

## ***Inside Caterpillar: Last Quarter's Progress.***

***Aug. 19, 2020***

Caterpillar's management noted that the impact of COVID-19 is "more severe and chaotic than any cyclical downturn", and Caterpillar's results are certainly showing this.

Quarterly revenues fell 31%, both from overall lower sales volumes to end users and from Cat's dealers protecting themselves financially by cutting spending, thus keeping inventories very low. Dealers decreased inventory by \$1.4 billion this quarter, compared to *increasing* inventories by \$500 million a year ago. North America led the charge in sales reduction, with a 40% overall machinery sales drop. 40% is a big number! That's why CEO Jim Umpleby called it "more severe and chaotic than anything" when he described how it felt.

It's not surprising that Caterpillar had such a tough second quarter. During the shutdowns, both residential and non-residential construction weakened. Mining activity dropped, as some miners had to stop all activity for a short period of time. In the Energy segment, sales to oil and gas companies obviously dropped tremendously. The good news is that Caterpillar is already seeing some recovery. Slivers of hope from the quarter are:

- Machine sales in the Asia-Pacific area increased by 7%, led by China.
- Power generation sales held up fairly well (same as last year) due to greater demand for emergency power and data centers.
- Sales of solar turbines increased and are expected to have an even stronger second half of the year.
- Past dues on loans in Cat's financial products sector decreased from the first quarter, hopefully signaling greater customer strength.
- New business volume is still down for the year, but higher than in the first quarter, and June new business sales increased in all regions except for Latin America.

## Capital Allocation, Cash and Liquidity Position



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The above slide summarizes Caterpillar's financial position, which remains impressive. To ensure the strength of Cat's position, the company canceled share repurchases for the rest of 2020, prioritizing the dividend as a use of cash. Cat's cash position of \$8.8 billion is *higher* than when it started the year.

"Severe and chaotic" are perfect words for this downturn—but Caterpillar is handling it exactly like every other downcycle: taking advantage of its great financial strength and global client base to make the company ready to capitalize on the upturn which, though hesitant, has clearly begun.