

Caterpillar Inc. (NYSE: CAT)

Sector: Industrials



Fair Value	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$148.48	\$140.06	\$148.41	\$111.75	13.58	\$78.6B	3.15%	1.52

Business Description:

The world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial turbines and diesel-electric locomotives. Customers use CAT's products, services and solutions to build the basic infrastructure that enables higher standards of living so that people have *access* to better quality of life. The business segments include: Construction & Industries, Energy & Transportation, Resource Industries, and Financial Products, with Construction Industries and Energy & Transportation accounting for 76% of sales.

Industry Trends:

The construction industry is highly cyclical and follows the trend of the broader macroeconomy. **Construction** - increased order volume and backlog. **Resources** - commodity prices rebounding towards historic highs. Strong mining production has led to increased capital expenditures and more equipment reinvestment. **Energy & Transportation** - Significant opportunity for M&A. High growth in rail traffic has led to greater transportation sales. In addition, positive outlooks for global renewable energy markets and strong demand for oil and gas has stimulated sales.

Investment Thesis:

Strong Enterprise Strategy - Optimizing Operations "Lean Methodology" in product development and manufacturing, cost flexibility, quality, organizational agility and safety. Vertical integration - "Engineered Value Chain" consisting of 28,000 Suppliers and 168 Dealers serving CAT clients across 193 countries. Technological innovations - leveraging data analytics and technology to drive value to customers through automated equipment, fleets, and jobsites. Creating a Superior Customer Experience consisting of equipment leasing and financing programs, extended protection plans/warranty for machine and engine drive parts.

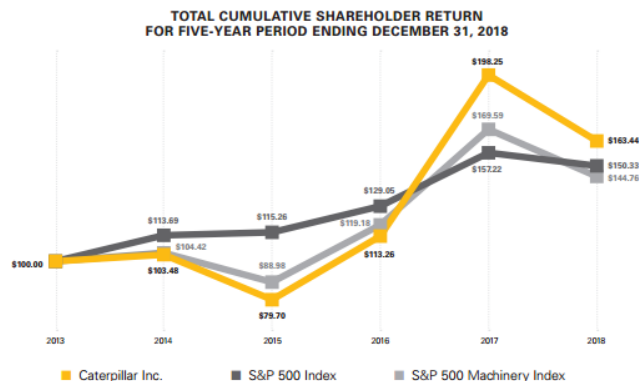
Valuation Assumptions:

WACC: 9.0%

Perpetuity Growth Rate: 3.0%

Margin of Safety: 6.01%

5-Year Share Price Performance vs. S&P 500:



Competitive Advantage and Analysis:

Extensive dealer and distribution network – vertically integrated operation strategy. Established partnerships with customers at every level of the “value chain” increases efficiency and reduces costs. Strong brand reputation and recognition is complemented with continued additions to the product portfolio. Focus on research and development of technology and innovation in heavy machinery – committed over \$2 billion in the past half-decade. Potential of automation to integrate products with new service and solution offerings. Lastly, a strong track record of debt repayment.

Risks:

The most relevant risks and considerations for CAT include, but are not limited to:

- **Macroeconomic** - Cyclical nature of the business correlated with government and business investment in infrastructure
- **Operational** - Disruptions to supply chain, challenges of inventory management and labor, and disputes with unions
- **Financial** - Global operations entail currency risk and translation risk
- **Legal and Regulatory** - Environmental protection laws may require significant compliance costs

Corporate Social Responsibility Highlights:

America's Best Employers for Diversity (Forbes) 2018. 91% reduction in recordable work injuries since 2003.

Report Prepared By:

Alexander Greenberg & Santiago Persano on 11/11/2019

Sources: Bloomberg, Caterpillar, Yahoo Finance