



“Confidence”

Caterpillar Inc. Chairman and CEO Doug Oberhelman
Remarks as Prepared for Delivery at Annual Shareholders Meeting
Muncie, Indiana
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Thank you, and now I want to spend a few minutes talking about our 2015 performance, but even more importantly, about what’s ahead.

I think I can sum it all up in one word: Confidence. You have every reason to be confident in Caterpillar.

I began this morning by noting that Muncie was the first locomotive assembly factory to open in the United States in many years. And this is just one of more than two hundred Progress Rail locations around the world.

It’s very appropriate to be here because our rail and transit business is a great illustration of that confidence which has always defined Caterpillar.

We entered the rail and transit industry in 2006 with the acquisition of Progress Rail, a company founded by Billy Ainsworth. Billy started as a broker in the scrap metal business, which led to an even more successful business recycling rail cars.

In 2010 we increased our commitment to the rail industry by acquiring Electro-Motive Diesel, and we became a locomotive manufacturer. Less than five years ago, this building where we’re meeting today was an empty, abandoned factory. We have transformed it into what you see now: A state of the art facility, with two locomotive test tracks out back and more than 400 employees.

When we entered the rail and transit industry, we entered it to win.

We did it with the same confidence that has made us the world’s leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and now, diesel-electric locomotives.

It’s a confidence that serves us well when cycles are up, and when they are down. And there is no doubt we are in a long and deep down cycle.

But we are confident in our strategy, our execution, and our future. We have a longstanding, proven business model:

- We design, build and deliver the highest quality products and services;



- We earn industry-leading market share;
- We provide our customers comprehensive after-market service and support.

Now, we're stepping up even more by focusing on digital technology, Lean manufacturing and our incredible dealer network – all to serve our current customers better, and win new ones. I'll talk more about this in a minute.

None of us are happy that, as of the end of the first quarter of this year, our share price was in the seventies; our outlook for sales and revenues was 38 percent below the 2012 peak, and our profit per share outlook was also 60 percent below 2012. But I'd like you to feel confident we are managing this record-long down cycle better than any previous one. We're setting up to be well positioned when recovery does come to our markets – and it will.

Let me quickly recap our 2015 performance before giving a few more reasons for this confidence. As I mentioned, we're facing tough conditions. There is –

- Weak global economic growth;
- Geopolitical uncertainty in many regions;
- Depressed commodity prices; and
- Lower infrastructure investment across much of the world.

Not to mention a chaotic, and at times deeply troubling, U.S. presidential campaign that suggests a challenging road ahead for policies that could increase U.S. growth and competitiveness.

But Caterpillar remains financially strong. We ended 2015 with a debt-to-capital ratio of 39.1 percent, well within our target range; and well below the nearly 60 percent debt-to-capital ratio we had when we faced the Great Recession in 2008. We held \$6.5 billion of cash, which gives us the financial strength to manage now and prepare for future opportunities.

During 2015, we bought back \$2 billion of shares and increased the quarterly dividend by 10 percent. We have paid higher dividends for 22 consecutive years, and since 2007 our cash dividend has more than doubled.

Over the past five years, we have returned \$15.5 billion of capital to shareholders – and we did this without borrowing to finance those repurchases. In fact, as I said a moment ago, we have actually improved our debt-to-capital ratio, even as we bought back stock.

The dividend is a high priority today and, looking forward, maintaining it is also very important.



Part of being confident means making the tough decisions to align costs with lower demand, and we're doing that. We announced a major restructuring last September. Since then we have eliminated about 5,300 positions, and announced the closure or consolidation of 20 facilities worldwide -- a reduction of about 7 percent of our manufacturing footprint. At the end of 2015, our workforce was down more than 24,000, or about 17 percent, from its 2012 peak.

We know this is painful and hard on our people and communities. It's hard on our management team, too -- but we know it's absolutely necessary to ensure Caterpillar's future. We've learned that making tough decisions means our company will endure and improve.

Last year, we were confident a major restructuring was necessary and we acted quickly. We're on plan to achieve our goal to recognize about half of the approximately \$1.5 billion of annual cost reductions this year.

At the same time, we are strengthening our operations with a solid record of execution. Our product quality continues to improve. Even in this current environment, our market share for machines increased for the fifth year in a row. I think that says a lot about our customers' confidence in our products, our team and our dealers!

Our safety record also continues to improve. Our Recordable Injury Frequency rate is down more than 90 percent since 2003, and our safety record is best-in-class. But we never take that record for granted, because there is always more we can do until we achieve our vision of zero injuries.

Now, let me highlight a few more specifics about why we're confident in our future.

We're implementing Lean manufacturing from top to bottom in our operations -- addressing the root cause of delays, defects and inefficiencies. That's bringing these good results in quality and safety, and in gross margins and productivity.

We've invested the capital necessary to ensure our plants are modern, and our machinery and equipment are up to date. These investments, coupled with Lean, mean we're well positioned today, and for when recovery comes to our markets.

At our shareholder meeting last year, I talked about innovation, which has been a hallmark of Caterpillar since we put our first diesel engine in a tractor in 1931. We are dedicated to always being better, smarter, faster. This innovative spirit will shape our tomorrow, just as it underpins



our past.

We are committed to a leading role in the fourth industrial revolution – what we call the Age of Smart Iron – where digital technology lowers our customers’ owning and operating costs by:

- Reducing downtime;
- Predicting failures;
- Increasing accuracy and operator safety; and
- Increasing our customers’ productivity through combining GPS and site technologies to get the job done!

We’re investing in the technology and applications, and the research and development, which will shape our future. We’ve accelerated our digital technology investment across all divisions, and rail is no exception. Progress Rail technology is transforming global rail transport –

- From Analytic Solutions;
- To the Multi-Inspection Radar Appliance;
- To Power View Event Recorder, which is the next generation of “black box” technology for the rail industry.

We have digital solutions now, and there are more to come, which help our customers get the most out of – not just their Caterpillar equipment -- but all of the equipment in their fleet.

We already have about 400,000 machines, engines, locomotives and turbines connected and providing data our customers need. We have the largest connected fleet in the industries we serve, and our connected fleet will grow rapidly.

There is a lot of talk these days about autonomous cars. Well, let’s also talk about Caterpillar’s 250 ton autonomous mining trucks, which have been operating 24 hours a day since 2011 at Solomon iron ore mine in Australia, one of the remotest spots on earth.

These are a few examples of what we’ve already accomplished through digital technology, and they’re just the beginning.

We’re working with innovators and disrupters outside our four walls, with companies that know as much about applications and data as we do about iron. Our vision, and full intention, is to capture and combine the best of our expertise with theirs, and give our customers the most advanced – and at the same time the most user-friendly – equipment and technology they can imagine.



We also formed Caterpillar Ventures last year. In twelve months' time we've invested in and worked with technologies that include:

- Associated gas capture and conditioning modules;
- Geospatial analytics to leverage data captured by drones;
- A mobile peer-to-peer machine rental platform;
- Laser arrays for driver monitoring systems; and
- Micro-grid electric power development.

We continue to strengthen one of our greatest competitive advantages, our worldwide network of 175 Cat dealers, by using technology and relationships to anticipate and solve customer problems. As we strengthen our dealers, we get even closer to our customers. We learn what they need, what they want, and how we can continue to earn their loyalty.

We're also confident in our future because we know, as world population grows, so will the demand for transportation, energy and infrastructure – all of which require Caterpillar products and services.

We know how to manage successfully through every type of cycle. We are the market leader, for the most part, in each of our major product categories. This is an enviable position in good times and absolutely essential in times like this when the industries we serve are down.

Because of Caterpillar's market leadership, expertise and innovation; because of our proven strategy and unparalleled dealer network: We know there are many promising roads ahead!

And Caterpillar is confident – as we have been since 1925 – that we will lead the way along every one of those roads.

Thank you for coming to Muncie.