

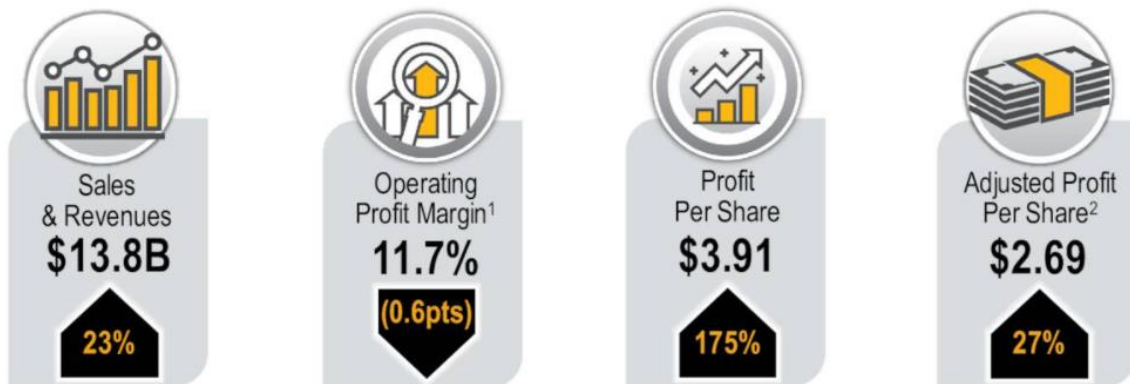
Inside Caterpillar: Last Quarter's Progress.

Feb. 28, 2022

Caterpillar's story for the past year sums up as "solid operations in a tough environment". Its fourth quarter continued the solid results of the whole year with 23% revenue growth and growth seen in all regions and all three business segments. Supply chain constraints and Caterpillar's solutions to those constraints are the only thing holding the company back from "outstanding" instead of "solid".

Financial Results Summary

Fourth Quarter 2021 vs. Fourth Quarter 2020



¹ Adjusted operating profit margin in the fourth quarter of 2021 was 11.4%. Adjusted operating profit margin is a non-GAAP measure and a reconciliation to the most directly comparable GAAP measure is included in the appendix.
² Fourth-Quarter 2021 adjusted PPS excluded mark-to-market gains for remeasurement of pension and other post-employment benefit (OPEB) plans of \$1.19 per share and net restructuring income of \$0.03 per share. Fourth-Quarter 2020 adjusted PPS excluded mark-to-market losses for remeasurement of pension and OPEB plans of \$0.63 per share and restructuring expenses of \$0.07 per share.

OUR SOLUTIONS HELP OUR CUSTOMERS BUILD A BETTER WORLD.

CATERPILLAR | 4

The one down arrow in the financial metrics above is the result of these supply chain problems and also is the reason for the stock's sell off post-earnings. A decreasing operating profit margin simply means that costs rose more than revenue did. Caterpillar has seen no improvement in the lack of semiconductor supply, and other components are also harder to get, meaning its factories are not running at capacity. It made the decision to keep all plants open and fully staffed to try to meet as much customer demand as possible, though, since the demand is not going away. This leads to inefficiencies and lower profitability—but pleases customers desperate for Caterpillar equipment. It also decided to pay more for premium freight to get customers their orders in the most timely way possible, again raising costs more than usual. Because management made the remark about not seeing any improvement in the semiconductor availability yet and guided to flat profitability in the next quarter, the market's speculators, focused on the short term, led the sell off of the stock.

The whole picture is a lot bigger than the next three months though. Throughout 2021, customer demand has been high in all business areas, and shows no signs of slowing down in the next year or even two years. Caterpillar's actions above, in keeping its customers' as happy as possible and keeping factories fully staffed will pay off once it is able to have production meet demand. The infrastructure bill that was signed into law last quarter only has the potential to make that demand even greater. It's hard to quantify just

how much that bill might help Caterpillar, but if companies know that there will be government support for infrastructure projects for years to come, they are more likely to buy new equipment.

Even with all of the challenges the past year or two has brought Caterpillar, it's producing good results, meeting its cash flow and profitability goals set pre-pandemic, and it is setting itself up for even better results in the near future.