus last year as an atypical dealer inventory increase in the second quarter of 2023 made for a challenging comparison. To explain, dealer inventory decreased by about \$200 million in the second quarter. In comparison, we saw an increase of \$600 million in the second quarter of last year. For machines only, dealer inventory followed the typical seasonal trend this quarter with a decrease of \$400 million as compared to a \$200 million increase in the second quarter of last year. Sales were slightly below our expectations due to lower-than-expected volume being partially offset by better-than-expected price realization including geographic mix.

Moving to operating profit on Slide 10. Operating profit in the second quarter decreased by 5% to \$3.5 billion. This included a \$227 million unfavorable impact from higher restructuring costs. Adjusted operating profit increased by 2% to \$3.7 billion. Price realization benefited the quarter while the profit impact of lower sales volume acted as a partial offset. The adjusted operating profit margin of 22.4% improved by 110 basis points versus the prior year. Margins were better than we expected mainly due to favorable manufacturing costs, product mix and price. Versus our expectation, price was slightly better than we anticipated driven by Energy & Transportation.

On Slide 11, Construction Industries sales decreased by 7% in the second quarter to \$6.7 billion. This was primarily due to lower sales volume, partially offset by favorable price realization. Sales volume was impacted by unfavorable changes in dealer inventories. Dealer inventory was about flat in the second quarter of 2024 versus an increase in the second quarter of last year. Lower sales to users also impacted volume. Sales in Construction Industries were lower than we had anticipated due to lower-than-expected rental fleet loading in North America and continued weakness in Europe. By region, sales in North America were about flat, and Latin America sales increased by 20%. Sales in the EAME region decreased by 27%. In Asia/Pacific, sales declined by 15%. Second-quarter profit for Construction Industries was \$1.7 billion, a 3% decrease versus the prior year. This was mainly due to lower sales volume, partially offset by favorable price realization, which benefited from geographic mix effects. Favorable manufacturing costs provided some tailwind as well largely reflecting lower material costs. The segment's margin of 26.1% was an increase of 90 basis points versus last year. Margin was better than we had expected primarily due to a favorable product mix and the timing of planned SG&A and R&D spend. Price was in line with our expectations.

Turning to Slide 12. Resource Industries sales decreased by 10% in the second quarter to \$3.2 billion, which was about in line with our expectations. The decline was primarily due to lower sales volume, partially offset by favorable price realization. Sales volume was impacted by changes in dealer inventories as dealer inventories decreased more during the second quarter of 2024 than during the second quarter of last year. In addition, we saw lower sales to users in the segment as anticipated, given the challenging comparison. Second quarter profit for Resource Industries decreased by 3% versus the prior year to \$718 million. This is mainly due to lower sales volume, partially offset by favorable impacts from price realization and

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manufacturing costs including lower freight. The segment's margin of 22.4% was an increase of 160 basis points versus last year. Margin was better than we had expected mainly driven by the timing of planned SG&A and R&D spend and a favorable product mix.

Now on Slide 13. Energy & Transportation sales increased by 2% in the second quarter to \$7.3 billion. The increase was due to favorable price realization, which was partially offset by lower sales volume driven by Industrial, which declined in line with our expectations. The segment sales were slightly better than we had anticipated primarily driven by price. By application, Power Generation sales increased by 15%. Transportation sales were higher by 7%. Oil and Gas sales improved by 4%, while Industrial sales decreased by 21%. Second quarter profit for Energy & Transportation increased by 20% versus the prior year to \$1.5 billion. The increase was primarily due to favorable price. The segment's margin of 20.8% was an increase of 320 basis points versus the prior year. Margin was significantly stronger than we had anticipated due to better price and lower-than-expected manufacturing costs, which largely reflected favorable inventory absorption, lower freight and lower material costs.

Moving to Slide 14. Financial Products revenues increased by 9% to about \$1 billion primarily due to higher average financing rates across all regions and higher average earning assets in North America. Segment profit decreased by 5% to \$227 million. This was mainly due to a higher provision for credit losses, which largely reflected the absence of a nonrecurring reserve releases from the prior year. The portfolio remains healthy as past dues of 1.74% are near historic lows and reflect a 41-basis point improvement compared to the prior year. In addition, the allowance rate was 0.89%, our lowest rate on record. Business activity remains healthy as new business volume increased versus the prior year primarily driven by North America. We also continue to see healthy demand for used equipment where inventories remain close to historically low levels.

Moving on to Slide 15. We generated \$2.5 billion in ME&T free cash flow in the second quarter. We expect our full year ME&T free cash flow to be in the top half of our annual target range, or between \$7.5 billion to \$10 billion. Our expectations for CapEx remain between \$2 billion and \$2.5 billion for the year. On share repurchases, the more than \$1.8 billion deployed in the second quarter included a \$1 billion accelerated share repurchase agreement. Approximately 75% of those shares were delivered to the company upfront and with the balance to be delivered when the agreement is terminated prior to year-end. Note that we also had an ME&T bond maturity of \$1 billion in the second quarter. And given our healthy liquidity position, we did not issue new bonds. Our balance sheet remains strong with an enterprise cash balance of \$4.3 billion. In addition, we hold \$1.8 billion in slightly longer-dated liquid marketable securities to improve yields on that cash.

Now on Slides 16 and 17, I will show our high-level assumptions for the remainder of the year. As Jim mentioned, we now anticipate sales and revenues to be slightly lower this year versus the record 2023 level. This compares to our previous expectation for broadly similar sales. This

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change reflects an updated assumption of a slight reduction in machine dealer inventory, primarily in Resource Industries and lower-than-expected sales to users in Construction Industries mainly due to lower rental fleet loading in North America.

Now specific to our second half assumptions. We typically see higher sales in the second half as compared to the first, and we expect sales to follow that normal seasonable trend this year. As compared to the prior year, we now anticipate slightly lower sales in the second half driven by lower machine sales to users. Changes in dealer inventories of machines are expected to have a nominal impact as the decrease in the second half of this year should be similar to the decrease observed in the second half of 2023, which was about \$1 billion. However, note that machine dealer inventory changes will impact the quarters differently as we expect a sales headwind in the third quarter as dealers built their inventories in the third quarter of 2023 and a sales tailwind in the fourth quarter due to a smaller inventory decline in the prior year. Finally, we continue to anticipate services growth in the second half of the year as we strive to achieve our 2026 target of \$28 billion in services revenues.

Moving on to our margin expectations. As Jim mentioned, the strength of our first half performance combined with the more favorable expectations for the second half mean that we now anticipate overall adjusted operating profit margin to be above the top end of the target range for the full year. Specific to second half margins, despite higher sales, we do expect lower margins versus the first half, which follows a typical seasonal trend. However, keep in mind that first half margins were at record levels, and the magnitude of the second half decline may be slightly larger than is typical. As compared to the prior year, we expect our adjusted operating profit margin in the second half will be similar to the prior year level. While we anticipate some favorability in manufacturing costs on improved operational efficiencies, we do expect slightly lower volumes and a slight headwind from price in the second half versus a year ago. On price, the impact of lapping the increases taken in the second half of 2023 means that the benefit in the second half of this year will be significantly lower. In addition, we expect that improved availability across the industry will result in the normalization of the pricing environment.

To assist you with your modeling for the full year, please note that we now anticipate restructuring costs of around \$450 million and that our expectations for the annual effective tax rate, excluding discrete items, remains at 22.5%.

Now on Slide 18. I'll provide a few comments on the third quarter, starting on the top line. We expect slightly lower sales and revenues in the third quarter compared to the prior year as we anticipate a dealer inventory headwind for machines, which will impact volumes. We expect dealer inventory of machines to be flattish to slightly lower in the third quarter as is typical, which compares to the atypical \$400 million increase in the prior year. We also anticipate lower machine sales to users versus a strong comparison. We expect flattish price realization in the third quarter versus the prior year due to the normalization that I mentioned a moment ago. We also anticipate that the ongoing benefit of our services initiatives will positively impact sales in

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the third quarter. By segment in the third quarter compared to the prior year, we anticipate lower sales in Construction Industries primarily due to a headwind from changes in dealer inventories. In Resource Industries, we expect lower sales as sales to users are impacted by a challenging comparison similar to that which we have observed in the first two quarters of this year. In Energy & Transportation, we anticipate higher sales versus the prior year, supported by strength in Power Generation, Oil and Gas and Transportation. Lower sales in Industrial should act as a partial offset.

For enterprise margins in the third quarter, we expect similar adjusted operating profit margin compared to the prior year as we anticipate lower volume will be offset primarily by favorable manufacturing costs. By segment in the third quarter, in Construction Industries, we anticipate lower margin compared to the prior year on lower volume and slightly unfavorable price realization. Favorable manufacturing costs should act as a partial offset. For Resource Industries, we anticipate slightly lower margins in the third quarter compared to the prior year due to unfavorable volume and higher SG&A and R&D spend. In Energy & Transportation, we expect a higher margin versus the prior year on stronger volumes and favorable price realization.

So, turning to Slide 19, let me summarize. Strong execution and operating performance continued in the second quarter. Higher adjusted operating profit margin of 22.4% offset the decrease in sales and revenues and led to a record adjusted profit per share of \$5.99. We now expect overall adjusted operating profit margin to be above the top of the target range for the full year based on our expected sales levels, which should now be slightly lower than levels in 2023. The net of these factors leads to our current expectation for higher adjusted operating profit and adjusted profit per share as compared to what we contemplated at the beginning of the year. ME&T free cash flow generation was \$2.5 billion in the quarter. We continue to expect to be in the top half of our target range for the full year. We have deployed \$7.6 billion to shareholders through share repurchases and dividends in the first half of 2024. We continue to execute our strategy for long-term profitable growth.

With that, we'll take your questions.

Operator^ (Operator Instructions) Your first question comes from the line of Chad Dillard from Bernstein.

Charles Dillard^ So I was hoping you could unpack a little bit more the price cost dynamics as we look through the second half of the year. Can you just like walk through from like a segment basis and an enterprise, how to think about that? And at least for the second half do you think price cost will be positive?

Andrew Bonfield^ For the full year, price will exceed manufacturing costs (company clarified after the call). As we look out to the second half of the year, we do expect price to moderate as

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we've consistently said. However, we are seeing some favorability in manufacturing costs as we saw in the second quarter, and we expect that to continue. There will be a continued normalization, particularly in Construction Industries of the pricing environment as availability improves across the industry as a whole. We expect price to be positive in Energy & Transportation in the second half. That will offset any weakness that we may see in Construction Industries. So overall, as I just pointed out in my comments, we do expect favorability in manufacturing costs, and that will offset the volume decline that we expect will impact on margins in the third quarter.

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

Jamie Cook^ My question pertains to Energy & Transportation and the Energy & Transportation margin strength in the quarter. Can you help -- I mean given, again Jim, the capacity investments you're making in that business, how we think about the Energy & Transportation margin potential over the long-term relative to Construction Industries and Resource Industries, given you're adding capacity there? And sort of where should we be, Jim, as we're exiting the year? How do we think about the incremental capacity that's coming online just trying to figure out how that helps potentially 2025 and 2026.

Jim Umpleby^ Well thank you, Jamie, for your question. And as you noted, we are adding capacity to increase our capability to build both large engines and parts for those large engines. But it's a multiyear project, and that project will take some time to play out. So, it's not a 12-month program. It lasts longer than that, it takes some time. Having said that, the demand for large engines and for Solar Turbines for both Oil and Gas and Power Generation continues to be quite strong. So, the margin increase that you saw is a reflection of better price and also better mix as well (company corrected after the call). So again, is there a potential for margin expansion over time in Energy & Transportation? There certainly is that possibility. Again, a lot of it will depend upon mix and again our ability to increase our capacity in large engines, which we're working very hard to do. But again, the good news is that Power Generation market is quite strong. One of the things we're also bullish about that's possibly a bit farther out is just the opportunity for distributed generation. As more renewables are added to the grid, as there's more grid instability issues, it creates an opportunity for us, we believe, to sell both reciprocating engines and gas turbines and distributed power generation applications distributed throughout the grid. We're very excited about that opportunity. One of the things also to keep in mind is we have a strong backlog. The backlog increase that we reported today Energy & Transportation was a big part of that. That includes both Solar Turbines and our large engines.

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

Stephen Volkmann^ Pivoting maybe to Construction Industries. I think you both mentioned lower-than-expected rental fleet loading in the quarter as one of the trends that you called out. I'm curious if that is -- if you view that as sort of a timing issue, and maybe you can give us a

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sense of where you think the rental fleets are and how much kind of update and re-fleeting needs to be done there?

Jim Umpleby^ To start, dealer rental [revenue] was actually up for the quarter (company clarified after the call). And dealers are independent businesses and of course make their own decisions about what kind of machines and how many machines they put into their rental fleets. There's a whole variety of things they look at there. They think about interest rates, obviously and they think about other aspects. But we are continuing to be bullish on what we see as an opportunity around rental, and we're working closely with our dealers to help them increase their rental business over time.

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

Robert Wertheimer^ I also wanted to circle around to Energy & Transportation, where as you see the rise of data centers, I guess the critical nature of that power backup is rising in importance. An important question is going to be around mix and margin in the Energy & Transportation segment. Is there any -- Oil and Gas, obviously you're running -- it's a great business, high margin, high mix as well. Is there any anticipated mix impact if Power Generation kind of replaces some of the strength we've seen in Oil and Gas? Then more broadly, Jim, I think you mentioned kind of Solar Turbines in Power Generation. I think you've had historical strength in like combined heat and power and things like that. Is that market for Solar Turbines expanding visibly already in Power Generation to more and more applications? And I'll stop there.

Jim Umpleby^ Thank you, Robert. So, to answer the last part of your question first. So, on Solar, we have seen some pretty interesting applications for Solar that you're right, traditionally over the last 30 years. There's been a lot of combined heat and power applications for Solar. But as an example, we relatively recently sold some Solar gas turbines in a Power Generation application for continuous duty for a data center in Ireland. That's something that, again we wouldn't have seen 20 years ago. So, there are some more opportunities. And as I mentioned earlier, as we think about distributed generation for both reciprocating engines and gas turbines, again our engines and turbines burn a whole variety of fuels, natural gas, biofuels, hydrogen blends and all the rest, we do see an increased opportunity for those distributed Power Generation opportunities over time. We think that's a secular growth trend again that we're very excited about. As you think about Energy & Transportation, there's a lot of components there. So, when you asked the question about kind of mix in Oil and Gas versus Power Generation, generally, we do quite well margin-wise on our large engines. So that's something that we're quite excited about, the opportunities that we see moving forward. Of course, Solar is a very good business as well. There's a lot of things there to think about, not just Power Generation and Oil and Gas. But as we think about Energy & Transportation moving forward and our ability to again to grow that business and achieve strong margins, we feel quite good.

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

David Raso^ I was curious, the retail sales of machines, it sounds like you're expecting to be down again in the second half of the year. But anything you're hearing from the dealers to sort of be thoughtful about when you would expect retail machines, retail sales to pick back up? Is there any indication from the order book or backlog within Construction Industries and Resource Industries? And with that also, where do you expect the dealer inventory to end the year on machines?

Andrew Bonfield^ So, let me start and help unpack that a little bit. So, on the retail sales, two factors, obviously retail sales in the quarter, one which was in North America. And most of that was actually rental fleet that does go into retail sales, but it actually is rental fleet loading by dealers. So that was most of that. Europe itself as well which is still softer than we expect. Overall, our expectation now part of the reason why we've reduced our estimates for retail sales for the year is mostly due to that rental fleet loading. Our expectations are that although as Jim said, dealer rental revenue is still growing nicely, they will not load their fleet as much as we had originally expected at the beginning of the year, and that's relatively moderate. Overall, on dealer inventory, as I said at the beginning of the year, as you know dealer inventory is very complex, David. It's multiple segments, multiple business units, multiple dealers. And dealers are independent businesses. We expected the [machine] dealer inventory to be about flat for the year (company clarified after the call). We now expect a small reduction of machine dealer inventory, almost all of that will be in Resource Industries, which, as you know is more a function of commissioning rather than anything else. Overall, we expect to end the year with machine dealer inventory on the Construction Industries side about flattish and comfortably within the typical range that we talk about in three to four months [of sales] (company clarified after the call).

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

Michael Feniger^ I'm curious when you look at your different segments, if we're entering a lower interest rate environment, a Fed easing cycle, where do you see -- what segments kind of reacting to a lower rate environment first? And just basically following up on that with the construction side with your response to David. Just is the assumption -- with your comfortability on the inventories, is that assuming that dealer retail sales gets better by the end of the year? Or is assuming where we are today?

Jim Umpleby^ Maybe I'll start, and then I'll kick it over to Andrew just to talk about interest rates a bit. So, if you stop and think about our business, there are certain aspects that are not as sensitive to interest rate movements. So, think about the build-out in data centers around Power Generation, Oil and Gas generally and government infrastructure as well. We talked a lot about in our previous calls the regulatory environment that has been supporting build-outs in North

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America, and we still feel good about that. Obviously, that is less interest rate-sensitive. The parts of our business that are more interest rate-sensitive, think about someone building possibly a warehouse in North America and needs construction equipment for that. Those kinds of activities do tend to be more interest rate-sensitive. So, if interest rates come down, that certainly has the possibility to improve that business.

Andrew Bonfield^ Just on dealer inventory, just a reminder, from today to the end of the year, we expect a reduction in machine dealer inventory, as I talked about, which is in line with our normal seasonal trend. Overall, effectively, our assumption of flattish dealer inventory in Construction Industries and remaining within the typical range is based on our expectations of retail sales. There's always a forward-looking retail sales expectation rather than a backward-looking retail sales expectation.

Operator^ We'll take our next question from Jerry Revich at Goldman Sachs.

Jerry Revich^ Jim, Andrew, I'm wondering if you could just talk about what your prospect list looks like in Resource Industries based on industry and your competitor data. Looks like we've hit an air pocket in terms of orders. Obviously deliveries have been weaker, and we've seen destock. Based on what you're seeing from your customers, when do you expect bookings to reaccelerate for mining trucks and other equipment?

Jim Umpleby^ As I mentioned earlier, there's a lot of positives in mining. Certainly, the utilization of our equipment is high. The number of parked trucks is relatively low. We expect robust service activity. Having said that, our customers are displaying capital discipline. But at the same time, one of the things to keep in mind is -- one of the reasons that we saw lower sales is that we had kind of a backlog of a couple of products that we talked about in our prepared remarks: articulated trucks and off-highway trucks. And as we worked our way through that, that created a relative comparison issue that you're seeing today. But having said that, certainly there's a lot of interest in commodities such as copper. We've seen areas of strength in things like large mining trucks and that activity as well and that's positive. We remain bullish about mining, just thinking about the energy transition and all of the commodities that our customers will use our products to produce. So again, we're not too concerned about just a quarterly deviation. What we're really focused on is more the medium and long term over time, and we remain quite bullish on the mining business.

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

Tami Zakaria^ So my question is more longer term focused rather than this quarter or year. So, can you help us frame how to think about Caterpillar's current portfolio of products that play into the data center market aside from backup generators? Are there any other products maybe related to micro grids or anything else to call out where you see an opportunity? And related to that, besides Energy & Transportation as a segment, do data centers provide opportunities for

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any products or services within Construction Industries or Resource Industries as well over the medium to long term?

Jim Umpleby^ We do believe that the data center build-out creates opportunities in many areas across our business. So, you mentioned backup generators. That's an opportunity, which is here today that we're dealing with.

In addition, I mentioned earlier the fact that data centers is increasing power generation requirements. So, in the United States, if I have the stats right, electricity demand was flat between, I think between 2007 and 2022, and now it's starting to increase. Of course, our customers use our products to produce the commodities to satisfy that increase in electricity demand. In addition to that, I talked about the fact that both our reciprocating engines and our gas turbines, we believe have the opportunity to be used in what we call distributed power generation applications. And a lot of that, again is tied back to that data center build-out as electricity demand in the developed world continues to increase. In the developing world, as standards of living increase, power generation demands are up as well. That's an opportunity for us as our customers use our products to produce the commodities to satisfy the increasing demand. In addition to that, yes, we do provide micro grids in our Power Generation organization. We work with customers to set up micro grids. That's one of the things that we do have the ability to do, and we're pretty uniquely positioned, just given our portfolio of products to help our customers do that. Also, as you think about data center build-out, well of course that requires construction machinery as well and that helps our construction equipment business. Then, thinking about copper and the other commodities that need to be produced to also support what's happening with increased power generation requirements, that helps Resource Industries. So, I believe that the data center build-out helps a whole variety of products across our portfolio.

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

Mircea Dobre^ Just a quick follow-up on Construction Industries pricing. I guess it sounds like you expect a little bit of erosion here, but maybe we can get some insight in terms of the magnitude. I'm looking back at 2016, that's the last year where I think we saw 2-3 percentage points. Is that kind of a fair expectation to have going forward? And how do you think about used prices in this market and the potential impact that might have as we think about 2025?

Andrew Bonfield^ So, absolutely will not be that sort of level of magnitude. We obviously see a normal element of competitive positioning, which obviously impacts pricing. Obviously, we don't expect list price changes. This will be really about customer-by-customer discussions. On the impact of used market, the used market obviously has had some impact -- has seen some erosion of price. Actually, quite interestingly, where that impacts us more is around Cat Financial. And actually, although used prices are coming down, they are still relatively high compared to historic levels, and inventories are very low. So, we are not expecting that to

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impact us. The other area, obviously does impact used prices would be around rental fleet. Obviously, that and higher interest rates are having some impact on rental fleet loading as we talked about already in the call.

Operator^ We'll go next to Kyle Menges of Citi.

Kyle Menges^ It'd be helpful just to hear a little bit more about the rental fleet loading kind of changing your expectations there for the second half of the year. I am curious just to parse out just what is kind of demand-related, like softening demand in the second half versus you trying to manage the rental fleets versus kind of dealers trying to -- pushing back a little bit about taking fleet. Just would love to hear kind of what's driving that.

Andrew Bonfield^ As Jim mentioned, dealer rental revenue is actually increasing positively as we expected for the year, and that's driven by the level of activity. Our assumption when we started the planning year was the dealer fleet loading would be a certain number. It is slightly less than that, and that's why we have taken it down. It is more around the fact that they are not loading their fleets quite as quickly, and they're managing their fleet. That's what they do. They're independent businesses. They make decisions around how much fleet, how they move the fleet out into the market as well. And remember also, when you talk about rental fleet, particularly around things like heavy rents. Heavy rents are a rent-to-buy. Often, that market is dependent on the customer choice as well. So, it's not just the dealer here. You also have the customer at the other end of that equation as well as to when the timing when they make their final purchase. So, a lot of those things is a little bit complex, and therefore, is not one size fits all. But generally, we're still very comfortable, as Jim said, with the opportunity in front of the dealers on the rental side, and we're very positive about the long-term outlook.

Jim Umpleby^ And maybe just to add in, we want our dealers to have a profitable, growing rental business. And utilization is an important part of that. So, it's not a situation where we're encouraging them to take more equipment than they need. We don't want them to take more equipment from us than they need. We want them to have a growing, profitable rental business. We believe that's a growing opportunity for them and for us over time. There will be quarterly deviations in terms of how much equipment they decide to take into their rental fleets. The point is it's a growing growth opportunity for both us and our dealers. We're very supportive and are helping them with a variety of tools, whether it's digital tools and also other methodologies to help them grow their rental business.

Andrew Bonfield^ Yes. Just again just contextualizing sort of from a size perspective because I think sometimes things seem a little bit bigger. Just to remind you, that in terms of Construction Industries, this is still a relatively small number, but it is what is driving some of that change in our outlook, which again is relatively modest. So just before people start worrying that it's a bigger element and a bigger number than it really is. Remember, about 40% of our [ME&T] revenues come from services across the business [over time] (company clarified after the call).

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Only about 60% is original equipment. And again, that does vary by segment. And North America is not 100% of Construction Industries sales either.

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

Steven Fisher^ You mentioned, Jim, the gas compression is starting to soften a little bit. Curious just kind of where you are in the backlog there? Do you expect your sales in gas compression actually be down year-over-year in the second half? And maybe what visibility do you have to rebuilding the backlog there and what it might take? Is it a next round of big LNG projects? Or how do we think about that?

Jim Umpleby^ So, we do expect for the year, I believe I said that we expect gas compression year-over-year to be higher. So higher in 2024 than 2023. We did say we expected a bit of softening in the second half, but still, again gas compression higher in 2024 total than in 2023. You asked about backlog. Again, we do have quite a strong backlog in our large engines and our gas turbines around Energy & Transportation. So again, we feel good about that as well. The comment we made about gas compression that was really reciprocating engines Oil and Gas. We expect it to soften in the second half of the year. Solar Turbines, it also serves Oil and Gas. Our comment was about reciprocating engines in Oil and Gas. And again, a lot of strength in Energy & Transportation overall.

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

Angel Castillo^ Just wanted to maybe unpack the backlog dynamic around Construction Industries if you could give us a little bit more color. So, kind of a 3-part question. One, what were the orders in the second quarter for Construction Industries? Two, kind of on the backlog. What's kind of the coverage that you have at this point versus your historical levels, just given that we had a pretty strong demand over a number of years? Then kind of lastly, just can you talk about kind of the price margin mix within that backlog as we kind of have visibility now looking forward versus maybe what was in there before?

Andrew Bonfield^ So, Angel, we do not break down backlog by segment. So that's just a point. I would say to you, though, we did have a higher level of orders in the second quarter in Construction Industries of 2023. If you remember, we did see a dealer inventory build in the third quarter of 2023. Some of that was ahead of an engine switchover. It is down year-over-year, but that is partly because of the comparison as a result of that change in the NPI last year, the new product introduction. Again similarly, mix varies across the businesses. There are different parts of our business which are more profitable than others. We did see favorable product mix in CI [in the quarter, as compared to our expectations] (company clarified after the call). That is a function of what products are being sold and what proportion. With regard to the backlog, I mean the backlog for Construction Industries reflects availability. And as you know

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availability now is pretty good. That lies in about our 13-week time period, which we would consider to be about the norm of three months.

Operator^ We'll take our next question from Tim Thein at Raymond James.

Timothy Thein^ Great. Jim, maybe a question for you just on -- another Construction Industries related one, just on the balance between market share and pricing and just thinking, obviously over the long term, PINS a very important concept for CAT. And just thinking about how you and tied in with that, the ambition to grow services. Just thinking as to -- as the market first time and some time now we're dealing with kind of free flowing supply and maybe a little bit more competition and capital directed at North America, just how are you and the dealers balance that, again motivation to grow PINS while also kind of balancing that price equation.

Jim Umpleby^ Yes, certainly PINS are very important to us, and we make pricing decisions based on a whole variety of inputs. We look at our input costs, we look at our competitive situation. We're continually working to add more value to our customers. So, it's not just a price situation. Price is important, and we need to remain competitive. But again, we have some real advantages, we believe. One is our dealer network, again one of our most significant competitive advantages. We have a distribution network that none of our competitors have. In addition to that, we continue to invest significantly in technology to help our customers be more successful. All the tools that we're putting into our machines to, for example, allow our customer to hire a relatively inexperienced operator and have them operate a machine like a pro who's been at it for many years. So again, there's a lot that goes into that, a lot of investments in services capabilities, a lot of investments in technology as well. But certainly yes, we recognize PINS are important as it helps seed the market for future services growth, and it's something we're very focused on.

Operator^ Today's final question comes from the line of Nicole DeBlase from Deutsche Bank.

Nicole DeBlase^ Just a couple of follow-ups on Construction Industries. I guess I was kind of surprised by the strength in Latin America this quarter, a big year-on-year growth. Can you just talk a little bit about the drivers there and also what you're seeing in EAME? And is there any signs of life in Europe or are things just kind of bouncing along the bottom there?

Andrew Bonfield^ So, Nicole, on Latin America, actually Brazil was strong, which is an important market for us, and that was part of the reason for the strength. So that was good. Obviously, we'll keep an eye out and hope that, that continues as we go through the remainder of the year and looking forward. Europe, as we indicated, has been a problem. It's been a problem. I think most of our competitors have made similar comments as well. It does seem to be a little bit on the bottom. Obviously, it's depending on what happens there, you've seen the ECB cut rates. There is, for example, today in the U.K. that talked about construction -- actually

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growth in construction this last month. So hopefully, it is starting to pick up, but our assumption really is that it doesn't pick up that quickly for the remainder of the year.

Jim Umpleby^ All right. With that, we'll just thank you all for your questions. We greatly appreciate it. I want to just close by thanking our global team for their strong execution in the first half of the year and achieved higher adjusted operating profit margin, record adjusted profit per share and strong ME&T free cash flow. And our results continue to reflect the benefit of the diversity of our end markets as well as our disciplined execution of our strategy for long-term profitable growth. With that, I'll turn it back to Ryan.

Ryan Fiedler^ Thanks, Jim, Andrew and everyone who joined us today. A replay of our call will be available online later this morning. We'll also post a transcript on our Investor Relations website as soon as it's available. You'll also find the second quarter results video of our CFO and an SEC filing with our sales to users data. Click on investors.caterpillar.com, and then click on Financials to view those materials. If you have any questions, just please reach out to Rob or me. The Investor Relations general phone number is 309-675-4549. Now let's turn the call back to Audra to conclude our call.

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