

Inside Caterpillar: Last Quarter's Progress

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A very strong fourth quarter capped off another successful year for Caterpillar, with 20% revenue growth for the quarter and 17% growth for the year. Shipments in 2 of Cat's 3 business segments exceeded expectations, with the Resource Industries segment (mining companies) hitting the highest quarterly shipments in a decade. Other highlights:

- Record annual profit per share (bottom line) despite non-record top line, highlighting Cat's never ending efforts at operating efficiency.
- Backlog up 32%, showing strong orders in most business segments.
- Pockets of improvement in supply chain troubles, which allowed Cat's dealers to build up inventory in Construction Industries' equipment back to normal levels.

One of Caterpillar's major goals for a few years now has been to grow its Services segment to \$28 billion in revenue by 2026. This past year, it grew revenue 17% to \$22 billion, well on its way to achieving its target. Part of this strategy includes digitizing its products, allowing for greater predictability for maintenance and replacement, helping avoid downtime for customers. Cat's been working on growing its ecommerce sales, which it is admittedly behind on, and launched an updated app called Cat Connect. This app gives customers a view of the health of their equipment but also connects them to dealers, lets them see where certain parts are available, and lets them easily make purchases. Using these tools, Cat had the highest level of parts availability in history this past quarter.

Caterpillar's Services Goal Progress: Ended 2022 at \$22 billion



Note: ME&T Services Revenues include, but are not limited to, aftermarket parts and other service-related revenues and exclude most Financial Products' revenues, discontinued products and captive dealer services.

Despite the overall good year, Cat did have its weak points as well. China continues to have weak sales, with 2023 expected to be even weaker than 2022. Cat still deals with supply chain inefficiencies, especially with some semiconductors used in large engines in its Resource Industries and Energy & Transportation segments. Material and freight costs are up 20% since 2020. Cat has increased its own prices to compensate for this cost increase, but when price increase is a larger portion of revenue growth than pure

number of sales, it makes it harder to grow profitability, which led to Cat missing one of its profit margin targets set a few years ago. But the fact that Cat still had one of its best years in history despite business operations “not anywhere near as smooth as they need to be”, in the words of CEO Jim Umpleby, shows the strength of this remarkable company, and its potential for even better results.