

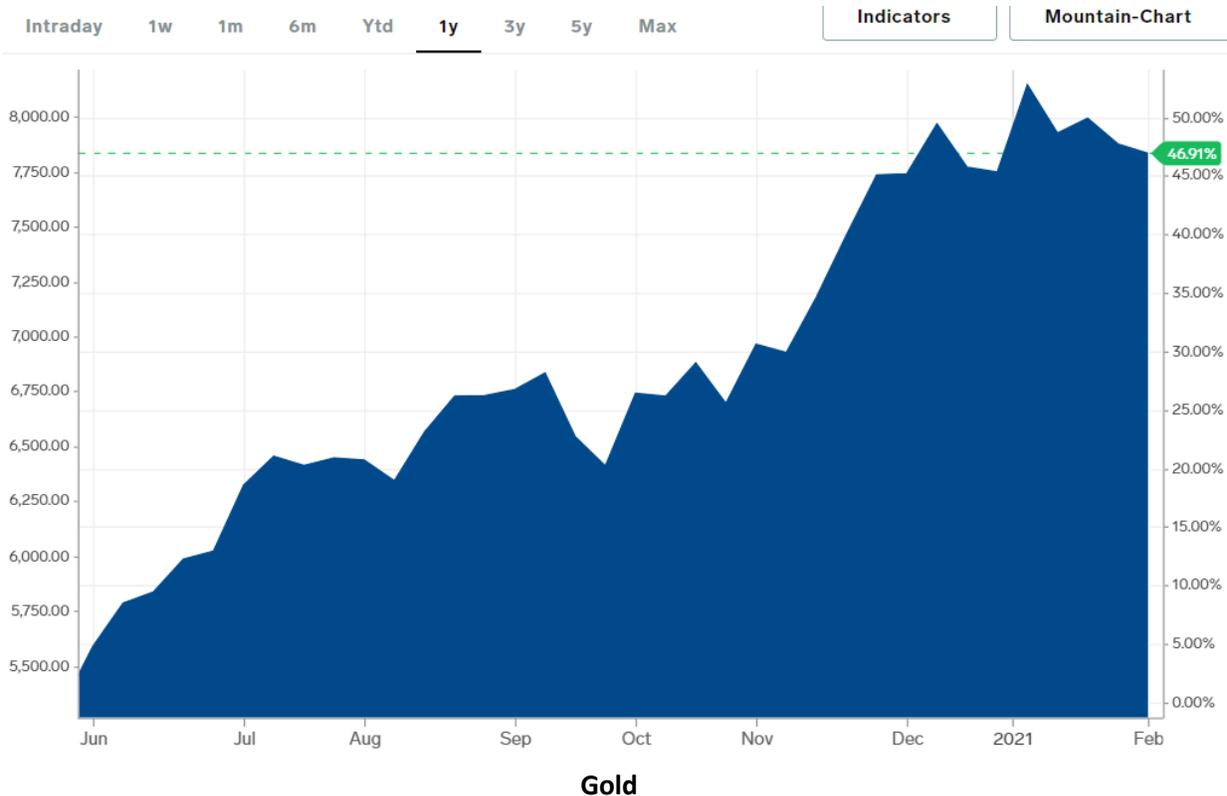
Inside Caterpillar: Last Quarter's Progress.

Feb. 9, 2020

Caterpillar's business really took a beating last year. With the shutdowns halting construction and mining activity for a few months and with most companies adopting a frugal spending budget for the rest of the year, Caterpillar's sales dropped significantly. Last quarter showed hopeful signs of an eventual recovery, though, with revenue only falling 14% from a year ago versus the 20-30% fall the rest of the year.

There were several "green shoots" seen last quarter. North America saw higher residential construction. Construction in China was very strong due to government stimulus, and the rest of Asia-Pacific improved. Caterpillar introduced a new excavator in the Chinese market which is 15% more fuel efficient, has 25% lower maintenance costs, and has a lower total price tag than previous models. The demand for these excavators was very strong and is expected to continue into 2021. The mining industry halted all new purchases when COVID hit, but interest in Caterpillar's products returned to pre-COVID levels last quarter. That industry is at the very beginning of a potentially large upswing. For years, commodity prices have remained low and investments have remained low. Over the past year, prices have risen significantly for the major metals, as seen in the 3 graphs below. Caterpillar has been investing in autonomous mining trucks and currently has more autonomous miles on its trucks than any car manufacturer has out there. So far the trucks have been very successful in the field, with customers reporting 30% productivity increases. Mining looks to be a bright spot the rest of 2021.

Copper



0



Iron



Another positive throughout 2020 was Caterpillar's profitability. It has lots of experience cutting costs in down cycles and continued to do so last year. On much lower sales, Caterpillar still hit its profit margin goal set in 2019, well before anyone knew what 2020 had in store. The company has been pushing its "services" business segment, which includes everything a customer needs after the initial purchase of a machine. Although services revenue did fall last year, it didn't fall as much as machine sales. The more Caterpillar can increase its services revenue, the less cyclical the company will be.

There's no doubt the last year was tough for Caterpillar. Now it's on the other side, though, and as CEO Umpleby says, "we're not concerned about downside during the next year, it's more a matter of uncertainty over how much better things will get".