

## Inside Caterpillar: Last Quarter's Progress

Nov. 11, 2022

Caterpillar's stock had the biggest daily gain in almost 3 years after it came out with its third quarter earnings, rising almost 8% (and has since risen another 6%). Why? It smashed Wall Street's revenue and earnings expectations, with revenue growing 21% and earnings growing 48%, hitting a new company record. Furthermore, Cat's operating lines of business all look pretty strong, implying that this level of profitability could continue or get even better in the next couple of quarters.

### Key Takeaways

Third Quarter 2022 vs. Third Quarter 2021



<sup>1</sup> Adjusted operating profit margin in the third quarter of 2022 was 16.5%. Adjusted operating profit margin is a non-GAAP measure, and a reconciliation to the most directly comparable GAAP measure is included in the appendix.  
<sup>2</sup> Third-quarter 2022 adjusted profit per share excluded restructuring expenses of \$0.08 per share. Third-quarter 2021 adjusted profit per share excluded restructuring expenses of \$0.06 per share.

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About half of the revenue growth was due to Caterpillar's higher prices, enacted within the last year, and half was from higher sales volume. Its sales would have been even better if not for continuing supply chain constraints and factory inefficiencies, mostly a higher cost of labor that can't always work on producing equipment because they are waiting for a certain part.

Caterpillar continues to see strong demand for its products in almost all of its markets with the exception of China and North American residential construction. Most of Cat's construction equipment, though, works on non-residential projects. Those remain healthy and should get another boost from government infrastructure spending over the next couple of years. Wall Street's analysts kept trying to ask questions around what Caterpillar sees for its near future: Supply chain improvement? Global recession any day? Cat's response: "We are always closely monitoring the global environment and are ready to take action if need be. But today, we keep seeing healthy demand, strong orders, and low dealer inventory. We have a flexible cost structure and can act quickly if we need to. Think about 2020 when COVID hit, the pandemic caused significant decline in sales, and we still hit our margin targets that year". Caterpillar has a history of surviving and thriving through many market conditions. The fact that it hit record profitability while still dealing with supply chain issues and factory inefficiencies only bodes well for the future, once these problems eventually ease off.