



Caterpillar Inc. CEO Jim Umpleby  
Remarks as Prepared for Delivery at Investor Day 2017  
Tucson, Arizona  
September 12, 2017

Good morning and thank you attending our 2017 investor day. I hope you enjoyed the demonstration of engineering, technology and power yesterday at our Tinaja Hills facility.

From our very beginning in 1925, Caterpillar has built the equipment that has helped build a better world. We sell more than 300 products under 21 brand names and, with a field population of more than 3 million machines and engines, you'll see our equipment at work all over the world, on land and at sea. Our diverse, skilled workforce designs and manufactures the products that have made Caterpillar among the world's most widely recognized and respected brands for almost one hundred years.

But, most importantly, Caterpillar is dedicated to our customers' success. It's our customers that use our solutions to build a better world – through projects that give people access to clean water, electricity, transportation, hospitals, schools and so much more.

After being named CEO last October, I formed a strategic planning committee -- as many of my predecessors have done when they became CEO. This diverse, cross functional team of Caterpillar leaders evaluated our business and developed a strategy, metrics and governance to profitably grow our company.

We will build upon our many competitive strengths, and we are well positioned to compete and grow.

Our competitive advantages include our independent Caterpillar Dealer Network. With more than 170 dealers and 2,000 branches in 190 countries around the world, it is the most extensive sales and service network in our industries. When our customers buy our products, they know they will be supported by the most capable and reliable global service network.

We also have a well-earned reputation for the best product lines, with the most productive equipment and superior product quality. As a result of our products and dealers, we are a leader in almost all of our product classes in the majority of our markets.

Caterpillar is well positioned for the future as our customers invest in infrastructure, energy and mining to meet the needs of a growing global population, an emerging middle class in the developing world, and an increasingly urbanized society.

Our company has emerged stronger after the longest downturn in our history. As you know, generally weak economic conditions and commodity price volatility have made the last few years challenging. Our sales and revenues dropped by more than 40 percent between 2012 and 2016.

We responded to this challenge with a strategic approach to restructuring, and implemented a number of actions to improve our competitiveness. Between September 2015 and the end of 2016, we consolidated or closed more than 30 facilities and our total workforce declined by more than 16,000.

Despite lower profits, our balance sheet has remained strong because we took the tough actions required to reduce our cost structure and generate solid cash flow. Our dividend was a high priority throughout the difficult economic cycle, and will continue to be a high priority. Caterpillar has paid higher dividends to its shareholders for 23 consecutive years, and since 2007 our cash dividend has more than doubled.

Our product quality remains at high levels. We continued to invest in R and D to improve our competitiveness. We made progress implementing Lean manufacturing, and our dealer network has strengthened. We've demonstrated the ability to effectively manage our company during the most severe downturn in our 92 year history.

Much of what I've discussed so far you already know: Caterpillar is a world leader, with great products, services and solutions and an unmatched dealer network. We're well-positioned to capitalize on long term macro-economic trends like a growing world population and urbanization.

So, let's talk about the future.

As we worked on the strategy, we never lost sight of what Caterpillar has been doing for more than 90 years: helping our customers raise living standards and build a better world. We wanted a simple purpose statement to capture that for our employees, our customers, dealers, partners and shareholders. And the statement is "Our Solutions Help Our Customers Build a Better World."

We've also summarized the components of the new strategy in a graphic that illustrates how we've started to manage the company differently during the last few months and the strategies we're implementing.

I'll briefly describe the components of our strategy. First -- our overriding objective is to grow profitably. We are pursuing profitable growth by reinvesting in our strengths. We're expanding services with an emphasis on the aftermarket. We're extending our product offerings and we intend to deliver operational excellence.

To deliver value for our shareholders, we know we must deliver exceptional value to our customers and improve alignment with our business partners, especially our dealers. We must also retain, attract and develop the most talented team of employees.

Our longstanding code of conduct – Our Values in Action - define what we do and who we are. They define how we behave with our customers, our partners, our suppliers and one another. We expect every employee to live Our Values every day, in everything we do, everywhere we are.

We've been using the Operating and Execution Model, or the O&E model, to manage our businesses for some time; and now we're expanding it across the enterprise and strengthening its governance. This will be reflected in how we develop strategies, allocate resources and monitor and manage performance. We are focused on fixing businesses that are not producing acceptable returns, and we are investing more resources in areas with the best opportunity for future profitable growth.

And most importantly, we are focused on providing an increased level of value to our customers to ensure they are more successful working with Caterpillar than they are working with our competitors.

You won't hear any lofty sales goals today. The targets my colleagues will describe in the segment and financial presentations are built around improved profitability at sales levels that have been achieved historically.

We will use the O&E model to drive profitable growth through margin expansion, asset efficiency and expanding our offerings, especially services. We will be disciplined in our investing, using the O&E model to guide our resource allocation methodology.

Due to our strategic approach to restructuring, we believe our manufacturing capacity is sufficient for the foreseeable future, so capital expenditures will be less than depreciation and amortization for some time. We will be disciplined in our capital allocation throughout the cycles and laser focused on getting returns on our investments. Internally, our measure of profitable growth will be Operating Profit after Capital Charge, or OPACC.

As part of the O&E model, each business has developed multi-year strategic growth plans. We've implemented a governance process that reviews progress against milestones. We'll bias our resources to the businesses with the largest opportunity for future OPACC growth.

By creating value for our customers, each business should deliver a return above its cost of capital and generate the cash flow needed to continue to reinvest in profitable growth. Prioritization and reinvestment in those areas where we have or can develop a competitive advantage are keys to the future success of Caterpillar and our dealers.

We've also chosen to withdraw investment from businesses, like vocational trucks and some underground mining products, where we didn't have a line of sight to a competitive advantage or acceptable returns.

We've proven that the O&E Model works through early adoption in Construction Industries, and the results speak for themselves. From 2013 to 2016, CI's profit margin increased from 7 to 11 percent, even while their top line dropped about 20 percent -- or by more than \$4 billion. This same disciplined approach of the O&E Model is being applied across the enterprise.

Our group presidents are going to detail how our strategy impacts their businesses, but I'll highlight a few specific points.

You'll see an emphasis on services, including the aftermarket. We, along with our dealers, plan to redouble our efforts to help our customers be more successful with us than with any one of our competitors by having the best services and solutions offerings in the industry.

These services and solutions will include unmatched aftermarket support through enhanced digital capabilities. Caterpillar currently has more than 500,000 connected assets, and we are investing to increase the number of connected machines and engines. This will allow Caterpillar and our dealers to expand the range of services that enhanced digital capabilities allow us to provide to our customers, enabling them to operate more efficiently, productively and safely.

We'll continue investing to improve parts availability and service coverage with our dealers, which are critical to our customers' success. We're also going to make it easier for customers to buy Caterpillar parts on-line.

We plan to deliver better efficiency and productivity to our customers through increased efforts to secure Customer Support Agreements (CSAs) every time we sell a new piece of equipment. Then we want to make sure those CSA's are renewed. We have dealers that have already demonstrated best practices of executing CSAs with their customers. That model can be replicated across the dealer network, and we're developing internal metrics to track progress.

Our emphasis on services will not only help make our customers more successful, it will also lead to greater aftermarket opportunities and more profitable growth for Caterpillar. Again, our goal is to ensure our customers are more successful working with Caterpillar and our dealers than they are working with the competition.

Growing our market share is also fundamental to our future success, but we need to do so profitably.

We will drive for growth in our installed base through expanded offerings, providing the right products and solutions for the industry at the right price points, while also earning an acceptable return for us and our dealers. Construction Industries has already begun introducing expanded offerings with Life Cycle Value products to improve our competitiveness. We will provide an increased range of options so our customers can choose the design that best fits their needs.

In Energy and Transportation, we recently acquired Kemper Valve and Fittings to expand our Oil & Gas well servicing offerings to include flow iron. We now offer an engine, transmission, well stimulation pump and flow iron as a complete solution to our Oil & Gas customers. We are pleased with the timing of this acquisition.

These are just a few examples of how we are serving our customers and growing through expanded offerings.

Operational excellence, which includes organizational alignment, will also be key to our future success. We've made organizational changes to better align responsibility for profitable growth. Earlier

this summer, we decentralized additional decision-making to allow more autonomy at the business units. We've enabled our business leaders to make decisions more quickly, have more control to execute their growth strategies and successfully compete in their industries. We'll have more agile groups at the center, and maintain strong governance practices.

We're also fully committed to our Lean manufacturing journey, to synchronizing across our value chain, reducing lead times, optimizing working capital and increasing availability.

We will also continue to focus on excelling at the fundamentals of safety, quality and cost control. We'll never relent on our unwavering commitment to safety. We have a remarkable record of improvement and world-class safety levels. However, even one injury is one too many. Our product quality remains high and we will continue a zero-defect mentality. We'll also remain committed to controlling structural costs and maintaining cost flexibility. Finally, and above all else, we will be guided by our Values in Action.

Our team sees clear competitive advantages and tremendous opportunities ahead. With a disciplined approach to managing our great company, we don't have to be dependent on industry growth to generate superior profit growth and shareholder value.

At this point, I'd like to recognize and thank my colleagues in the Executive Office who helped develop our new strategy. Many of you have had the opportunity to meet Rob Charter, Brad Halverson, Denise Johnson and Tom Pellette, our experienced and outstanding group presidents. We also have three additions to our executive team this year. Bob De Lange, who started his Caterpillar career in his native Belgium, is now Group President of Construction Industries. Cheryl Johnson, our Chief Human Resources Officer recently joined Caterpillar and will lead our efforts to develop our most important asset, our global team of employees. Suzette Long recently assumed the role of General Counsel and Corporate Secretary.

I'm very fortunate to be working with such a talented team of senior executives.

Since the first of the year, we've moved our global headquarters to the Chicago area. The new location improves access to global customers, dealers and our worldwide operations – while also enhancing executive recruitment. We've also continued to evaluate our operations. We're moving production out of our Aurora, Illinois facility and closing our facility in Gosselies, Belgium, both of which are legacy Caterpillar facilities.

To summarize our strategy and disciplined approach:

**First** – We'll focus on ensuring our customers are more successful using our products and working with our dealers than they are with the competition.

**Second** – We'll use the Operating and Execution Model to intentionally bias our resources to those opportunities with the highest profitable growth potential.

**Third** – We’re increasing our investment and emphasis on services, including digital capabilities and the aftermarket.

**Fourth** – We’ll drive market share growth in our installed base through expanded offerings, providing the right products and solutions at the right price points, while also earning an acceptable return for us and our dealers.

**Fifth** – We’re focused on improving the operational performance of our company through organizational alignment, accelerating our Lean journey, striving to achieve world class safety and quality standards, and developing a competitive and flexible cost structure.

**And finally** – Our strategy means measuring success by the value we bring to our customers, the profits we generate to fund reinvestment, and the returns we generate for our shareholders.

I’m confident in our team’s ability to execute this strategy, and I’m confident Caterpillar is well-positioned to compete and grow profitably. Thank you.