

Inside Caterpillar: Last Quarter's Progress.

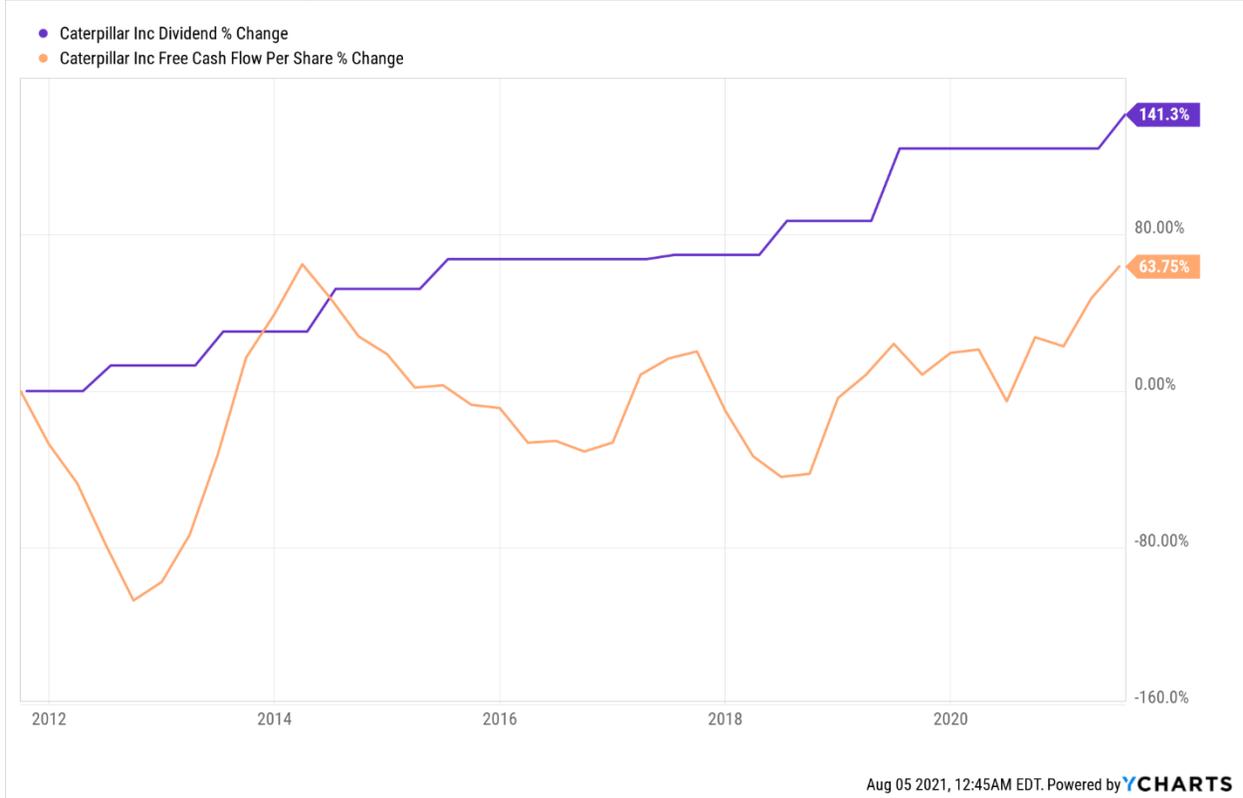
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Caterpillar is another example of a company that mirrors the theme of yesterday's Outlook: Main Street winning. The pandemic was a blow to machinery sales as companies immediately shut off spending in light of the unknowns of the year. Caterpillar trudged on, as it always does, focusing on cutting costs and operating efficiently. This past quarter was its second strong quarter in a row, this time with revenues increasing 29% and management seeing strong demand in all business segments and all locations around the world that it sells to. North American sales were up 30% as non-residential construction joined the high-demand environment of residential construction; European sales were up 33% with both construction and mining activity showing strength; and Asia Pacific sales were up 12%, with strong growth in countries outside of China. "Main Street" around the world is getting back to normal activity.

As is true with most businesses these days, Caterpillar dealt with supply chain constraints that limited production of some of its products. It has been preparing plans to deal with these issues since it saw them start last quarter, such as changing the materials it uses and where it assembles some machines, and that has helped mitigate the issue this quarter. However, since demand continues to be so high in all its business segments, it still sees some supply issues lasting into the rest of the year.

Caterpillar has a history of improving its finances and operations through its cycles, and this last COVID cycle downturn is no exception. Its operating profit jumped to almost 14% from 8% a year ago, and this is just the beginning of the "upcycle". A 14% operating profit nearly reaches Caterpillar's previous peak of around 17% last upcycle. It generated nearly \$2 billion in free cash flow this quarter alone, which is on pace to more than reach its goal of \$4 to \$8 billion per year of free cash flow. It grew cash on its balance sheet over the last year, and continues to reward shareholders with increasing dividends, this time increasing it 8%. CAT is a great example of a "Main Street" company shrugging off problems since early 2020. We think the company will keep accelerating.

Caterpillar's Dividend and Free Cash Flow Growth, Past 10 Years



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