Inside Caterpillar: Last Quarter's Progress

Sep. 3, 2025

Caterpillar posted a 1% revenue decline from last year, although it was 16% higher than last quarter. It had strong sales volumes, but revenue declined due to weaker pricing for its equipment. Much of that weaker pricing comes from a sales event that spans the first 9 months of this year where Caterpillar offers lower financing terms for new equipment sales. That means that the money it brings in in the initial 1-2 years may be lower than normal, but over the entire lifespan of the equipment purchase, Caterpillar estimates it more than recovers the cost. It also comes with each customer signing up for Caterpillar's service app, which will inevitably help its services revenue grow.

All three of Caterpillar's business segments, Construction Industries, Resource Industries, and Energy and Transportation grew backlog at a record pace. Even Construction Industries, which has been in a weaker cycle lately, saw strong demand for new orders. In the weaker overall cycle, Caterpillar's power generation sector was the saving grace. The below chart lists all the components of Cat's Energy and Transportation business unit, which overall had a 7% sales growth. Power generation led the way at 28%. Much of those sales are for data centers, which comes as no surprise given what we also saw from Cummins' last quarter.

Sales by Application

	Second Quarter 2025	Second Quarter 2024	$ Change	% Change
Oil and Gas	$ 1,867	$ 1,829	$ 38	2%
Power Generation	2,407	1,885	522	28%
Industrial	1,060	1,045	15	1%
Transportation	1,226	1,321	(95)	(7%)
External Sales	6,560	6,080	480	8%
Inter-segment	1,276	1,257	19	2%
Total Sales	$ 7,836	$ 7,337	$ 499	7%

CAT Q2 2025 Earnings Release

Tariffs are impacting Caterpillar more than expected. Instead of its profits being at the top end of its goal range, tariff costs brought profits into the middle of the range. In the second half of the year, Caterpillar expects an even larger hit from tariffs, bringing profits down to the lower end of its goal. While the company is taking any action it can to alleviate tariffs in the short term, it has held off on longer term actions due to the fluidity of tariff negotiations. In addition to tariffs hurting its profitability, Caterpillar is expanding its factory capacity, which inevitably leads to some operating inefficiencies. Once it is fully up and running, those inefficiencies will be smoothed out. Once the tariff situation becomes more set in stone, Caterpillar will take longer term measures to offset those extra costs. If there's one company to bet on being able to overcome rising costs and improve operations it's Caterpillar. It has done so consistently over the decades.

Despite the unfortunate hit to profits from tariffs, Caterpillar has strong orders, has increased its sales expectations for the year, and will still generate free cash flow in the middle of its goal range. It raised its dividend for the 31st year in a row. Once the machinery cycle really turns around and Cat sorts out the tariff impacts, CAT's already-strong business performance will accelerate again.