

Inside Caterpillar: Last Quarter's Progress

May 14, 2025

Caterpillar remained in its cyclical slump in heavy machinery investment this past quarter, with sales down 10%. The power generation market yet again remained the strongest, with sales up 23% mostly led by power generators for data centers. The silver lining of the quarter's disappointing overall revenue number was that a lot of Caterpillar's end markets were stronger than expected. North America residential construction sales increased. Construction equipment sales in Africa, the Middle East, and Latin America increased more than expected. In mining, sales were down 10%, but still better than expected as some orders for heavy mining trucks were completed and placed into service sooner than anticipated.

Coinciding with Caterpillar's "not as bad as we thought it might be" results, order rates increased in all three business segments: Construction, Resource Industries, and Energy and Transportation. Backlog grew \$5 billion from a year ago, and all time record for backlog growth in a single quarter. One analyst asked if management thought this was a pre-buy, meaning customers trying to buy up equipment before possible tariffs. Management said "no, our orders are backed by a true customer's orders, not just dealers trying to build up inventory. For our large machines, if you don't have the work for the machine now or in the near future, you're not buying the machine to get ahead of potentially higher prices."

1Q 2025 EARNINGS RELEASE

Order Backlog

Increased
\$5.0B
1Q 2025
vs. 4Q 2024

Increased
\$1.3B
4Q 2024
vs. 3Q 2024

Increased
\$7.1B
1Q 2025
vs. 1Q 2024

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That said, current tariffs would have an impact on Caterpillar's results next quarter by roughly \$300 million. However, as we've all seen over the past week, the tariff situation is constantly evolving, so management was quick to point out that it is hard to predict what the true impact will be. Cat will be looking into all sorts of ways to lessen the tariff impact as it awaits a definitive answer on what the tariffs will be.

After 8 years at the helm where company earnings have tripled, CEO Jim Umpleby now passes the torch to new CEO Joe Creed, a long time veteran of the company. His focus remains the same as under Umpleby,

since he was part of the team that came up with the company's current strategy. A focus on growing services will help dampen Caterpillar's natural cycles, and a focus on growth in all three business categories should help grow overall profits, which are then returned to shareholders. Opportunities in the growing demand for power, the long term need for minerals, and the need for infrastructure globally should set Caterpillar up to continue to grow earnings under the new CEO.