



Company Description:

Caterpillar Inc. (CAT) designs, manufactures, and sells construction and mining equipment, along with diesel and natural gas engines and industrial gas turbines. It also provides financial services and insurance to support equipment dealers and customers.

Name	Ticker	Yield	Growth	D + G
Caterpillar Inc.	CAT	0.73%	16.50%	17.23%

Highlights:

Valuation is readily observable to everyone, and yes, CAT is expensive; this is not a unique insight. Our perspective is that what drives CAT stock performance is relative EPS growth, not valuation. CAT finds itself in a position where (relative to the S&P 500) it will be able to grow earnings at an accelerating pace through a combination of higher absorption from production increases (across all segments, not just Power Systems) and a shift in dealer stocking preferences (dealers are stocking up rather than down). Earnings matter, and history shows that as earnings accelerate, it is unlikely for CAT to underperform (forward estimates get positive revisions; the second derivative is what matters).

Bull Case:

- **Record Backlog & AI Infrastructure Tailwind** – Bulls point to a record \$63B backlog, a tripling of large engine production capacity, and raised full-year guidance as evidence CAT has re-rated from a cyclical industrial into an AI infrastructure play - data center power demand is pulling in orders for CAT's large engines and turbines.
- **Earnings Have Continued to Blow Past Estimates and Guidance** – The most recent earnings report witnessed sales and revenues increase 22% to \$17.4 billion, with adjusted profit per share of \$5.54, and Caterpillar guided to low-double-digit full-year 2026 sales and revenue growth. Management didn't just clear the quarter; they raised the full-year outlook and noted underlying margins would sit at the top of their target range if not for tariffs, and backlog hit a record \$63 billion, up 79% year-over-year - signaling this strength is more than a one-quarter phenomenon.
- **Underlevered ME&T Balance Sheet and Projected Strong Cash Flow Gives CAT Balance Sheet Optionality** – A large share repurchase program and/or more acquisitive growth after relative dearth of M&A since 2010/11 could augment continued dividend growth (HSD% dividend increase targeted through 2030).

Bear Case:

- **Macroeconomic Growth** – Outlook is contingent on sustained global economic growth, with an emphasis on the outlook for the US economy (Caterpillar's largest market). A robust economy could lead to strong sales growth.
- **Commodity Prices** – High prices for commodities like coal and copper drive significant growth in demand for associated capital equipment and support increased investment in energy and transportation infrastructure and building construction in developing economies that are highly dependent on natural resource extraction.
- **Tariff Drag is Real and Growing** – Caterpillar updated its full-year tariff estimate to \$2.2–\$2.4 billion, with the upcoming quarter impact around \$700M, weighing on margins even as top-line growth impresses. If Tariffs continue to be front and center, it could create a small headwind for the company.

Overall Thesis:

Caterpillar isn't just riding a normal industrial cycle right now; it's sitting at the intersection of several powerful, overlapping trends that could keep demand elevated for years. A record \$63B backlog, up 79% year-over-year, combined with a tripling of large engine production capacity, shows a company that management believes needs meaningfully more capacity, not just better utilization of what it already has. The recent quarter witnessed sales growth of 22%, and rather than treating that as a peak, Caterpillar raised full-year guidance to low-double-digit growth, with underlying margins actually running near the top of the company's target range once tariff noise is stripped out. The market is waking up to the idea that CAT's diesel and gas turbine business is becoming critical infrastructure for the AI buildout, powering data centers that can't wait years for grid capacity, while its core construction and mining equipment business keeps chugging along on infrastructure spend. On top of all that, management is returning enormous amounts of cash to shareholders—\$5.7B deployed toward buybacks and dividends in a single quarter—while still funding the capacity expansion, which is the kind of capital discipline that rewards patient shareholders.

Put simply: bulls see a durable industrial franchise that just found a second growth engine, with demand visibility further out than at almost any point in the company's history



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