

Caterpillar - Building Capacity for a Power-Hungry World

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Industry: Construction Machinery & Heavy Transportation Equipment

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Case convention: This is an author-created management decision exercise. The decision assignment and alternatives are hypothetical; company disclosures are historical. Caterpillar has not disclosed the internal allocation debate presented here. No private meeting, quotation or pending decision is represented.

The assignment

In its second quarter of 2026, Caterpillar reported a \$72.1 billion order backlog that it believed was firm, up \$9.4 billion from the prior quarter. The increase spanned its three primary segments, with the largest increase in Power & Energy. At the same time, the company said it was already progressing with capacity expansion and expected higher throughput in the second half of 2026. [S1], “Order Backlog” and “Trends and Economic Conditions.”

For this classroom exercise, assume a cross-functional strategy team has been asked to recommend how Caterpillar should approach **the next incremental capacity commitments** in Power & Energy. The prompt is constructed for student analysis; it does not describe a real Caterpillar team or a decision management disclosed. Recommend whether the company should add capacity faster, stage additional commitments as evidence arrives, or limit further commitments until uncertainty declines. The already-announced expansion underway is the baseline in all three paths.

Support the recommendation with a stage-gate plan: what evidence should change the pace, what should be measured, and when should the recommendation be revisited? Do not estimate a capital budget from the data provided. Any additional numeric assumptions must be labeled and justified.

Use only information public by 3 October 2026. Do not use later results or hindsight.

A record backlog, with different clocks

Caterpillar’s Q2 revenue rose sharply, and demand signals extended beyond one end market. Yet backlog dollars do not show which products must be built, when each order will ship, or how much of the backlog came from data centers.

Exhibit 1. Caterpillar’s second-quarter 2026 snapshot

USD billions except per-share data; company-reported, unaudited quarter.

Measure	Q2 2026	Q2 2025	Change
Sales and revenues	\$20.543	\$16.569	+24%
Profit per share	\$7.77	\$4.62	+\$3.15
Order backlog at 30 June	\$72.1	-	+\$9.4 sequentially
Backlog not expected to be filled in the next 12 months	\$29.2	-	-

Source: Caterpillar Q2 2026 Form 10-Q and Q2 results release. [S1]-[S2]. Revenue growth was mainly due to \$3.1 billion of higher sales volume and \$595 million of favorable price realization. Backlog is the company's period-end estimate of orders it believed firm. The \$29.2 billion timing figure is approximate. Backlog is not a same-period revenue forecast; it is not split here by customer, product, cancellation terms or application.

Exhibit 2. Power & Energy external sales by application

USD billions; external sales, not internal segment sales.

Application	Q2 2026	Q2 2025	H1 2026	H1 2025
Power Generation	\$3.098	\$2.407	\$5.915	\$4.403
Oil & Gas	\$2.044	\$1.867	\$3.467	\$3.125
Industrial	\$1.653	\$1.520	\$3.126	\$2.920
Power & Energy external sales	\$6.795	\$5.794	\$12.508	\$10.448

Source: Caterpillar Q2 2026 Form 10-Q, "Power & Energy External Sales" table. [S1]. Power Generation sales increased 29% in Q2 and 34% in H1 year over year (calculated from reported values). The company attributed growth to large reciprocating engines and turbines/turbine-related services, primarily in data-center applications. Its outlook also cited prime-power needs, oil and gas, and services. These application figures show a multi-end-market business; they do not disclose backlog composition or capacity shared among product lines.

Power & Energy segment profit was \$3.477 billion in H1 2026, \$635 million above H1 2025. Higher volume and favorable price realization contributed to the increase; unfavorable manufacturing costs reduced profit by \$495 million, primarily due to higher period manufacturing costs. The filing does not assign those costs to a particular facility, product or capacity project. [S1], MD&A, Power & Energy.

What was already in motion

Caterpillar's 2025 annual report describes expansion of large-engine capacity and increased gas-turbine production. It also reports agreements with Hunt Energy and Vertiv to collaborate on integrated on-site power solutions, and the launch of the G3500K natural-gas generator-set series. These are reported actions and company statements about intended customer value; they do not reveal a future project's economics or how rapidly different product lines can expand. [S3], "Meeting Critical Energy Demand."

The company's strategy also extends beyond new equipment. For 2025, Caterpillar reported \$24 billion in MP&E services revenue, more than 1.6 million connected and reporting assets, and 827 autonomous haul trucks in operation. Its annual report defines services revenue to include aftermarket parts and other service-related revenue and to exclude most Financial Products revenue and captive dealer services. This broader proposition may deepen customer relationships, but the case provides no evidence that engine or turbine factory resources can be transferred to these services. [S3], "Offering solutions," "Modernizing Jobsites," "Expanding Autonomy," and footnote 1.

Competition adds another consideration. Cummins reported robust customer orders for data-center standby power and an agreement to supply natural-gas generator sets for a Texas high-performance-computing microgrid, with deliveries scheduled from 2026 through 2030. GE Vernova reported a \$176 billion backlog and targeted annual gas-turbine output of 20 GW in Q3 2026, rising to 24 GW in 2028. [S4]-[S5]. These company disclosures show that alternatives and capacity expansion exist. Their scopes and backlog definitions differ; the figures are not directly comparable to Caterpillar's backlog or evidence of relative market share.

Caterpillar's 2025 Form 10-K describes demand as cyclical and identifies economic conditions, material prices and shortages, competition, dealer and OEM inventories, and trade policy among factors that can affect results. [S6], Item 1A. Growth therefore makes additional capacity attractive, while uncertainty and long-lived commitments make poor timing costly.

Three classroom paths

All paths assume Caterpillar continues the expansion already publicly described. They differ only in how it handles subsequent incremental commitments.

1. **Accelerate.** Commit earlier to dedicated capacity for the products and processes management judges most constrained. Protect delivery positions and reduce the risk that lead times cause customers to choose other suppliers.
2. **Stage.** Continue the disclosed program, then use explicit order, delivery, supplier-readiness and demand-mix triggers before releasing further increments. Test whether qualified suppliers, shifts, equipment or other reversible measures can add throughput before committing to less reversible capacity.
3. **Wait on additional commitments.** Complete the current program and defer further increments until order timing, customer conversion and realized throughput provide stronger evidence of persistence. Accept a greater risk of lost or delayed orders if demand continues to outrun available supply.

The case does not establish that any specific factory, supplier or labor action is available, or that all products share a bottleneck. Students should treat such moves as hypotheses to validate.

Questions for the strategy team

1. Which signals best distinguish sustained demand from accelerated or delayed orders? What can the backlog figure tell you, and what can it not?
2. Which of the three capacity paths do you recommend? Make the strongest case against your own recommendation.
3. How should Caterpillar account for Power Generation, Oil & Gas, Industrial applications and turbine-related services when setting capacity triggers?

4. What can be made more reversible or staged? Which operational facts would you need before recommending a specific action?
5. What should be measured over the next two quarters, and what thresholds would trigger faster investment, continued staging or a pause in additional commitments?

Sources

S1. Caterpillar, [Q2 2026 Form 10-Q](#), quarter ended 30 June 2026, filed 5 August 2026; MD&A “Overview,” “Trends and Economic Conditions,” “Outlook for Key End Markets,” Power & Energy and “Order Backlog”; Power & Energy External Sales table.

S2. Caterpillar, [Q2 2026 results release, Exhibit 99.1](#), furnished 4 August 2026.

S3. Caterpillar, [2025 Annual Report highlights](#), “Offering solutions,” “Modernizing Jobsites,” “Expanding Autonomy,” and “Meeting Critical Energy Demand.”

S4. Cummins, [Q2 2026 results release](#), 4 August 2026.

S5. GE Vernova, [Q2 2026 results release](#), 22 July 2026.

S6. Caterpillar, [2025 Form 10-K](#), Item 1A, filed February 2026.

All amounts are company-reported; rounding is preserved. The case contains no hypothetical financial forecast or capital budget. The described capacity choices, team assignment and review process are classroom constructs, not disclosed Caterpillar plans.