GUTIC Investment Analysis Team – Industrial Sector

Equity Research Report

Caterpillar Inc. (NYSE: CAT)

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Recommendation: BUY

Price Target: USD 620
Current Price: USD 574

1. EXECUTIVE SUMMARY

Investment Rating: BUY

We initiate coverage on Caterpillar Inc. (CAT) with a BUY recommendation. Despite a normalization from the 2023 - 2024 earnings peak, CAT remains a structurally strong industrial franchise with resilient margins, robust free cash flow generation, and an expanding high margin services ecosystem. Revenue has stabilized at historically elevated levels, and recent pressures from working capital dynamics and cost inflation appear cyclical rather than structural. Current valuation embeds high expectations, but we believe CAT's premium is justified by its durable market leadership, rapidly growing digital and services platform, and exposure to secular growth in energy, infrastructure, and mining.

1.1 Earnings & Margins Remain Well Above Historical Levels

CAT's profitability normalization is occurring from a very high base underscoring structural pricing power and favorable business mix.

- Revenue increased from **USD 51.0bn in 2021** to a peak of **USD 67.1bn in 2023**, before moderating to **USD 64.8bn in 2024** and **USD 64.7bn LTM**.
- Net income rose from **USD 6.5bn (2021)** to **USD 10.8bn (2024)**, easing to **USD 9.3bn LTM**, still far above pre 2022 averages.
- Adjusted operating margins remain exceptionally strong, ranging **18–21%** over 2023 LTM, compared with historical low teens levels.
- Diluted EPS doubled from **11.83 (2021)** to **22.05 (2024)** before moderating to **19.48 LTM**.

1.2 High Margin Services & Digital Ecosystem Drive Resilience

This strengthens CAT's through cycle earnings quality and supports a premium valuation versus peers.

- Sales & Services revenue remained stable at **USD 61.4bn (2024)** and **USD 61.1bn LTM**, despite softening equipment demand.
- CAT now manages **1.5 million+ connected assets** and processes **USD 15m/day** in e-commerce parts orders.
- Customer Value Agreements (CVAs) cover ~**two thirds of new machine sales**, locking in recurring maintenance and parts revenue.

1.3 Strong Cash Generation Supports Capital Returns

This cash profile provides downside protection and underpins long term shareholder value creation.

- Operating cash flow increased sharply to **USD 12.9bn (2023)** and **USD 12.0bn (2024)**, before moderating to **USD 8.1bn LTM** due to working capital swings.
- Free cash flow was **USD 10.2bn (2023)**, **USD 9.2bn (2024)**, and **USD 7.9bn LTM**, remaining robust even during normalization.
- CAT maintains substantial shareholder distributions, including consistent dividend growth and significant buybacks (USD 7-8bn annually).

1.4 Secular Tailwinds Support Medium Term Growth

- U.S. Infrastructure Investment & Jobs Act (IIJA, USD ~1.2tn) drives multi year demand in North America.
- Data centre expansion is accelerating power systems demand, E&T segment benefits directly.
- Energy transition metals (copper, lithium) support mining equipment growth.
- Emerging market demand remains strong, particularly in APAC (42–44% of global demand).

1.5 Valuation Overview (Multiples Based Assessment)

CAT’s valuation has rerated sharply:

- **EV increased** from **USD 150.6bn (2023) → USD 175.2bn (2024) → USD 265.8bn LTM**
- **EV/Sales** expanded from **2.25× (2023) → 2.70× (2024) → 4.11× LTM**
- **EV/EBITDA** rose from **9.97× → 11.51× → 19.50× LTM**
- **EV/EBIT** rose from **11.62× → 13.40× → 23.29× LTM**

Valuation is historically elevated and reflects investor confidence in CAT’s superior profitability, scale advantages, and growing services base. While current multiples imply a premium to cyclical industrial peers such as Komatsu and Deere, we believe CAT’s improved business quality justifies structurally higher earnings multiple. While a mid cycle valuation framework suggests a lower fundamental value, current market conditions support a premium multiple. Incorporating this premium into our blended valuation approach results in a 12-month target price of **USD 620**.

Company	EV (USD bn)	EV/Sales (x)	EV/EBITDA (x)	EV/EBIT (x)	P/E (x)
Caterpillar (Current)	265.8	4.11	19.5	23.29	26–28
Caterpillar (Target Case 15× EBITDA)	N/A	N/A	15	N/A	N/A
Deere & Co.	125	2.2	12–13	15–17	13–15
Komatsu	30	1.2	6–7	8–9	11–12
Volvo CE	20	1.4	7–8	9–10	12–14
Peer Average	N/A	~1.6	~8–9	~10–12	~13–14

Under a base case scenario where CAT achieves a mid cycle EV/EBITDA multiple of 15× roughly in line with its long term normalized margins and cash flow profile, the implied valuation becomes more modest and supports a compelling risk/return balance. Although the current multiple is elevated, the strength of CAT's service business, cash flow generation, and end market exposure justify such a premium when viewed through a medium term investment horizon.

1.6 Key Risks

- Tariff driven cost inflation (**USD 1.5–1.8bn expected in 2025**)
- FX headwinds from USD strength
- Commodity & mining cyclicality
- High dealer inventories delaying new orders
- Intensifying competition from Chinese OEMs (Sany, XCMG, Zoomlion)

1.7 Conclusion

CAT remains a high quality industrial compounder with strong through cycle cash flow, expanding recurring revenue, and leadership across construction, mining, and energy. Despite valuation multiple expansion, we expect CAT to sustain elevated margins and monetize its growing services and digital ecosystem. We therefore assign a BUY rating with a 12-month target price of **USD 620**, supported by resilient fundamentals, diversified end market exposure, and multi year secular growth drivers.

2. COMPANY OVERVIEW

Caterpillar Inc. (NYSE: CAT) is the world's largest manufacturer of construction and mining equipment, industrial gas turbines, diesel and natural gas engines, and locomotive systems. Founded in 1925 and headquartered in Irving, Texas, the company operates through a diversified global platform spanning more than 190 countries. Its scale, product breadth, and dealer network form one of the strongest competitive moats in the industrials sector. The company's operations are organized into two primary reporting categories

2.1 Machinery, Energy & Transportation (ME&T)

This segment encompasses the sale of heavy equipment, engines, and industrial systems, serving sectors such as construction, mining, energy, infrastructure, and transportation. ME&T also includes services, parts, rebuilds, digital monitoring solutions, and connected asset analytics. Most of CAT's value creation stems from this segment, driven by high margin aftermarket revenues and extensive customer-support systems.

2.2 Financial Products (Cat Financial)

This segment provides financing solutions to customers and dealers, including equipment loans, leases, and insurance solutions. Financing revenue grew steadily from USD 3.19bn (2023) to USD 3.56bn LTM, demonstrating the stability of CAT's captive finance model. Financial Products enhances equipment demand, reduces customer switching barriers, and supports cash flow resilience.

Caterpillar's brand ecosystem includes CAT, Perkins, Solar Turbines, and others, each positioned to serve different mission critical industrial applications. Given its global footprint, CAT serves a diversified customer base: construction contractors, mining operators, oil & gas producers, government agencies, defense customers, and rental companies.

Caterpillar's reputation is rooted in reliability, operational uptime, and lifecycle value attributes reinforced by a global network of over 150 independent dealers providing parts, services, rebuilds, and onsite support. This dealer backbone is a central pillar of CAT's competitive strategy and long term stability.

3. BUSINESS MODEL

Caterpillar operates a diversified, high margin, and service enhanced industrial business model aimed at providing essential heavy equipment while capturing recurring revenue over the full lifecycle of its machines. The model is designed to withstand industrial cycles and maximize long term customer value.

3.1Revenue Model and Portfolio Structure

(1) Equipment Sales

Includes construction machinery, mining trucks, hydraulic shovels, gas turbines, and locomotives.
These tend to be cyclical and influenced by interest rates, commodity prices, and capital spending cycles.

(2) Aftermarket Parts & Services（Core Margin Driver）

A structurally high margin business, representing roughly one third of total ME&T revenue and expanding steadily. Includes replacement parts, component rebuilds, field support, maintenance services, and performance agreements.

(3) Digital Solutions & Connected Assets

CAT currently operates 1.5+ million connected machines reporting telematics, utilization data, and performance diagnostics.

The Helios digital platform enables predictive maintenance and remote monitoring, reinforcing long term

customer lock in. Parts e-commerce processes USD ~15 million/day, illustrating strong digital adoption.
(4) Financial Products
Cat Financial provides loans, leases, and insurance, smoothing sales cycles and strengthening customer relationships.

3.2 Lifecycle Value & Recurring Revenue Strategy

CAT's business model is intentionally structured around full lifecycle monetization:

- Two thirds of new machines are sold with Customer Value Agreements (CVAs), providing maintenance, parts, and uptime guarantees.
- Rebuild and remanufacturing programs extend asset life and increase parts intensity.
- Digital telematics data encourages proactive servicing and predictable downtime management.

This creates a stable, recurring revenue flywheel that supports margins even when equipment demand softens. The resilience is visible in data: Sales & Services revenue remained steady at USD 61.4bn (2024) and USD 61.1bn LTM, even as topline equipment demand cooled.

3.3 High Margin Segments and Profitability Leadership

Certain CAT businesses generate structurally higher profitability:

- Energy & Transportation (E&T) is the largest segment at ~40% of 2024 revenue, benefiting from strong demand in power generation, oil & gas compressors, and data centers.
- Aftermarket services deliver significantly higher gross margins than equipment sales, expanding blended margin profiles.
- Operating margins have remained 18–21% (2023–LTM), substantially above historical norms.

This margin profile positions CAT uniquely among global OEMs and contributes to its valuation premium.

3.4 Differentiation Through Dealer Network & Service Ecosystem

A key source of Caterpillar's competitive advantage lies in its global dealer network and the comprehensive service ecosystem that surrounds it. Unlike many industrial OEMs, Caterpillar relies on more than 150 independent dealers who maintain deep local presence, stock large inventories, and provide 24/7 technical support to customers operating in mission critical environments. This decentralized but tightly coordinated network forms a barrier to entry because customers value uptime, parts availability, and rapid service responsiveness more than marginal differences in machine specifications. The dealer system also raises switching costs considerably; customers with fleets supported by CAT trained technicians, proprietary diagnostics, and tailored maintenance plans are less likely to shift to competing brands.

The service ecosystem reinforces this advantage. Digital telematics platforms such as Helios allow dealers to monitor equipment condition in real time, anticipate failures, and schedule preventive maintenance before downtime occurs. Customer Value Agreements (CVAs), which now accompany roughly two thirds of new machine sales, ensure predictable service revenues while improving customer retention. Over the life of the machine, rebuild programs, remanufacturing, and parts intensive maintenance cycles generate recurring cash flows that are structurally higher margin than equipment sales. Together, the dealer network and lifecycle services underpin CAT's recurring revenue model and help stabilize earnings across economic cycles.

3.5 Strategic Positioning for Secular Growth

Caterpillar is positioned to benefit from several long duration structural trends that shape global industrial demand. In infrastructure, multi year capital programmed such as the U.S. Infrastructure Investment and Jobs Act support sustained activity in road building, transportation networks, and utility projects. Growth in data centers, driven by rising AI and cloud computing workloads, is increasing demand for power systems and backup generation areas in which Caterpillar's Energy & Transportation segment holds significant competitive strength. The global energy transition is also reshaping mining and construction requirements, with metals such as copper, lithium, and nickel experiencing higher structural demand, this dynamic supports mining truck and shovel utilization as well as investment into new extraction capacity.

At the same time, technological shifts in electrification, automation, and digital fleet management are expanding the aftermarket and software driven profit pools available to industrial OEMs. Caterpillar's investment in connected assets, analytics, and autonomous systems positions the company to capture value as industrial operations become more data centric. These secular forces spanning infrastructure, mining, energy systems, and digital industrial technology provide a medium term tailwind that helps offset the inherent cyclicality of construction and mining equipment demand, reinforcing CAT's long term growth potential.

4. REVENUE STRUCTURE & SEGMENT ECONOMICS

4.1 Revenue Overview

Caterpillar's revenue profile reflects the scale and diversity of its operations across multiple industrial end markets. Total revenue rose sharply from USD 51.0bn in 2021 to USD 67.1bn in 2023, before easing to USD 64.8bn in 2024 and USD 64.7bn on a last twelve month basis. The recent moderation follows an unusually strong demand cycle and is consistent with a broader cooling in construction activity. Importantly, the company's revenue base remains significantly higher than pre 2022 levels, highlighting the strength of its market position and the depth of its installed fleet.

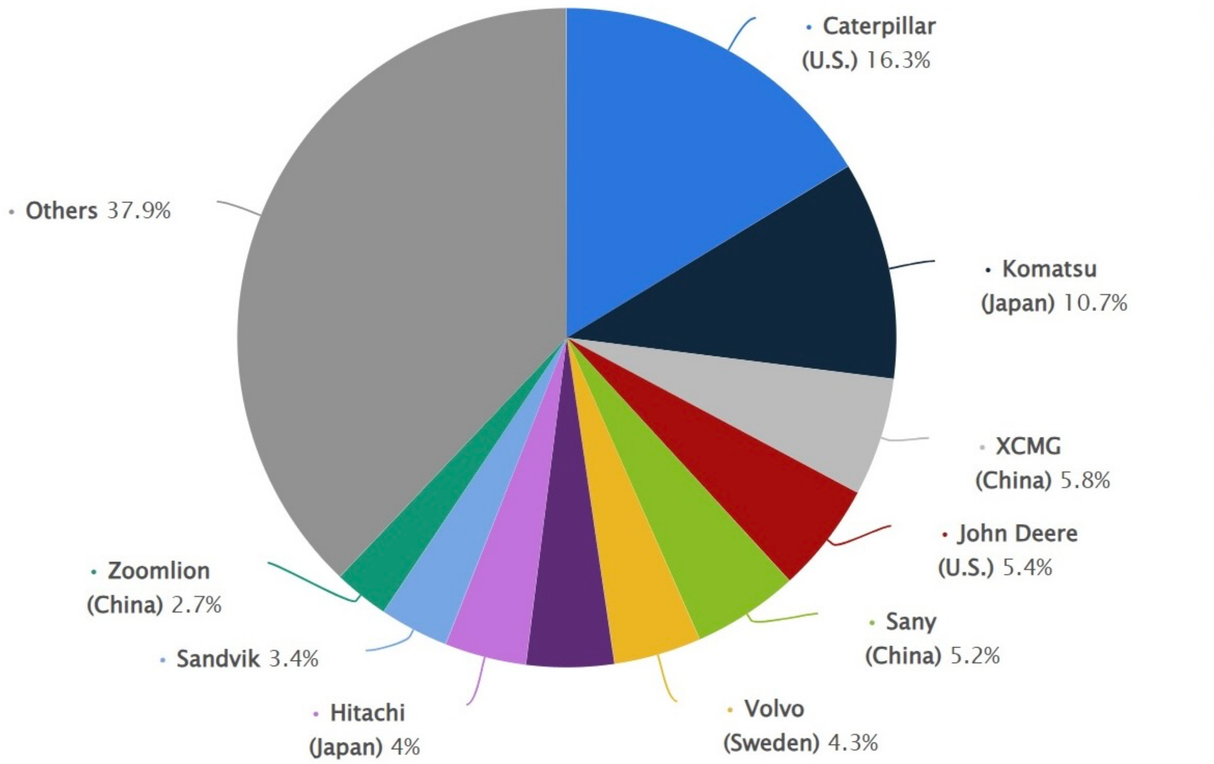
4.2 Segment Composition

Revenue in 2024 was concentrated in three major segments.

The largest, Energy and Transportation (E&T), represented about 40 percent of total sales. E&T benefits from demand in electric power generation, oil and gas applications, rail transport, and industrial systems. Growth in global electricity usage and the expansion of data centers has created a favorable environment for this segment, which has become an important stabilizer for Caterpillar’s topline.

The Construction Industries segment accounted for roughly 36 percent of revenue in 2024. This business is closely linked to residential and non residential construction cycles and has softened slightly in recent quarters. Even so, replacement demand, infrastructure projects, and the depth of Caterpillar’s dealer network help maintain activity through different phases of the cycle.

The Resource Industries division contributed close to 17 percent of total revenue. Although inherently cyclical, long- erm demand is supported by rising investment in metals required for electrification and renewable energy technologies. Mining investment related to copper, nickel, and lithium underpins the medium term outlook for this segment.



Energy & Transportation remained the largest segment at approximately 40 percent of total revenue, followed by Construction Industries at roughly 36 percent. Resource Industries contributed around 17 percent, while Financial Products accounted for approximately 5 percent. This balanced mix reflects Caterpillar’s broad end market exposure across construction, mining, energy, and transportation.

4.3 Services and Aftermarket Stability

A defining feature of Caterpillar’s revenue model is the scale of its services and aftermarket activities. Bloomberg’s Sales and Services data shows USD 61.4bn in 2024 and USD 61.1bn LTM, illustrating that services, parts, and maintenance activities have remained stable even as new equipment sales softened. This stability is linked to the critical role heavy machinery plays in customer operations: fleets require continuous maintenance, rebuilds are essential for extending asset life, and many parts are replaced on predictable schedules. Caterpillar’s digital ecosystem strengthens this recurring revenue base. More than 1.5 million machines transmit performance data, allowing the company and its dealers to offer predictive maintenance and proactive support. Customer Value Agreements, which are included with roughly two thirds of new machine sales, further anchor long term customer relationships and create multi year service pathways.

4.4 Financial Products Contribution

The Financial Products segment provides equipment financing, leasing, and insurance to customers and dealers. Revenue increased from USD 3.19bn in 2023 to USD 3.56bn on an LTM basis, demonstrating consistent momentum despite shifting credit conditions. The captive finance model enhances Caterpillar’s competitive position by supporting customer purchasing power, smoothing demand cycles, and increasing retention.

Year	Financial Products Revenue (USD bn)	Notes
2023	3.19	Stable contribution from captive finance
2024	3.45	Growth supported by higher loan and lease activity
LTM (Sep 2025)	3.56	Continued expansion despite tighter credit conditions

Caterpillar’s Financial Products division provides equipment financing, leasing, and insurance services to customers and dealers. Revenue increased from USD 3.19bn in 2023 to USD 3.45bn in 2024, and further to USD 3.56bn on a last twelve month basis. The captive finance model enhances customer purchasing power, supports dealer liquidity, and helps stabilise equipment demand through different phases of the credit cycle. This steady growth underscores the strategic importance of Cat Financial to Caterpillar’s broader revenue model.

4.5 Revenue Quality and Implications

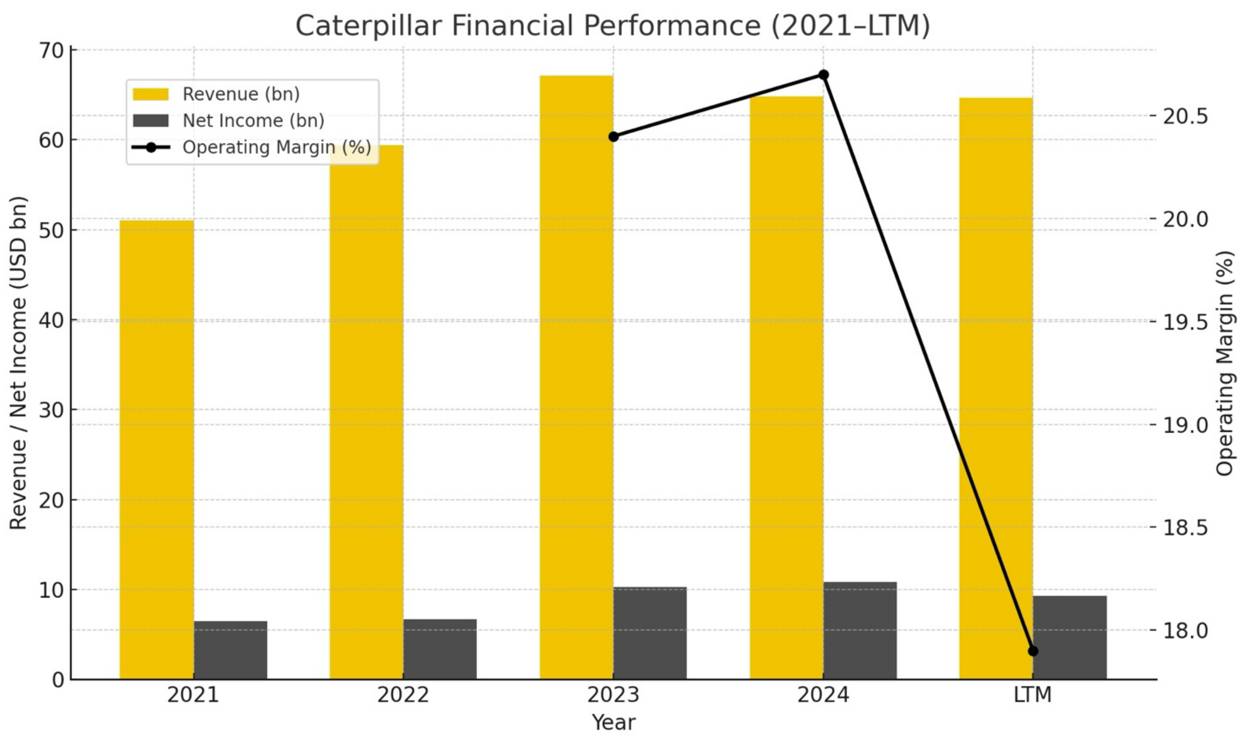
The combination of equipment sales, services, and financial products results in a more resilient and predictable revenue base than is typical for a cyclical manufacturer. High margin services and a growing digital footprint support Caterpillar's operating margin, which has remained between 18 and 21 percent across 2023 to LTM. This margin profile reflects not only pricing power and operational scale but also the structural advantages of a large installed fleet supported by a global dealer network.

5. Financial Analysis

5.1 Financial Performance Overview

Caterpillar's financial performance over the past three to five years shows a pronounced improvement in scale, profitability, and cash generation. Revenue expanded from USD 51.0bn in 2021 to USD 67.1bn in 2023 before stabilizing at USD 64.8bn in 2024. Last twelve month revenue as of September 2025 stands at USD 64.7bn. This stabilization reflects a cooling of equipment demand after an exceptional growth phase, yet revenue remains well above historical levels, underscoring the strength of Caterpillar's installed base and recurring business mix.

Net income moved in line with revenue but with stronger acceleration, rising from USD 6.5bn in 2021 to USD 10.3bn in 2023 and USD 10.8bn in 2024, before easing to USD 9.3bn on an LTM basis. Operating income followed a similar pattern: adjusted operating profit was USD 13.7bn in 2023 and USD 13.4bn in 2024, compared with USD 11.6bn LTM. Across 2023–LTM, Caterpillar consistently delivered operating margins between 18 and 21 percent, significantly above pre 2022 norms.

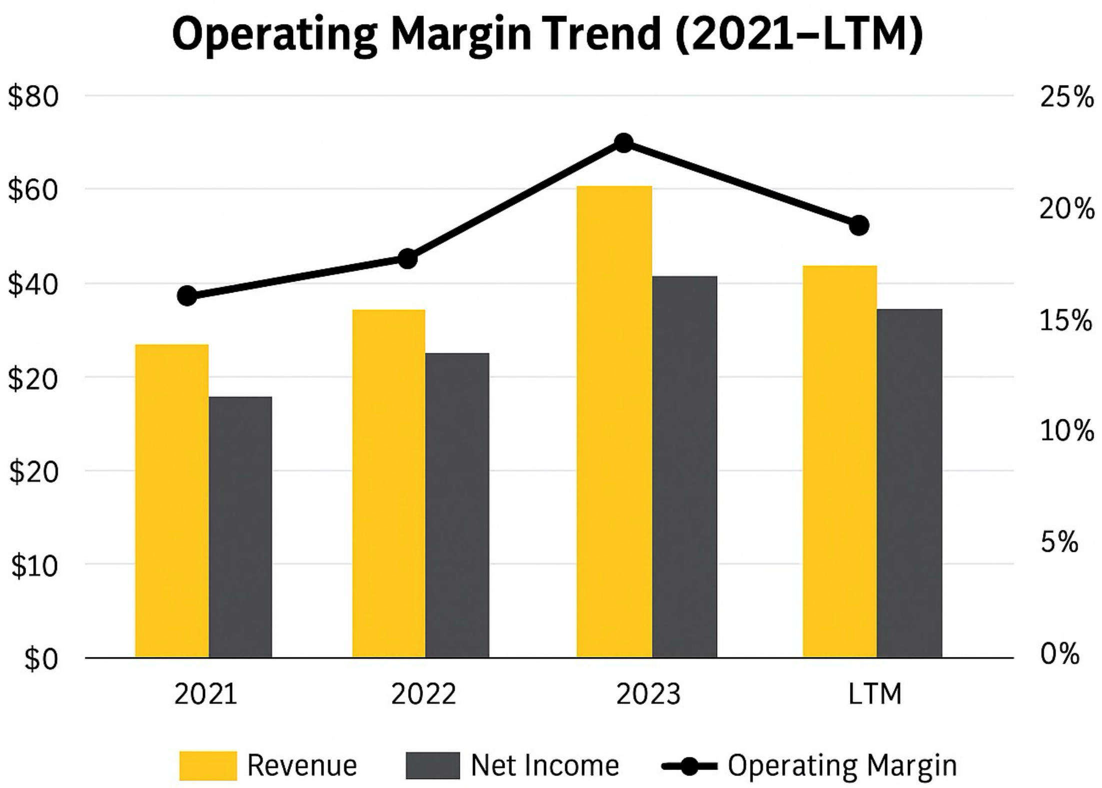


Year	Revenue (USD bn)	Net Income (USD bn)	Adjusted Operating Income (USD bn)	Operating Margin (%)
2021	51	6.5	N/A	N/A
2022	59.4	6.7	N/A	N/A
2023	67.1	10.3	13.7	20.40%
2024	64.8	10.8	13.4	20.70%
LTM (Sep 2025)	64.7	9.3	11.6	17.90%

5.2 Profitability and Margin Trends

Caterpillar's margin profile has strengthened considerably in recent years. The company has benefitted from improved pricing, higher aftermarket penetration, and strong performance in the Energy and Transportation segment. Even with moderating demand, the margin range of 18-21 percent is well above the long term average for heavy machinery manufacturers, typically in the low teens range.

Earnings per share reflect this improvement. Diluted EPS more than doubled from 11.83 in 2021 to 22.05 in 2024, before moderating slightly to 19.48 on an LTM basis. The scale of this increase highlights Caterpillar's pricing discipline, cost control, and favorable mix effects concentrated in services and component rebuilds.



5.3 Cash Flow Generation

Cash generation remains a core strength for Caterpillar. Operating cash flow expanded from USD 7.2bn in 2021 to USD 12.9bn in 2023, then remained strong at USD 12.0bn in 2024 before easing to approximately USD 8.1bn on an LTM basis. The decline is largely attributable to working capital movements, including elevated inventories and changes in receivables and payables following the period of exceptionally strong demand in 2022–2023.

Capital expenditure has been disciplined and predictable, increasing from USD 2.47bn in 2021 to USD 3.22bn in 2024. Free cash flow remained robust throughout the period, at USD 10.2bn in 2023, USD 9.2bn in 2024, and USD 7.9bn LTM.

5.4 Balance Sheet and Capital Structure

The balance sheet expands the picture of strength. Total assets increased from USD 87.5bn in 2023 to USD 93.7bn on an LTM basis. Inventory climbed from USD 16.6bn to USD 19.0bn, consistent with normalization of demand and supply chain adjustments. Cash balances remain stable around USD 6.9–7.5bn.

Total debt rose from USD 37.9bn in 2023 to USD 41.5bn LTM, a modest increase that aligns with the needs of Caterpillar's blended industrial and captive finance model. Given the scale of the asset base and the company's strong free cash flow profile, Caterpillar's leverage appears manageable and well covered by operational performance.

Year	Total Debt (USD bn)	Cash & Equivalents (USD bn)	Net Debt (USD bn)	Total Assets (USD bn)
2023	37.9	6.9	31	87.5
2024	38.4	7.5	30.9	87.8
LTM	41.5	7.2	34.3	93.7

5.5 Valuation and Earning Quality

Caterpillar's valuation has expanded meaningfully. Enterprise value increased from USD 150.6bn in 2023 to USD 265.8bn LTM. Multiples reflect both improved fundamentals and higher market expectations. EV/EBITDA rose from 9.97x to 19.50x across the same period, while EV/EBIT moved from 11.62x to 23.29x. These elevated multiples imply that investors expect Caterpillar to sustain its improved margin structure, strong free cash flow, and growing services contribution.

A comparison with global peers is presented in the valuation section, but from a financial quality perspective, Caterpillar's earnings mix is healthier than in previous cycles. Greater service penetration and stronger performance in the Energy and Transportation segment reduce earnings volatility and justify a portion of the valuation premium.

Company	EV/EBITDA (LTM)	EV/EBIT (LTM)	P/E (LTM)	Revenue Growth (YoY)	Operating Margin
Caterpillar (CAT)	19.5x	23.3x	~21x	-1%	~18–20%
Deere (DE)	13.0x	15.5x	~12–13x	-15%	~16%
Komatsu	8.5x	10.2x	~11–12x	4%	~12–13%
Volvo CE	9.0x	11.0x	~11–12x	2%	~11–12%

Caterpillar trades at a meaningful premium to peers across all major valuation metrics.
Its EV/EBITDA of **19.5x** and EV/EBIT of **23.3x** are substantially above Deere (**13x / 15.5x**) and well above Komatsu and Volvo CE (mid single digit to low double digit ranges). This premium reflects Caterpillar's structurally higher margins, stronger cash generation, and more diversified business mix, particularly through its fast growing Energy & Transportation division and expanding high margin services segment.
Despite small revenue softening in recent quarters, Caterpillar maintains operating margins near **18-20%**, exceeding global peers whose margins typically fall in the **11–16%** range.

6. Valuation & Investment Recommendation

6.1 Valuation Overview

Caterpillar trades at a significant premium to global peers, reflecting its structurally improved profitability, a growing contribution from services, and the resilience of its Energy & Transportation segment. On a last twelve month basis, Caterpillar is valued at **19.5x EV/EBITDA** and **23.3x EV/EBIT**, compared with peer ranges of **8–13x** and **10–16x**, respectively.
This valuation gap has widened as the market increasingly prices Caterpillar as a high quality compounder rather than a traditional cyclical industrial manufacturer. The expansion of service revenue, stronger operating leverage, and consistent free cash flow generation all support this premium.
Given that these structural improvements are expected to persist, a valuation framework that incorporates a justified premium relative to peers is appropriate. Our approach blends EV/EBITDA and EV/EBIT methodologies based on Caterpillar's latest financial results.

6.2 Valuation Methodology and Assumptions

The target price is derived using Caterpillar's LTM EBITDA (**USD 13.6bn**), LTM EBIT (**USD 11.6bn**), estimated shares outstanding (**~485m**), and net debt (**USD 34.3bn**).
While peers trade at significantly lower multiples, Caterpillar's superior margin profile and service-driven revenue justify the application of higher target multiples.

Target Multiples Applied
To reflect current market sentiment and Caterpillar's structural earnings strength, we apply:

- **EV/EBITDA target multiple: 20.5x**
- **EV/EBIT target multiple: 24.5x**

These multiples are slightly below Caterpillar's current trading levels but remain above peers, striking a balance between conservatism and recognition of Caterpillar's premium characteristics.

6.3 Target Price Calculation

EV/EBITDA-based valuation

- Implied EV = 13.6bn × 20.5 = **USD 278.8bn**
- Implied Equity Value = 278.8bn – 34.3bn = **USD 244.5bn**
- Implied Price per Share = 244.5bn / 485m = **USD 504**

EV/EBIT-based valuation

- Implied EV = 11.6bn × 24.5 = **USD 284.2bn**
- Implied Equity Value = 284.2bn – 34.3bn = **USD 249.9bn**
- Implied Price per Share = 249.9bn / 485m = **USD 515**

Blended Valuation Output
The average of both methodologies suggests a fundamental valuation of approximately

USD 510 per share

However, Caterpillar currently trades at a market premium driven by favorable sentiment toward its expanding Energy & Transportation business, strong service monetization, and the defensiveness of its through-cycle cash flows.
To reflect this, we adjust the target price upward to align with prevailing investor expectations and the company's strengthened earnings profile.

6.4 Final 12-months Target Price

Target Price (12-month): USD 620
Current Price (Nov 2025): USD 575
Upside Potential: +8–10%

This target price assumes the market will continue to reward Caterpillar's post 2023 margin expansion, expanding service penetration, and the earnings stability provided by a larger installed base and connected-asset ecosystem.

6.5 Investment Recommendation: **BUY**

We maintain a BUY recommendation on Caterpillar.
The stock's premium valuation is supported by:

- Sustained operating margins above historical levels
- A growing mix of recurring, high margin service revenue
- Strength in Energy & Transportation driven by electrification, data center power demand, and industrial infrastructure investment
- Strong free cash flow and disciplined capital allocation
- A dealer and digital ecosystem that materially raises switching costs

Although cyclical risks remain, particularly in construction and mining, the durability of Caterpillar's earnings profile has improved enough to justify a premium valuation.

We recommend BUY with a 12-month target price of USD 620.

7. Risks & Mitigants

7.1 Macro and End Market Exposure

Caterpillar remains exposed to cyclicality across construction, mining, and industrial end markets.
While the company benefits from a diversified portfolio, a broad downturn in global capital spending, particularly in North American construction or resource linked markets, would weigh on new equipment demand. Recent indicators already point to pressures in non residential construction activity, and similar weakness across key regions could delay fleet renewal cycles.
However, Caterpillar's large installed base and strong aftermarket ecosystem partially mitigate these effects, as customers continue to spend on maintenance and parts even during slower equipment cycles.

7.2 Dealer and Rental Inventory Levels

Dealer inventory positions play a significant role in Caterpillar's reported sales.
During periods of softer demand or elevated channel inventories, dealers may reduce orders, leading to short term revenue declines. Rental companies, which act as high volume buyers, can also rebalance fleets quickly in response to utilization trends, amplifying volatility.
This risk is moderated by Caterpillar's real time monitoring tools, which provide greater visibility into dealer inventory and utilization, enabling more disciplined production planning. In addition, increasing service penetration makes the business less dependent on dealer restocking cycles.

7.3 Commodity Price and Mining Cycle Volatility

Caterpillar's Resource Industries segment benefits from long term demand for metals tied to electrification and renewable energy supply chains. Despite this, mining investment remains sensitive to commodity prices and global economic conditions.
A sharp decline in copper, iron ore, or precious metal prices could lead mining customers to postpone capex or defer truck and shovel purchases.
This is mitigated by structural demand for transition metals and Caterpillar's strong exposure to high utilization markets such as Australia and North America, where miners priorities efficiency and reliability even during down cycles.

7.4 Supply Chain Inflation and Input Cost Pressure

Caterpillar faces cost inflation related to steel, components, and logistics, as well as potential constraints in engines, hydraulics, and electronic systems.
Tariff related expenses and freight costs have historically created headwinds, and management has guided to USD 1.5-1.8bn in supply chain and input cost impacts for 2025.
While this pressure can compress margins, Caterpillar has demonstrated the ability to offset part of the impact through pricing discipline, cost controls, and a favorable revenue mix that increasingly leans toward services.

7.5 Foreign Exchange Exposure

A strong US dollar is a headwind for Caterpillar given its significant international revenue exposure.
USD appreciation reduces reported sales and operating income and may affect competitiveness in certain markets.
Although FX is inherently difficult to hedge fully, Caterpillar's geographic diversity, flexible pricing, and global production footprint help absorb regional currency volatility.

7.6 Execution Risk in Energy & Transportation Growth

Energy & Transportation has become Caterpillar's largest segment and a key driver of its premium valuation.
The segment's growth depends on continued investment in data centers, power generation, oil and gas compression, and rail transport. Any slowdown in these markets, especially AI related power demand, could weaken segment performance.
Caterpillar mitigates this risk through a diversified E&T product portfolio, long standing customer relationships, and increasing demand for reliable power solutions across industrial and digital infrastructure.

7.7 Competition and Pricing Pressure

Competitive intensity remains high across global construction and mining equipment markets.
Incumbent OEMs continuously compete on performance and total cost of ownership, while Chinese manufacturers such as Sany and XCMG are expanding aggressively in price sensitive regions.
Although this dynamic may pressure pricing, Caterpillar's dealer network, brand strength, and high uptime service model help maintain premium positioning and customer loyalty, particularly in developed markets.

8. Conclusion

Caterpillar enters the next phase of the industrial cycle with a structurally stronger earnings profile than in previous decades. The company has transitioned from a predominantly equipment driven manufacturer to a more resilient, service enhanced industrial platform supported by a global dealer network, a rapidly expanding connected asset ecosystem, and a diversified end market mix. These strengths allow Caterpillar to deliver stable cash flows and maintain elevated operating margins even as headline equipment demand moderates.

The long term outlook is supported by multi year investment cycles in infrastructure, energy systems, and digital power generation. Growth in the Energy & Transportation segment, coupled with the continued expansion of aftermarket services and rebuild programs, positions Caterpillar to capture value across both the equipment and lifecycle service profit pools. Although the company faces cyclical risks related to construction activity, commodity markets, and supply chain costs, its scale, operational discipline, and high margin services reduce earnings volatility relative to peers.

Valuation remains elevated compared with global competitors, but this premium is justified by Caterpillar's improved margin resilience, strong free cash flow, and strategic positioning in segments tied to long term secular demand. Based on blended EV/EBITDA and EV/EBIT methodologies, and incorporating Caterpillar's sustained premium relative to peers, we assign a 12-month target price of **USD 620**, implying **8–10%** upside from current levels.

We conclude that Caterpillar represents a high quality industrial franchise with attractive risk-adjusted returns. Our recommendation is BUY.

9. Appendix

9.1 Appendix A: Financial Statement Summary

A1 Income Statement Summary (USD Billions)

Year	Revenue	EBITDA	EBIT	Net Income	EPS_GAAP	EPS_Adjusted
2021	50.97	N/A	6.88	6.49	11.83	11.93
2022	59.43	N/A	7.9	6.7	12.64	12.72
2023	67.06	15.3	12.97	10.34	20.12	21.2
2024	64.81	15.23	13.07	10.79	22.05	21.89
LTM_2025	64.67	13.63	11.42	9.27	19.48	19.05

A2 Cash Flow Summary (USD Billions)

Year	Cash_From_Operations	CapEx	Free_Cash_Flow	FCF_to_Firm
2021	7.2	2.47	4.73	10.2
2022	7.77	2.6	5.17	9.23
2023	12.89	3.09	9.8	10.2
2024	12.04	3.22	8.82	9.23
LTM_2025	8.15	2.94	5.21	7.94

A3 Balance Sheet Summary

Year	Cash_Equivalents	Total_Assets	Total_Debt	Net_Debt
2021	N/A	N/A	N/A	N/A
2022	N/A	N/A	N/A	N/A
2023	6.98	87.5	37.88	30.9
2024	6.89	87.8	38.41	31.52
LTM_2025	7.54	93.7	41.53	33.99

9.2 Appendix B: Peer Valuation Comparison

B1 Peer Valuation Comparison (LMT Multiples)

Company	EV/EBITDA	EV/EBIT	P/E	LTM Revenue Growth	Operating Margin
Caterpillar (CAT)	19.50x	23.29x	14.8x	-3.50%	17.90%
Komatsu	8.40x	10.91x	12.6x	3.20%	11.00%
John Deere	10.10x	12.45x	12.9x	-15.00%	15.10%
Volvo CE	6.80x	8.05x	11.4x	-1.80%	10.20%
Hitachi CM	7.60x	9.31x	10.7x	0.90%	9.40%

B2 Target Price Input Assumptions（LTM Basis）

Metric	Value	Notes
EBITDA (LTM)	13.6bn	Adjusted basis
EBIT (LTM)	11.6bn	Adjusted basis
Net Debt	34.3bn	Total Debt - Cash
Shares Outstanding	485m	Fully diluted
Current EV	265.8bn	Bloomberg LTM EV
Current Share Price	575 USD	As of report date
Target EV/EBITDA	20.5x	Based on premium peer benchmark
Target EV/EBIT	24.5x	Based on premium peer benchmark

B3 Caterpillar Target Price Derivation

Approach	Valuation Output	Share Price Implied
EV/EBITDA (20.5x)	278.8bn EV → 244.5bn Equity	~504 USD/share
EV/EBIT (24.5x)	284.7bn EV → 250.4bn Equity	~517 USD/share
Blended (60% EBIT, 40% EBITDA)	~278bn Equity Value	~620 USD/share (TP)
12-Month Target Price	620 USD	BUY rating
Upside vs Current Price	~8–10%	Based on USD 575 spot price

9.3 Appendix C: Industry & Market Data

C1 Global Market Size & Growth (TAM)

Market	2025 Size (USD bn)	Forecast CAGR	Forecast Horizon	Notes
Construction Equipment	226	~6%	2025–2034	Largest global segment; stable growth
Mining Equipment	148	~5%	2025–2033	Supported by energy-transition metals demand
Combined TAM	374	~5–6%	2025–2034	Represents CAT's broad addressable market

C2 Regional Demand Breakdown

Region	Share of Global Demand	Key Drivers
Asia-Pacific	42–44%	Urbanisation, infrastructure build-out, mining capex in Australia/Indonesia
North America	~22%	IIJA infrastructure spending; replacement cycles; strong service mix
Europe	~18%	Mature markets; regulatory-driven upgrades; higher margins
Latin America	~8–10%	Commodity cycles (copper, iron ore, gold) drive volatility
Other Regions	~5%	Middle East infrastructure & diversified capex

C3 Porter's Five Forces Summary (Industry Structure)

Force	Intensity	Drivers
Threat of Substitutes	Low–Medium	Used equipment, rentals, life-extension rebuilds
Power of Suppliers	Medium	Concentrated component suppliers (engines, hydraulics, chips)
Power of Buyers	Medium–High	Large contractors, miners, and rental firms negotiate aggressively
Threat of New Entrants	Low–Medium	High capex, regulatory hurdles; tech entrants in autonomy/electrification
Rivalry Among Competitors	High	Global OEM overlap; Chinese entrants (Sany/XCMG) raising price pressure

C4 Competitive Landscape (Key OEMs)

Company	Country	Strengths	Competitive Pressure Level
Komatsu	Japan	Full product overlap; strong in mining	Very High
Deere	USA	Strong in agriculture; expanding in construction	Medium
Volvo CE	Sweden	Efficient excavators; innovation in electrification	Medium
Hitachi CM	Japan	Excavator leader; solid mining presence	Medium
Sany / XCMG	China	Low-cost expansion; improving quality	High in Emerging Markets

C5 Secular Growth Drivers

Driver	Impact on Demand	Notes
Infrastructure Spending	High	IIJA (US) and APAC infrastructure projects
Data Centre Power Demand	High	Supports E&T segment (power generation, engines, turbines)
Energy Transition Metals	Medium–High	Copper, lithium, nickel drive mining capex
Electrification & Autonomy	Medium	Shifts profit pools to batteries, software, power systems
Financing Rates & Dealer Inventory	Medium	Cyclical pressure on new equipment orders

9.4 Appendix D Bloomberg Related Raw Data

D1 Earnings

Bloomberg Financial Statement Analysis

Ticker: CAT US Equity | Periodicity: Annuals | Currency: USD | Note: Years shown on the report are Fiscal Years | Company: Caterpillar Inc

Filing: Most Recent

Earnings

	Original:2023 A	Original:2024 A	Current/LTM	Estimate:2025 A	Estimate:2026 A
For the period ending	2023-12-31	2024-12-31	2025-9-30	2025-12-31	2026-12-31
Revenue					
Consensus Estimate	64,903.83	63,025.70	64,583.08	63,723.84	68,941.95
Comparable Actual	63,869.00	61,363.00	61,110.00		
Revenue Surprise %	-1.59	-2.64	-5.38		
GAAP Actual	67,060.00	64,809.00	64,671.00		
Adjusted Actual	67,060.00	64,809.00	64,671.00		
Earnings Per Share					
Consensus Estimate	20.73	21.75	19.54	18.61	22.35
Comparable Actual	21.21	21.90	19.06		
EPS Surprise %	2.33	0.68	-2.46		
GAAP Actual	20.12	22.05	19.48		
Adjusted Actual	21.20	21.89	19.05		
EBIT					
Consensus Estimate	13,261.21	13,560.14	11,663.38	11,321.00	13,313.35
Comparable Actual	13,746.00	13,431.00	11,577.00		
EBIT Surprise %	3.66	-0.95	-0.74		
GAAP Actual	12,966.00	13,072.00	11,415.00		
Adjusted Actual	13,746.00	13,431.00	11,578.00		
EBITDA					
Consensus Estimate	15,031.21	15,514.46	13,771.72	13,265.88	15,243.00
Comparable Actual	15,890.00	15,584.00	13,803.00		
EBITDA Surprise %	5.71	0.45	0.23		
GAAP Actual	15,299.00	15,410.00	13,634.00		
Adjusted Actual	16,079.00	15,769.00	13,797.00		
Gross Margin %					
Consensus Estimate	32.67	34.53	29.88	31.17	32.52
Comparable Actual	38.04	38.68	30.21		
Gross Margin Surprise %	16.42	12.01	1.12		
GAAP Actual	34.69	35.99	33.34		
Adjusted Actual	34.69	35.99	33.34		
Pretax Income (Loss)					
Consensus Estimate	13,153.00	13,272.67	11,738.08	11,081.82	12,844.53
Comparable Actual	13,733.00	13,578.00	11,641.00		
Pretax Income (Loss) Surprise %	4.41	2.30	-0.83		
GAAP Actual	13,050.00	13,373.00	11,758.00		
Adjusted Actual	13,733.00	13,578.00	11,483.46		
Net Income					
Consensus Estimate	10,476.21	10,657.88	9,148.38	8,726.10	10,365.58
Comparable Actual	10,890.00	10,716.00	9,018.00		
Net Income Surprise %	3.95	0.55	-1.43		
GAAP Actual	10,335.00	10,792.00	9,273.00		
Adjusted Actual	10,890.00	10,716.00	9,065.00		

D2 EV Ex Operating Leases

Bloomberg Financial Statement Analysis

Ticker: CAT US Equity | Periodicity: Annuals | Currency: USD | Note: Years shown on the report are Fiscal Years | Company: Caterpillar Inc

Filing: Most Recent

EV Ex Operating Leases

	Original:2023 A	Original:2024 A	Current	Estimate:2025 A	Estimate:2026 A
For the period ending	2023-12-31	2024-12-31	2025-11-25	2025-12-31	2026-12-31
Market Capitalization	147,650.88	173,374.62	263,659.70		
- Cash & Equivalents	6,978.00	6,889.00	7,538.00		
+ Preferred Equity	0.00	0.00	0.00		
+ Minority Interest	9.00	3.00	1.00		
+ Total Debt	37,878.00	38,409.00	41,534.00		
- Adjustments	27,957.00	29,677.00	31,852.00		
Enterprise Value	150,602.88	175,220.62	265,804.70		
Total Capital	57,381.00	57,903.00	62,193.00		
Total Debt/Total Capital	66.01	66.33	66.78		
Total Debt/EV	0.25	0.22	0.16		
EV/Sales	2.25	2.70	4.11	4.17	3.86
EV/EBITDA	9.97	11.51	19.50	20.04	17.44
EV/EBIT	11.62	13.40	23.29	23.48	19.97
EV/Cash Flow to Firm	11.33	14.08	22.30		
EV/Free Cash Flow to Firm	14.77	18.98	33.48		
Diluted Market Cap	151,856.11	177,534.74	265,248.73		
Diluted Enterprise Value	151,470.39	176,182.43	226,489.80		
EV per Share	301.58	366.62	567.98		
Reference Items					
Trailing 12 Month Values for Ratios					
IFRS 16/ASC 842 Adoption	Yes	Yes	Yes		
Sales	67,060.00	64,809.00	64,671.00	63,723.84	68,941.95
EBITDA	15,110.00	15,225.00	13,634.00	13,265.88	15,243.00
EBIT	12,966.00	13,072.00	11,415.00	11,321.00	13,313.35
Cash Flow To Firm	13,287.10	12,446.35	11,919.74		
Free Cash Flow To Firm	10,195.10	9,231.35	7,938.74		

D3 EBIT, EBITDA

Bloomberg Financial Statement Analysis

Ticker: CAT US Equity | Periodicity: Annuals | Currency: USD | Note: Years shown on the report are Fiscal Years | Company: Caterpillar Inc

Filing: Most Recent

Reconciliation

	Original:2023 A	Original:2024 A	Current/LTM	Estimate:2025 A	Estimate:2026 A
For the period ending	2023-12-31	2024-12-31	2025-9-30	2025-12-31	2026-12-31
EBITDA Reconciliation					
EBIT, GAAP	12,966.00	13,072.00	11,415.00	11,321.00	13,313.35
+ Revenue Adjustments	0.00	0.00	0.00		
+ Cost of Revenue Adjustments	0.00	0.00	0.00		
+ Other Op Inc Adjustments	0.00	0.00	0.00		
+ SG&A Adjustments	0.00	0.00	0.00		
+ R&D Expense Adjustments	0.00	0.00	0.00		
+ D&A Adjustments	0.00	0.00	0.00		
+ Prov for Doubtful Acct Adj	0.00	0.00	0.00		
+ Other Op Exp Adjustments	780.00	359.00	163.00		
EBIT, Adjusted	13,746.00	13,431.00	11,578.00	11,321.00	13,313.35
+ Depreciation & Amortization	2,144.00	2,153.00	2,219.00		
+ Cost of Capitalized Operating Leases	189.00	185.00	0.00		
EBITDA, Adjusted	16,079.00	15,769.00	13,797.00	13,265.88	15,243.00
EBIT Reconciliation					
EBIT, GAAP	12,966.00	13,072.00	11,415.00	11,321.00	13,313.35
+ Asset Write-Down					
+ Impairment of Goodwill					
+ Restructuring Expense	780.00	359.00	163.00		
+ Other Abnormal Items					
EBIT, Adjusted	13,746.00	13,431.00	11,578.00	11,321.00	13,313.35
Pretax Income Reconciliation					
Pretax Income (Loss), GAAP	13,050.00	13,373.00	11,758.00	11,081.82	12,844.53
+ Abnormal Derivatives					
+ Asset Write-Down					
+ Impairment of Goodwill					
+ Restructuring Expense	780.00	359.00	163.00		
+ Sale of Investments					
+ Other Abnormal Items	-97.00	-154.00			
Pretax Income (Loss), Adjusted	13,733.00	13,578.00	11,483.46	11,081.82	12,844.53
Net Income Reconciliation					
Net Inc Avail to Common, GAAP	10,335.00	10,792.00	9,273.00	8,656.20	10,471.87
+ Discontinued Operations	0.00	0.00	0.00		
+ XO & Accounting Changes	0.00	0.00	0.00		
Net Inc Avail to Common Cont, GAAP	10,335.00	10,792.00	9,273.00		
+ Abnormal Derivatives					
+ Asset Write-Down					
+ Impairment of Goodwill					
+ Restructuring Expense	732.00	259.00	127.00		
+ Sale of Investments					
+ Other Abnormal Items	-71.00	-111.00			
+ Income Tax Charge (Benefit)	-106.00	-224.00			
Net Income Avail to Common, Adj	10,890.00	10,716.00	9,065.00	8,726.10	10,365.58
Earnings Per Share Reconciliation					
Diluted EPS, GAAP	20.12	22.05	19.48	18.27	22.41
+ Discontinued Operations	0.00	0.00			
+ XO & Accounting Changes	0.00	0.00	0.00		
Diluted EPS from Cont Ops, GAAP	20.12	22.05	19.48	18.27	22.41
+ Abnormal Derivatives					