

Caterpillar Inc. (CAT)

Rating (from Neutral) **OUTPERFORM*** [V]
Price (24 Sep 09, US\$) 51.85
Target price (US\$) (from 40.00) 63.00¹
52-week price range 64.13 - 22.17
Market cap. (US\$ m) 32,136.63
Enterprise value (US\$ m) 38,443.63

^{*}Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts
Jamie Cook, CFA

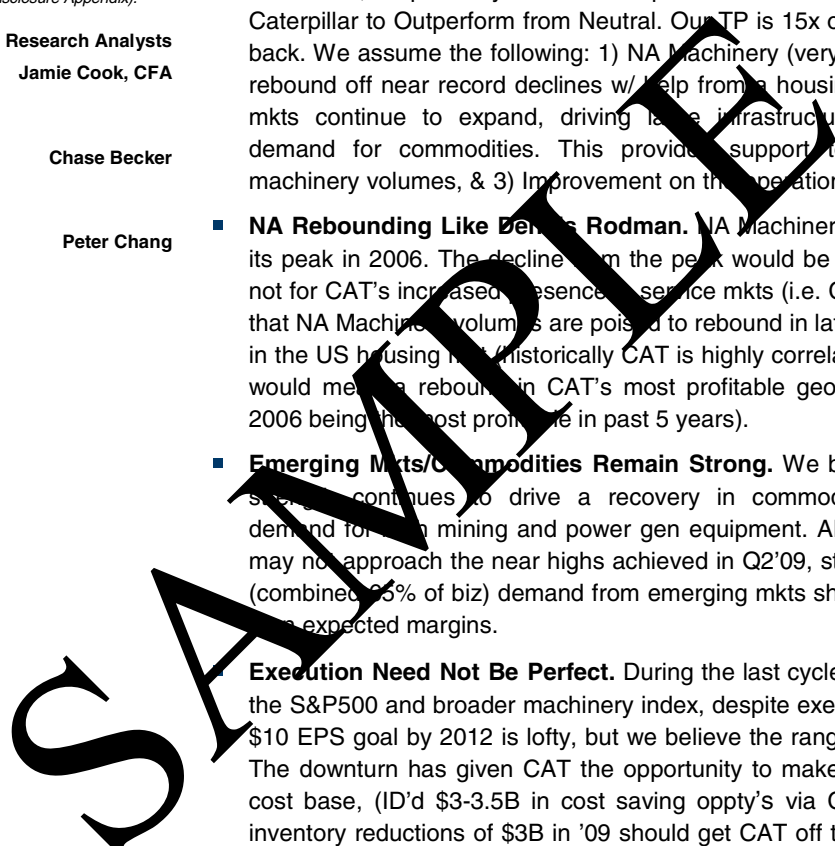
Chase Becker

Peter Chang

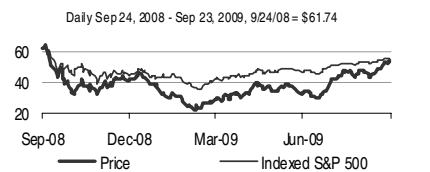
UPGRADE RATING

A Second Chance For CAT

- Upgrading to Outperform.** We are raising our 2010-2012 est's to \$1.95, \$3.70, and \$5.10, respectively. With 22% upside to our new TP of \$63, we upgrade Caterpillar to Outperform from Neutral. Our TP is 15x our 2012 EPS, discounted back. We assume the following: 1) NA Machinery (very profitable for CAT) sales rebound off near record declines w/ help from a housing recovery, 2) Emerging mkts continue to expand, driving large infrastructure projects forward and demand for commodities. This provides support to engines margins and machinery volumes, & 3) Improvement on the operations front represents upside.
- NA Rebounding Like Dennis Rodman.** NA Machinery sales are down 48% off its peak in 2006. The decline from the peak would be even more pronounced if not for CAT's increased presence in service mkts (i.e. CAT logistics). We believe that NA Machinery volumes are poised to rebound in late 2010, led by a recovery in the US housing market (historically CAT is highly correlated w/ US housing). This would mean a rebound in CAT's most profitable geography (as evidenced w/ 2006 being the most profitable in past 5 years).
- Emerging Mkts/Commodities Remain Strong.** We believe that emerging mkt strength continues to drive a recovery in commodities thereby increasing demand for mining and power gen equipment. Also, while engine margins may not approach the near highs achieved in Q2'09, strong oil & gas and power (combined 25% of biz) demand from emerging mkts should help maintain higher expected margins.
- Execution Need Not Be Perfect.** During the last cycle, CAT outperformed both the S&P500 and broader machinery index, despite execution hiccups. CAT's \$8-\$10 EPS goal by 2012 is lofty, but we believe the range is possible by 2015-16. The downturn has given CAT the opportunity to make structural changes in its cost base, (ID'd \$3-3.5B in cost saving oppty's via CPS). Additionally, dealer inventory reductions of \$3B in '09 should get CAT off to a running start in 2010.



Share price performance



On 09/23/09 the S&P 500 index closed at 1060.87

Quarterly EPS	Q1	Q2	Q3	Q4
2008A	1.45	1.74	1.39	1.08
2009E	0.39	0.72	0.02	0.30
2010E	—	—	—	—

Financial and valuation metrics

Year	12/08A	12/09E	12/10E
EPS (CS adj., US\$)	5.67	1.43	1.95
Prev. EPS (US\$)	—	—	1.55
P/E (x)	9.1	36.1	26.6
P/E rel. (%)	54.9	204.5	186.4
Revenue (US\$ m)	48,044.0	30,330.6	32,341.6
EBITDA (US\$ m)	5,761.0	2,754.4	3,504.3
OCFPS (US\$)	6.46	5.04	—
P/OCF (x)	6.9	10.3	—
EV/EBITDA (current)	6.7	13.9	10.8
Net debt (US\$ m)	6,307	6,080	5,807
ROIC (%)	—	—	—
Number of shares (m)	619.80	IC (12/08A, US\$ m)	—
BV/share (current, US\$)	11.9	EV/IC (x)	—
Net debt (current, US\$ m)	5,176.0	Dividend (current, US\$)	1.68
Net debt/tot. cap. (current, %)	36.4	Dividend yield (%)	3.2

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Investment Summary

While it's always tough to call the turn, US machinery sales are projected to decline 48% from the peak in 2006. This is greater than the average decline of 32% over the past three cycles. To give an idea of the order of magnitude in the sales shift, North American machinery sales were 55% of the total in 2006, but fell to only 40% of machinery sales at the end of 2008. Furthermore the revenue decline of 48% looks better than reality, inflated by CAT's increased exposure to less cyclical service markets like CAT logistics, helping support revenues. We also think investors under appreciate the fact that CAT has been much more prudent this cycle reducing dealer inventories. In 2009 alone CAT will reduce dealer inventories by \$3 billion, better positioning itself for potential earnings leverage when end markets recover, which we predict occurs in late 2010. Also, while excess inventories remain a concern, the market is aware of the challenge. Furthermore, we could be under appreciating the potential benefit from emerging economies recovering which could alleviate the excess inventory issue through shipping equipment overseas.

Exhibit 1: CAT NA Machinery Sales Peak To Trough

US Machinery Recovery Provides Meaningful Earnings Leverage

CAT North America Machinery Sales				
Period	Peak	Trough	%Δ	Duration (Years)
Late 70s/Early 80s	\$3,750	\$1,840	-51%	4
Early 90s	\$3,973	\$3,010	-24%	4
Early 2000s	\$8,352	\$6,517	-22%	4
Average			-32%	3
Period	Peak	Trough ₁	%Δ	Duration (Years)
Current	\$14,215	\$7,410	-48%	3

Source: Company data, Credit Suisse estimates

A recovery in the US machinery market is critical as this is CAT's most profitable business. While the company doesn't break out machinery margins by geography, in 2006 overall margins were 11.6% when the US market was at its peak. This compares to just a 6.9% margin in 2008, and its current unprofitable position today (as CAT under produces retail). Theoretically, if demand is flat next year, CAT's earnings in machinery should be up as the company overproduces to meet demand.

Exhibit 2: Machinery Results
in millions, unless otherwise stated

Year	Sales	Op. Income	Op. Margin
Q2'09	\$ 4,388	\$ (178)	-4.1%
2008	\$ 31,804	\$ 2,194	6.9%
2007	\$ 28,359	\$ 2,758	9.7%
2006	\$ 26,062	\$ 3,028	11.6%
2005	\$ 22,931	\$ 2,431	10.6%
2004	\$ 18,844	\$ 1,789	9.5%

Source: Company data, Credit Suisse estimates

Exhibit 3 highlights Machinery sales by end market.

Exhibit 3: Machinery Sales By End Market

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Machinery Sales	13.4	13.4	11.7	11.9	12.2	12.0	13.7	18.8	22.9	26.1	28.4	31.8
% Total												
Heavy Construction	-	-	28	31	31	35	35	33	32	34	34	28
General Construction	-	-	34	30	28	27	26	26	27	25	20	15
Total Construction	39	39	61	61	59	62	61	59	59	59	54	43
Mining	17	16	11	12	16	13	12	16	18	19	22	25
Quarry & Aggregate	-	-	9	8	7	8	9	8	8	9	10	7
Industrial, Forestry & Waste	15	14	15	15	14	14	12	11	10	9	10	9
Agriculture	6	7	4	4	4	3	-	-	-	-	-	-
Other	23	24	-	-	-	-	6	6	5	4	4	16
Total Machinery	100	100	100	100	100	100	100	100	100	100	100	100
Sales												
Heavy Construction	-	-	\$3.2	\$3.7	\$3.8	\$4.2	\$4.8	\$6.2	\$7.3	\$8.9	\$9.6	\$8.9
General Construction	-	-	3.9	3.6	3.4	3.2	3.6	4.9	6.2	6.5	5.7	4.8
Total Construction	5.2	5.2	7.1	7.2	7.2	7.4	8.3	11.1	13.5	15.4	15.3	13.7
Mining	2.3	2.2	1.3	1.4	1.9	1.6	1.6	3.0	4.1	5.0	6.2	8.0
Quarry & Aggregate	-	-	1.1	0.9	0.9	1.0	1.2	1.5	1.8	2.3	2.8	2.2
Industrial, Forestry & Waste	2.0	1.9	1.8	1.8	1.7	1.7	1.6	2.1	2.3	2.3	2.3	2.3
Agriculture	0.8	0.9	0.5	0.5	0.5	0.4	-	-	-	-	-	-
Other	3.1	3.2	-	-	-	-	0.8	1.1	1.1	1.0	1.0	5.1
Total Machinery	\$13.4	\$13.4	\$11.7	\$11.9	\$12.2	\$12.0	\$13.7	\$18.8	\$22.9	\$26.1	\$28.4	\$31.8

Source: Company data, Credit Suisse estimates

We believe the US housing market recovery will be a catalyst for dealers to begin ordering equipment in late 2010. It's important to point out, historically CAT's stock was highly correlated with US residential until the markets cratered in 2006 and beyond (Exhibit 4). After which, CAT's stock continued to outperform the market due to continued earnings growth tied to emerging markets and commodities. We think the same relationship may hold true as the residential market picks up, followed again by a recovery in later cycle emerging/commodities markets. We admit US commercial construction will be a headwind in 2010 with recovery more likely in 2011. We see modest growth in public infrastructure reflecting more maintenance type work buoyed by stimulus dollars.

Exhibit 4: CAT Stock Performance Vs. Housing Starts



Source: Company data, Credit Suisse estimates, FactSet

Consistent with the US, total CAT machinery sales at the end of this year are estimated to be off 37%, again worse than the previous three cycles which average a 24% decline.

Levered Play On
Commodities/Emerging
Markets

Exhibit 5: CAT Total Equipment Sales Over The Cycles

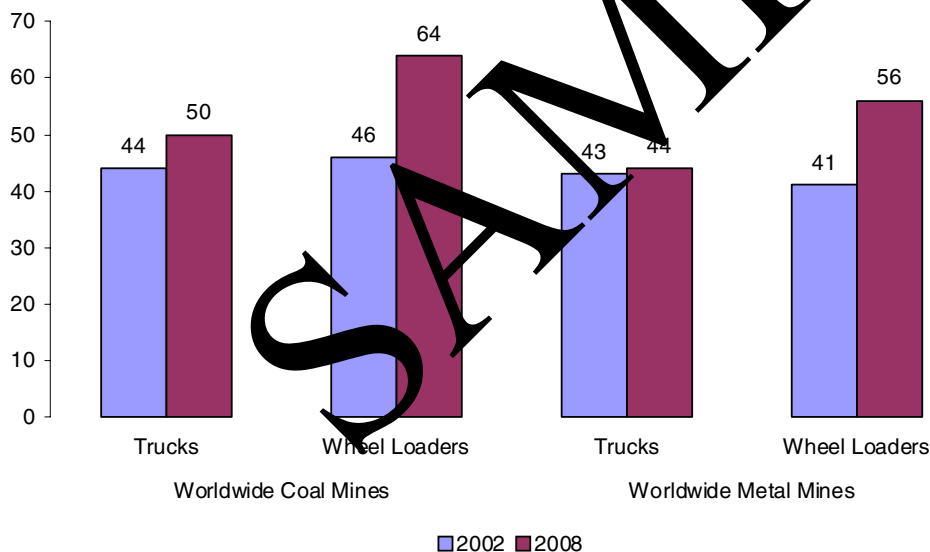
CAT Equipment Sales				
Period	Peak	Trough	%Δ	Duration (Years)
Late 70s/Early 80s	\$9,154	\$5,424	-41%	2
Early 90s	\$11,103	\$9,838	-	1
Early 2000s	\$19,972	\$18,559	-7%	1
Average			-24%	1
Period	Peak	Trough ¹	%Δ	Duration (Years)
Current	\$48,044	\$30,331	-37%	1

¹ Estimated

Source: Company data, Credit Suisse estimates

While growth will be more muted than the previous cycle, we believe machinery sales in emerging markets resume growing, reflecting the continued industrialization of developing economies which supports large infrastructure projects. This is coupled with the recent rise in commodity prices which will drive a recovery in mining activity overseas, in particular China, Australia, Indonesia, South Africa and the Oil Sands. Furthermore, the average age of the mining fleet remains old with over half of all units over 10 years in age.

Exhibit 6: Percent of Operating Units More Than 10 Years Old



Source: Company data, Credit Suisse estimates

One of our biggest fears regarding 2010 was that engines margins would collapse prior to the US Machinery business picking up. This was a big risk given engine markets have been supporting CAT's earnings, posting margins near 20% in the second quarter. Engines margins have been buoyed by the strength of the oil and gas and power markets, along with the absence of the truck business.

Higher Conviction Engine
Margins Hold

Exhibit 7: Engines Sales By End Market

ENGINE SALES MIX (1995-2008)														
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Engine Sales	4.1	4.0	4.8	6.5	6.9	7.1	6.9	6.7	7.4	9.5	11.1	12.8	13.6	16.2
% Total														
Trucks	32	27	29	26	34	27	19	27	29	33	29	29	9	8
Electric Power	29	31	28	25	26	33	35	28	27	27	30	27	30	30
Oil & Gas	28	31	32	32	20	19	25	26	25	22	24	25	35	36
Industrial / OEM	11	11	11	7	11	13	11	10	11	10	9	10	15	14
Marine				10	9	8	10	9	8	8	8	9	11	12
Total Engine	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Sales														
Trucks	\$1.3	\$1.1	\$1.4	\$1.7	\$2.3	\$1.9	\$1.3	\$1.8	\$2.1	\$3.1	\$3.2	\$3.7	\$1.2	\$1.3
Electric Power	1.2	1.2	1.3	1.6	1.8	2.3	2.4	1.9	2.0	2.6	3.3	3.5	4.1	4.9
Oil & Gas	1.2	1.2	1.5	2.1	1.4	1.3	1.7	1.7	1.8	2.1	2.7	3.2	4.8	5.8
Industrial / OEM	0.5	0.4	0.5	0.5	0.8	0.9	0.8	0.7	0.8	0.9	1.0	1.3	2.0	2.3
Marine				0.7	0.6	0.6	0.7	0.6	0.6	0.8	0.9	1.2	1.5	1.9
Total Engine	\$4.1	\$4.0	\$4.8	\$6.5	\$6.9	\$7.1	\$6.9	\$6.7	\$7.4	\$9.5	\$11.1	\$12.8	\$13.6	\$16.2

Source: Company data, Credit Suisse estimates

So what's changed? We believe oil and gas markets are likely to surprise on the upside in 2010 with large projects beginning to move forward again as the National and Integrated oil companies resume spending as oil prices are back at economic levels. Last the power generation markets should recover along with the emerging markets supporting more normalized engine margins.

Exhibit 8: Engine Results

Year	Sales	Op. Income	Op. Margin
Q2'09	\$ 2,916	\$ 566	19.4%
2008	\$ 16,240	\$ 2,578	15.9%
2007	\$ 13,603	\$ 1,826	13.4%
2006	\$ 12,807	\$ 1,622	12.7%
2005	\$ 11,075	\$ 1,071	9.7%
2004	\$ 8,492	\$ 533	6.2%

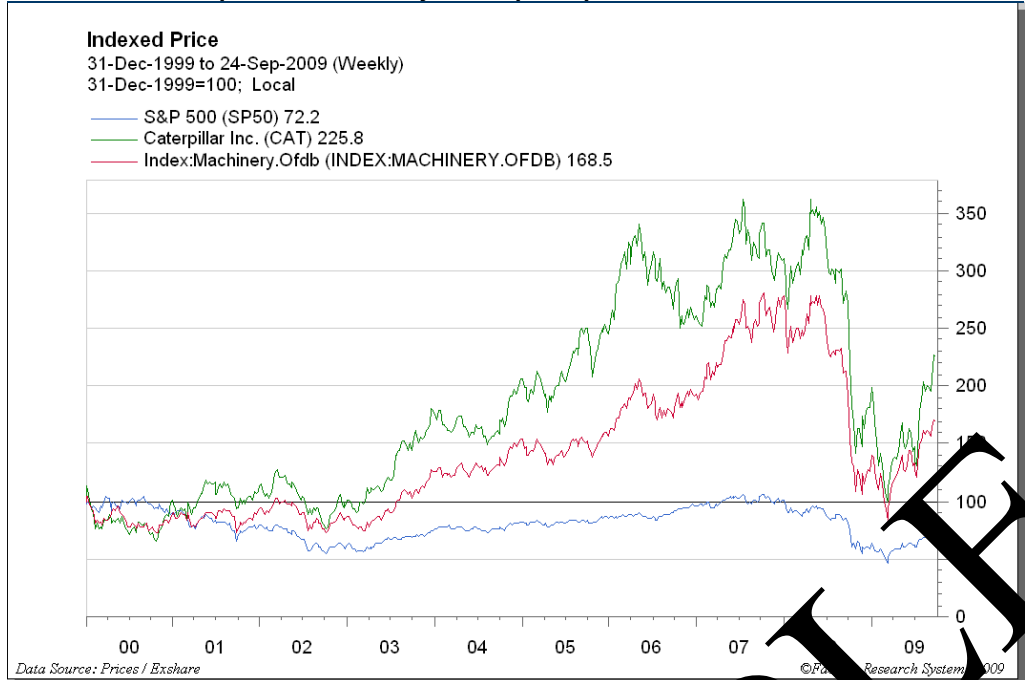
Source: Company data, Credit Suisse estimates

The biggest knocks on CAT's their lack of operational execution reflecting supply chain issues, manufacturing hiccups while trying to implement tier 3 emissions, the inability to meet customer demand and product quality issues. This led to the inability to effectively control costs, subpar incremental margins and the inability to surpass prior peak margins. This was extremely disappointing given this cycle was in fact the "perfect" storm for CAT – in terms of the secular growth in emerging markets/commodities coupled with a US machinery recovery. In fact, CAT should have easily earned the \$8-\$10 in earnings power they projected. Interestingly enough, CAT continues to believe they can achieve \$8-\$10 in 2012 and that \$8-\$10 is probably not the peak. This seems optimistic at best given the struggles to come near this range in the last cycle. We believe it is unlikely CAT meets its lofty 2012 goals, but perhaps 2015 or 2016 is achievable assuming CAT executes more effectively this time around and markets hold together.

The good news is CAT may not need to execute flawlessly for the stock to work and outperform both the broader machinery index and the S&P 500. As highlighted below, CAT outperformed both indexes last cycle despite operational issues.

CAT Under Earned Last Cycle; & Still Outperformed The Group

Exhibit 9: CAT Outperformed Last Cycle Despite Operational Issues



Source: Company data, Credit Suisse estimates, FactSet

CAT admitting their execution was far from flawless is so encouraging, coming clean at their analyst day with a tremendous amount of detail on the operational challenges of the past, along with its ability to structurally lower its cost base. In fact, CAT believes it can take out \$3-\$3.5B in costs by 2012 via CPE. Furthermore, machinery margins should benefit from the implementation of the Lane strategy and the recent re-organization. We are cautiously optimistic CAT makes some headway as this plan seems doable, it will just take time.

Admitting The Problem Is The First Step

Raising EPS and Price Target

We maintain our 2009 EPS of \$1.43 and raise our 2010-2012 EPS to \$1.95, \$3.70, and \$5.10 per share. We assume US machinery sales recover in the back half of the year 2010, off an extremely low base coupled with a more moderate improvement in Int'l sales. The key, in our opinion, is to dramatically reduce dealer inventory so that even in a flat sales environment, CAT has to overproduce, thereby driving earnings leverage. Last, instead of engine margins collapsing, we believe the strength in commodities and emerging markets hold the power generation and oil and gas industries together. Over the next three years, we assume a ~25% incremental margin on average, which compares to ~20% in the previous cycle. We model op. margins peaking at 9.9% versus 12.2%, meaning we don't assume much in the way of improvements from CAT's six sigma/lean initiatives. We use 15x our 2012 EPS, discounted back, to achieve our \$63 price target. With 22% upside, we upgrade to Outperform.

Exhibit 10: Historic and Projected Income Statement

in millions, unless otherwise stated

	2007A	Q1A	Q2A	Q3A	Q4A	2008A	Q1A	Q2A	Q3E	Q4E	2009E	2010E	2011E	2012E
Net Sales:														
Machinery - NA	12,596	3,180	3,511	3,245	2,833	12,769	2,216	1,730	1,623	1,841	7,410	8,892	10,670	11,737
Machinery - Int'l	15,763	4,368	5,019	4,806	4,842	19,035	3,126	2,608	2,403	3,147	11,284	12,977	14,923	16,416
Engines - NA	5,092	1,208	1,458	1,400	1,379	5,445	1,053	1,020	910	896	3,879	3,491	4,190	4,818
Engines - Int'l	8,511	2,223	2,809	2,697	3,066	10,795	2,115	1,896	1,753	1,993	7,757	6,981	8,378	9,634
Revs of Fin Products	2,996	817	827	833	803	3,280	715	721	708	723	2,867	3,153	3,469	3,816
Total Sales	44,958	11,796	13,624	12,981	12,923	51,324	9,225	7,975	7,397	8,601	33,197	35,495	41,630	46,421
Total Equipment Sales	41,962	10,979	12,797	12,148	12,120	48,044	8,510	7,254	6,689	7,878	30,331	32,342	38,161	42,605
Equipment Operations:														
CG&S	32,626	8,609	10,036	9,704	10,066	38,415	7,027	5,752	5,498	6,444	24,721	25,938	30,185	33,360
Gross Profit	9,336	2,370	2,761	2,444	2,054	9,629	1,483	1,502	1,191	1,434	5,609	6,404	7,976	9,245
Margin %	22.2%	21.6%	21.6%	20.1%	16.9%	20.0%	17.4%	20.7%	19.8%	18.2%	18.5%	19.8%	20.9%	21.7%
SG&A	3,356	832	925	924	1,131	3,812	799	789	700	785	3,114	3,240	3,555	3,630
Margin %	8.0%	7.6%	7.2%	7.6%	9.3%	7.9%	8.9%	10.9%	11.7%	10.0%	10.3%	10.0%	9.3%	8.5%
R&D	1,404	369	415	437	507	1,728	388	351	365	370	1,474	1,550	1,350	1,395
Margin %	3.3%	3.4%	3.2%	3.6%	4.2%	3.6%	3.6%	4.8%	5.5%	4.7%	4.9%	4.8%	3.5%	3.3%
Operating Profit	4,576	1,169	1,421	1,083	416	4,599	385	466	46	279	1,021	1,614	3,071	4,220
Margin %	10.9%	10.6%	11.1%	8.9%	3.4%	8.9%	3.9%	5.0%	0.7%	3.5%	3.4%	5.0%	8.0%	9.9%
Interest Expense	294	74	70	59	67	270	114	139	140	140	533	425	370	325
Other Exp (Income)	142	(27)	9	(60)	(35)	(113)	(46)	(123)	0	0	(169)	0	0	0
Pretax Profit	4,140	1,122	1,342	1,084	384	4,322	225	346	(94)	139	657	1,189	2,701	3,895
Taxes	1,205	350	386	353	(267)	868	709	19	(15)	44	157	374	851	1,227
Effective Tax Rate	29.1%	31.2%	28.8%	32.6%	-69.5%	20.9%	41.0%	5.4%	15.9%	31.5%	23.8%	31.5%	31.5%	31.5%
Net Income	2,935	772	956	731	651	3,454	158	327	(79)	95	501	814	1,850	2,668
Equity in Affiliates	69	11	10	12	5	38	1	(1)	0	0	0	25	40	55
Fin Sub After Tax Inc	506	139	140	125	5	409	56	102	80	80	318	366	421	463
Minority Interest							(23)	(15)	(15)	(15)	(68)	(5)	15	25
Total Earnings	3,510	922	1,106	858	661	3,557	238	443	16	190	887	1,210	2,296	3,161
Avg Diluted Shares	659.7	637.9	635.5	624.8	610.6	627.2	602.1	619.8	625.0	625.0	618.0	620.0	620.0	620.0
Earnings Per Share	\$5.32	\$1.45	\$1.74	\$1.38	\$1.08	\$5.67	\$0.39	\$0.72	\$0.02	\$0.30	\$1.43	\$1.95	\$3.70	\$5.10
EBITDA	6,244					5,761					2,754	3,504	5,116	6,323
Margin %	14.9%					12.0%					9.1%	10.8%	13.4%	14.8%

Source: Company data, Credit Suisse estimates

Exhibit 11: Projected Cash Flow
in millions, unless otherwise stated

	2009E	2010E	2011E	2012E
Net Income (before equity)	501	814	1,850	2,668
Dividend	(1,038)	(1,042)	(1,042)	(1,042)
Capital spending	(1,500)	(1,500)	(1,550)	(1,600)
Depreciation	1,415	1,500	1,585	1,585
Operating working capital	1,200	500	420	469
Pension Contribution	(350)	0	0	0
Stock Repurchase	0	0	(360)	(450)
Free cash	227	273	903	1,630

	12/07A	12/08A	03/09A	06/09A	12/09E	12/10E	12/11E	12/12E
Cash	862	1,517	2,118	1,675	1,517	1,517	1,517	1,517
Debt	4,006	7,824	7,348	6,851	7,597	7,324	6,421	4,790
Net Debt	3,144	6,307	5,230	5,176	6,080	5,807	4,904	3,273
Equity	8,883	6,087	6,336	7,375	5,509	5,322	5,770	6,947
Capital	12,889	13,911	13,684	14,226	12,046	12,046	12,191	11,738
Debt as %	31.1%	56.2%	53.7%	48.2%	57.8%	57.9%	52.7%	40.8%
Net Debt/Cap as %	24.4%	45.3%	38.2%	36.4%	46.2%	45.9%	40.2%	27.9%

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 24 Sep 09)
Caterpillar Inc. (CAT, \$51.85, OUTPERFORM [V] TP \$63.00)

Disclosure Appendix

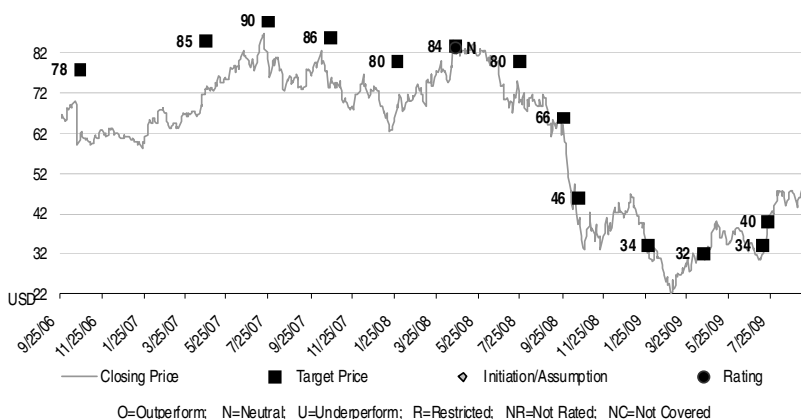
Important Global Disclosures

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for CAT

CAT	Closing Price (US\$)	Target Price (US\$)	Initiation/Assumption	Rating
10/23/06	60.42	78		
4/23/07	71.85	85		
7/23/07	82	90		
10/22/07	73.5	86		
1/28/08	68.21	80		
4/21/08	83.33	84	N	
7/23/08	72.42	80		
9/25/08	61.96	66		
10/17/08	39.32	46		
1/27/09	32.32	34		
4/17/09	32.29	32		
7/14/09	31.93	34		
7/21/09	39.46	40		



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Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**The broad market benchmark is based on the expected return of the relevant market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

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Method: Our \$63 price target for CAT is calculated using a Price to Earnings multiple of 15x (early cycle multiple and in-line with the historical average for the company) our 2012 EPS estimate of \$5.10 (discounted back at 10%).

Risks: Risks to CAT's achievement of our \$63 target price are general economic risk, rising material costs or supply chain distortions, execution risk on overseas expansion, risk in integration of acquisitions, and dealership consolidation. We believe there is risk to CAT's order book if emerging/commodity markets begin to weaken, which could drive cancellations.

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