

Deere & Company (DE)

\$173.26 (As of 12/31/19)

Price Target (6-12 Months): **\$184.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/31/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Deere expects net income of \$2.7-\$3.1 billion for fiscal 2020, down from the prior expectation of \$3.6 billion. Deere will benefit from its concerted focus on launching products with advanced technologies and features. Its efforts to expand in precision agriculture will be a game changer. Deere is assessing its cost structure by reviewing organization efficiency and footprint assessment, which, in turn, will help improve margins. The company's Wirtgen acquisition also significantly enhanced its exposure to global transportation infrastructure. However, low commodity prices, dismal farm incomes and the trade war continue to affect U.S. farmers' equipment purchases, impacting Deere's revenues. Sluggish construction activity remains a concern for Deere. Moreover, raw-material cost inflation will likely dent the company's margin.

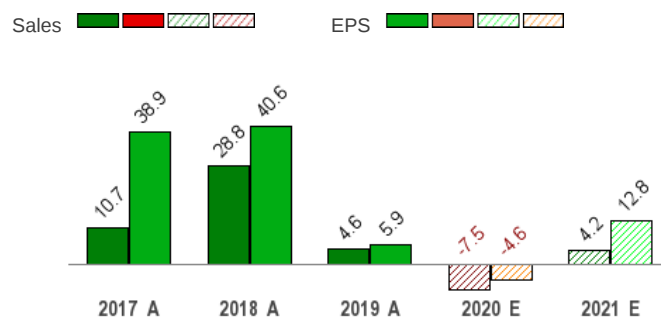
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$180.48 - \$132.68
20 Day Average Volume (sh)	1,304,838
Market Cap	\$54.3 B
YTD Price Change	16.2%
Beta	1.13
Dividend / Div Yld	\$3.04 / 1.8%
Industry	Manufacturing - Farm Equipment
Zacks Industry Rank	Bottom 31% (175 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.5%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-4.1%
Expected Report Date	02/21/2020
Earnings ESP	-1.8%
P/E TTM	17.5
P/E F1	18.3
PEG F1	2.3
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,486 E	9,698 E	8,913 E	8,772 E	33,626 E
2020	6,205 E	9,243 E	8,372 E	8,450 E	32,270 E
2019	6,941 A	10,273 A	8,969 A	8,703 A	34,886 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.65 E	\$3.77 E	\$2.98 E	\$2.63 E	\$10.69 E
2020	\$1.30 E	\$3.16 E	\$2.58 E	\$2.37 E	\$9.48 E
2019	\$1.54 A	\$3.52 A	\$2.71 A	\$2.14 A	\$9.94 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/31/2019. The reports text is as of 01/02/2020.

Overview

IL-based Deere produces and distributes agricultural and forestry equipment, construction equipment and engines worldwide. The company sells products in the United States and Canada through branch offices, distributors and dealers. Deere currently reports operating results under three major business segments:

Agriculture and Turf segment (66% of Deere's fiscal 2019 revenues) manufactures farm equipment and related service parts, including tractors, sugarcane harvesters, sprayers, irrigation equipment, and more. It manufactures and distributes equipment, products and service parts for commercial and residential use, which includes tractors for lawn, garden mowing equipment, golf course equipment and more.

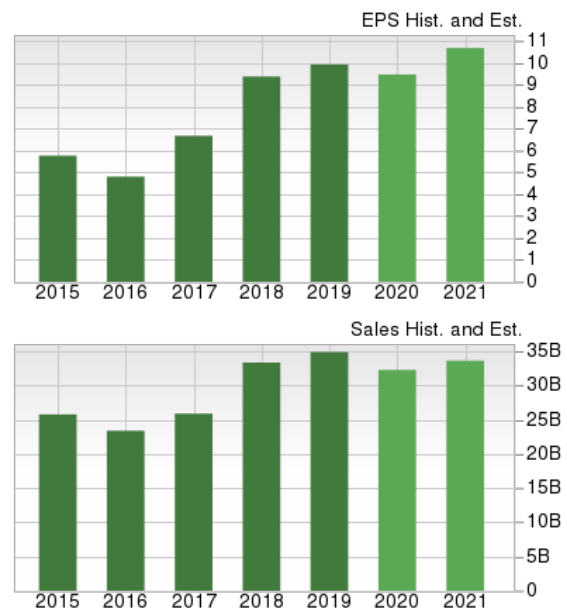
In addition to the John Deere brand, the segment sells a variety of equipment attachments under the Frontier, Kemper and Green Systems brand names. The segment manufactures and sells sprayers under the Hagie and Mazzotti brand names, planters and cultivators under the Monosem brand name, sprayers and planters under the PLA brand name, carbon fiber sprayer booms under the King Agro brand name, and walk-behind mowers and scarifiers in select European countries under the SABO brand name.

Construction and Forestry division (34%) manufactures broad range of machines and service parts used in construction, earthmoving, material handling and timber harvesting. Deere also manufactures and distributes road building equipment through its wholly-owned subsidiaries of the Wirtgen Group.

The construction and forestry machines are distributed under the John Deere brand name while the Wirtgen Group products are distributed under six brand names: Wirtgen, Voge, Hamm, Kleeman, Benninghoven, and Ciber. Forestry attachments are distributed under the John Deere and Waratah brand names.

The Financial Services (11%) primarily finances sales and leases by John Deere dealers for new and used agricultural, commercial and consumer, and construction and forestry equipment.

Deere's agriculture and turf operations and construction and forestry operations are collectively referred to as the "equipment operations."



Reasons To Buy:

- ▲ Per the “phase one” of the agreement between the United States and China, the latter will purchase between \$40 billion and \$50 billion in U.S. agricultural products. This is likely to benefit Deere's top line. The company is assessing cost structure by reviewing organization efficiency and footprint assessment, which in turn will help improve margins. Deere is expected to drive \$150-million synergy benefits from restructuring activities in fiscal 2020. The company will also focus on driving capital-allocation decisions that further prioritize products and services as well as advance solutions offerings, while also accelerate after-market parts and services.
- ▲ Deere remains well poised for growth over the long term, backed by steady investments in new products and geographies. Profitability is likely to remain strong, on upward trends in population and urbanization growth, continued income growth, and dietary improvements. On a long-term basis, the tax reform is expected to be beneficial to Deere's financial outlook. The company has taken actions to reduce inventory and enhance its positions in the current leasing portfolio and overall leasing strategy. This will increase long-term sustainability of leasing business model.
- ▲ Deere will benefit from concerted focus on launching products with advanced technologies and features, which provides it a competitive edge. The company remains focused on revolutionizing agriculture with technology in an effort to make farming automated, easy to use and more precise across the production process. Driven by Precision technology, customer's demand for replacing age old fleet equipment bodes well. Consequently, Deere continues to invest in technology leadership and data analytics. Moreover, the company's efforts to expand in precision agriculture will be a game changer.
- ▲ Deere acquired the world's leading road-construction equipment maker, Wirtgen, for \$5.2 billion in cash and debt in December 2017. The buyout significantly enhances the company's exposure to global transportation infrastructure. Wirtgen's integration is well underway and the company is focused on realization of synergies. Deere also completed the acquisition of PLA, which will assist Deere in providing innovative, cost-effective equipment, technology, and services to customers.

Acquisitions, introduction of advanced technologies in products, efforts to expand in precision agriculture as well as margin improvement plan will aid Deere's results.

Reasons To Sell:

- ▼ For fiscal 2020, Deere anticipates net income of \$2.7-\$3.1 billion, lower than the prior expectation of \$3.6 billion. Trade uncertainties and waning demand resulting from wet spring weather and delayed planting resulted in lower corn and soybean production in the United States. These factors have strained grain supplies throughout fiscal 2019. Deere's results will continue to bear the brunt of higher raw material costs on account of the implementation of tariffs.
- ▼ The U.S Agriculture industry has been grappling with low commodity prices and sluggish farm incomes. Per the U.S. Department of Agriculture's (USDA) latest available projections, net farm income is anticipated to increase 10.2% year over year to \$92.5 billion in 2019. However, it remains well below the high of \$123 billion reached in 2013. Trade tensions, and poor growing and harvesting conditions in fiscal 2019, have made farmers cautious about spending on new farm equipment and continue to put pressure on Deere's top line. Further, the company's leasing business had a sharp profit decline due to falling residual values.
- ▼ Deere anticipates Agriculture and Turf equipment sales to be down between 5% and 10% in fiscal 2020 due to underproduction of small agricultural equipment. Industry sales of agricultural equipment in the United States and Canada are anticipated to be down 5% year over year for fiscal 2020, due to lower large equipment demand. Sales for the EU28-member nations will also remain flat, as most regions in the EU28 countries are expected to recover with favorable production for the year which were impacted by last year's drought. South American industry sales of tractors and combines are projected to be flat as strength in Brazil will be offset by weak performance in Argentina, thanks to political and economic uncertainty. Sales in Asia are forecast to be flat, with sluggishness in China muting growth in India. Industry sales of turf and utility equipment in the United States and Canada are predicted to be flat in fiscal 2020.
- ▼ For fiscal 2020, Construction & Forestry segment sales will likely be down 10-15% compared with the prior fiscal year. This downside reflects mid-single-digit underproduction to retail volume. Also, the segment is expected to witness decline thanks to sluggish construction activity and the company's efforts to manage inventory levels.

Weak agricultural sector and the trade uncertainty to affect Deere's customers buying activity. The Construction & Forestry segment is expected to be hurt by sluggish construction activity.

Last Earnings Report

Deere's Earnings and Revenues Trump Estimates in Q4

Deere reported fourth-quarter fiscal 2019 (ended Nov 3, 2019) adjusted earnings of \$2.14 per share, beating the Zacks Consensus Estimate of \$2.13. However, the reported figure declined 7% from the prior-year quarter's adjusted earnings per share of \$2.30.

The quarterly results reflect lingering uncertainties in the agricultural sector. Prevalent trade tensions, along with poor growing and harvesting conditions, have resulted in farmer's getting cautious about their equipment purchases. Nevertheless, upbeat economic conditions are contributing to Deere's construction and forestry business' solid performance.

Including one-time items, the company reported earnings per share of \$2.27 in the fiscal fourth quarter compared with the \$2.42 recorded in the year-ago quarter.

Net sales of equipment operations (which comprise Agriculture and Turf, Construction and Forestry) came in at \$8.70 billion, up 4% year over year. Revenues also surpassed the Zacks Consensus Estimate of \$8.45 billion. Total net sales (including financial services and others) came in at around \$9.90 billion, up 5% year over year.

Operational Update

Cost of sales in the reported quarter was up 5.5% year over year to \$6.7 billion. Gross profit, excluding financial services, in the October-end quarter inched up 0.3% year over year, to \$1.97 billion. Selling, administrative and general expenses flared up 5% year over year to \$945 million. Equipment operations reported operating profit of \$788 million in the quarter compared with the \$862 million witnessed in the prior-year quarter. Total operating profit (including financial services) dipped to \$916 million from the \$1,063 million reported in the year-ago quarter.

Segment Performance

The Agriculture & Turf segment's sales were up 3% year over year to \$5.7 billion, primarily due to price realization and higher shipment volumes, partly offset by the unfavorable currency-translation impact. Operating profit in the segment declined 7% year over year to \$527 million, resulting from higher production costs, selling, administrative, and general expenses, unfavorable currency impact, and elevated research and development expenses.

Construction & Forestry sales improved 8% year over year to \$2.95 billion from the prior-year quarter, aided by higher shipment and price realization, partly offset by the unfavorable currency-translation impact. This segment's operating profit declined 12% year over year to \$261 million.

Net revenues in Deere's Financial Services division came in at \$971 million in the reported quarter, up 14% year over year. The segment's operating profit came in at \$128 million, plunging 36% year over year.

Financial Update

Deere reported cash and cash equivalents of \$3.86 billion at the end of fiscal 2019 compared with \$3.9 billion recorded at the end of the prior fiscal year. Cash provided by operating activities were \$3,412 million in fiscal 2019 compared with the prior fiscal year's \$1,822 million. At the end of the reported quarter, long-term borrowing was approximately \$30.2 billion, up from the year-ago quarter's \$27.2 billion.

Fiscal 2020 Outlook

For fiscal 2020, Deere expects Agriculture and Turf equipment sales to be down 5-10%. Industry sales of agricultural equipment in the United States and Canada are anticipated to decline 5%, due to lower large equipment demand. Moreover, Construction and Forestry equipment sales are expected to decline 10-15%, due to sluggish construction activity and the company's efforts to manage inventory levels. Nevertheless, the Financial Services segment is anticipated to benefit from lower losses on lease residual values and income earned on a higher average portfolio.

Net income for the fiscal year is now projected at \$2.7-\$3.1 billion.

Quarter Ending **10/2019**

Report Date	Nov 27, 2019
Sales Surprise	2.91%
EPS Surprise	0.47%
Quarterly EPS	2.14
Annual EPS (TTM)	9.91

Valuation

Deere's shares are up 20.3% in the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Industrial Products sector were up 20.9% and 26.9%, respectively.

The S&P 500 index has gained 30.7% in the past year.

The stock is currently trading at 17.88X forward 12-month earnings, which compares to 17.61X for the Zacks sub-industry, 19.44X for the Zacks sector and 20.29X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.35X and as low as 11.29X, with a 5-year median of 17.25X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$184 price target reflects 18.98X Forward 12-month earnings.

The table below shows summary valuation data for DE:

Valuation Multiples - DE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.88	17.61	19.44	20.29
	5-Year High	26.35	23.16	19.88	20.29
	5-Year Low	11.29	11.88	12.58	15.17
	5-Year Median	17.25	17.36	16.48	17.44
P/S F12M	Current	1.67	1.18	2.74	3.51
	5-Year High	1.74	1.24	2.74	3.51
	5-Year Low	0.97	0.76	1.51	2.54
	5-Year Median	1.33	0.98	1.96	3
EV/EBITDA TTM	Current	12.8	10.84	17.04	12.01
	5-Year High	14.89	13.39	17.4	12.86
	5-Year Low	9.25	8.23	10.89	8.49
	5-Year Median	12.33	10.67	14.67	10.65

As of 12/31/2019

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



Top Peers

AGCO Corporation (AGCO)	Neutral
Briggs & Stratton Corporation (BGG)	Neutral
Caterpillar Inc. (CAT)	Neutral
CNH Industrial N.V. (CNHI)	Neutral
Lindsay Corporation (LNN)	Neutral
Terex Corporation (TEX)	Neutral
Toro Company (The) (TTC)	Neutral
Titan International, Inc. (TWI)	Neutral

Industry Comparison Industry: Manufacturing - Farm Equipment				Industry Peers		
	DE Neutral	X Industry	S&P 500	AGCO Neutral	CAT Neutral	TWI Neutral
VGM Score	B	-	-	B	D	A
Market Cap	54.28 B	660.46 M	23.93 B	5.83 B	81.62 B	218.24 M
# of Analysts	10	3	13	8	9	2
Dividend Yield	1.75%	0.55%	1.78%	0.83%	2.79%	0.55%
Value Score	B	-	-	B	B	B
Cash/Price	0.08	0.08	0.04	0.05	0.10	0.37
EV/EBITDA	10.57	9.91	13.95	9.91	8.48	5.60
PEG Ratio	2.33	2.49	2.12	1.19	1.56	NA
Price/Book (P/B)	4.78	1.41	3.33	1.94	5.44	0.88
Price/Cash Flow (P/CF)	10.48	10.28	13.67	10.08	8.96	2.94
P/E (F1)	18.28	19.20	19.66	15.28	13.61	NA
Price/Sales (P/S)	1.38	0.58	2.69	0.64	1.48	0.14
Earnings Yield	5.47%	4.97%	5.08%	6.55%	7.35%	-12.43%
Debt/Equity	2.65	0.43	0.72	0.47	1.71	1.87
Cash Flow (\$/share)	16.53	1.23	6.94	7.66	16.49	1.23
Growth Score	B	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	12.82%	4.22%	10.56%	4.22%	23.01%	NA
Proj. EPS Growth (F1/F0)	-4.59%	0.00%	0.00%	33.02%	-6.88%	-280.00%
Curr. Cash Flow Growth	4.09%	14.99%	14.83%	14.99%	35.57%	149.86%
Hist. Cash Flow Growth (3-5 yrs)	3.09%	-8.35%	9.00%	-7.15%	6.65%	-9.56%
Current Ratio	2.04	2.00	1.23	1.31	1.44	2.00
Debt/Capital	72.60%	31.04%	42.92%	31.91%	63.05%	66.37%
Net Margin	8.29%	-1.01%	11.08%	3.42%	10.99%	-2.53%
Return on Equity	27.11%	0.79%	17.10%	12.26%	42.51%	-12.51%
Sales/Assets	0.54	1.02	0.55	1.13	0.70	1.20
Proj. Sales Growth (F1/F0)	-7.50%	0.00%	0.00%	0.00%	0.00%	0.00%
Momentum Score	F	-	-	B	F	D
Daily Price Chg	-0.52%	-0.45%	0.33%	-0.45%	0.11%	-0.82%
1 Week Price Chg	0.66%	0.00%	0.13%	0.08%	0.48%	-4.64%
4 Week Price Chg	5.97%	6.82%	3.67%	0.93%	5.44%	30.22%
12 Week Price Chg	5.03%	10.09%	10.64%	10.17%	25.18%	58.77%
52 Week Price Chg	16.15%	-0.27%	27.46%	38.76%	16.22%	-22.32%
20 Day Average Volume	1,304,838	400,742	1,693,267	441,095	2,414,352	400,742
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.06%	0.00%	0.00%	0.02%	-0.14%	0.00%
(F1) EPS Est 12 week change	-15.14%	-2.66%	0.14%	-0.49%	-7.08%	-104.55%
(Q1) EPS Est Mthly Chg	-6.18%	0.00%	0.00%	0.09%	-0.83%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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