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Mar 03, 2020

Deere & Company (DE)

$163.92 (As of 03/02/20)

Price Target (6-12 Months): **$173.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/27/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: C	

Summary

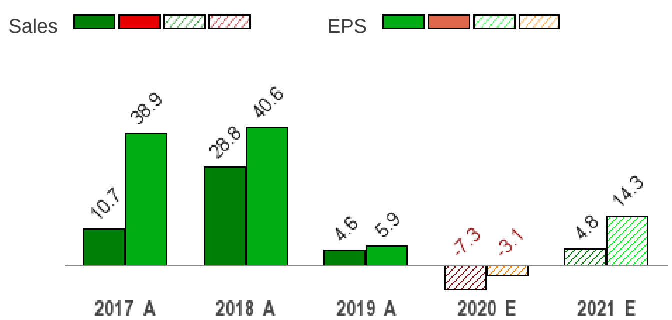
Deere's first-quarter fiscal 2020 earnings improved from the prior-year quarter despite a drop in revenues. Both earnings and revenues beat the respective Zacks Consensus Estimate. The company expects net income of $2.7-$3.1 billion for fiscal 2020, down from $3.25 billion reported in fiscal 2019. The coronavirus outbreak is likely to hurt Deere's road building sales in China and disrupt supply chain, thereby impacting second-quarter fiscal 2020 results. For fiscal 2020, Construction & Forestry segment sales will bear the brunt of weak construction activity and efforts to lower production. Nevertheless, growing U.S farm income in 2020 bodes well for agricultural equipment demand. Acquisitions, introduction of advanced technologies in its products and efforts to expand in precision agriculture will drive growth.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$181.99 - $132.68**
20 Day Average Volume (sh)	**1,882,200**
Market Cap	**$51.4 B**
YTD Price Change	**-5.4%**
Beta	**1.05**
Dividend / Div Yld	**$3.04 / 1.9%**
Industry	**Manufacturing - Farm Equipment**
Zacks Industry Rank	**Bottom 22% (198 out of 255)**
Last EPS Surprise	**27.3%**
Last Sales Surprise	**5.3%**
EPS F1 Est- 4 week change	**2.0%**
Expected Report Date	**05/15/2020**
Earnings ESP	**0.0%**
P/E TTM	**16.4**
P/E F1	**17.0**
PEG F1	**2.2**
P/S TTM	**1.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	6,901 E	9,469 E	8,885 E	8,634 E	33,898 E
2020	6,530 A	9,114 E	8,426 E	8,263 E	32,333 E
2019	6,941 A	10,273 A	8,969 A	8,703 A	34,886 A

EPS Estimates

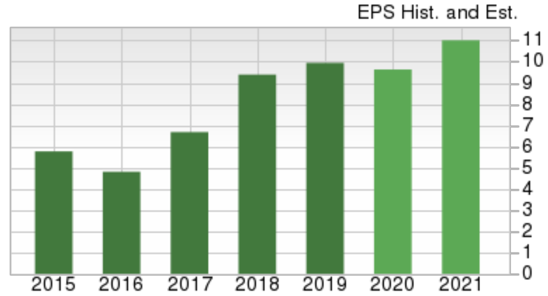
	Q1	Q2	Q3	Q4	Annual*
2021	$1.82 E	$3.62 E	$3.09 E	$2.67 E	$11.01 E
2020	$1.63 A	$2.85 E	$2.68 E	$2.45 E	$9.63 E
2019	$1.54 A	$3.52 A	$2.71 A	$2.14 A	$9.94 A

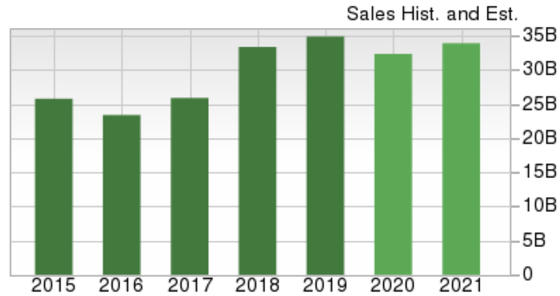
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/02/2020. The reports text is as of 03/03/2020.

Overview

Deere is currently the world's largest producer of agricultural equipment, manufacturing agricultural machinery since 1837 under the iconic John Deere brand with its signature green and yellow color scheme. The company generated revenues of around $24 billion or 60% of total revenues in fiscal 2019 from the sale of agriculture and turf equipment. With a market capitalization of $49.3 billion, IL-based Deere is the only agricultural and farm machinery player in the S&P 500 Index.





The **Agriculture and Turf** segment 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.

In the 1950s, the company formed the construction-equipment division, which is currently the Construction and Forestry division. The segment generated revenues of $11 billion in fiscal 2019, contributing 28% of Deere's revenues. The division 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 company is considered to have a product advantage in most farm machinery categories as its machines come with better features and are better constructed than its competitors. Further, Deere boasts a broad distribution network. Deere has also been growing in the field of precision agriculture through acquisitions (Blue River, NavCom Technology) and is currently the world leader in precision agriculture. It remains focused on revolutionizing agriculture with technology, in an effort to make farming automated, easier and more precise across the production process. Notably, Deere spends around 8% of sales on R&D.

Deere also finances sales and leases by John Deere dealers for new and used agricultural, commercial and consumer, and construction and forestry equipment through its Financial Services segment (10% of fiscal 2019 revenues).

Increased global demand for food, shelter and infrastructure from a burgeoning population will continue to drive Deere going forward.

Reasons To Buy:

Recovery of the agricultural sector, acquisitions, introduction of advanced technologies in products, expansion in precision agriculture and margin improvement plan will aid Deere's results.

- The U.S. farm sector seems to be showing early signs of stabilization following the passage of The United States Mexico Canada Agreement (USMCA) and the phase 1 trade agreement with China, which instilled farmer confidence. The agricultural sector had so far been grappling with low commodity prices, sluggish farm incomes and the impact of the trade war. Per the U.S. Department of Agriculture's (USDA) latest available projections, net farm income is anticipated to improve 3.3% year over year to $96.7 billion in 2020. In inflation-adjusted terms, the projected net farm income in 2020, if realized, would be 5.4% higher than 2000-18 average ($91.7 billion). This will make farmers resume spending on agricultural equipment, which will drive the top line.

- In Europe, overall agricultural fundamentals have improved year over year as the north region is recovering from last year's drought. Margins in dairy and livestock are improving and the outlook for the dairy sector remains stable. In Brazil, the government announced a new financing program in late January that will begin the transition to unsubsidized market base rates for agricultural equipment. This development should provide greater clarity on funding options for farmers and trigger demand for equipment sales for the second half of the year. These developments will drive Deere's results in the current fiscal.

- Deere is assessing cost structure by reviewing organization efficiency and footprint assessment, which in turn will help improve margins. The company initiated a voluntary separation program during first-quarter fiscal 2020, in sync with its efforts to create a more efficient organization structure and reduce operating costs. The program's total estimated pretax expenses are approximately $136 million, of which $127 million was recorded in the first quarter. Annual savings from these programs are estimated to be approximately $85 million with about $65 million in 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. As customer's needs continue to evolve, it will trigger the need to replace old equipment. Their growing reliance on advanced technology to run their complex operations smoothly will continue to fuel Deere's revenues. 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 enhanced the company's exposure to global transportation infrastructure. Before the deal, Deere did not manufacture any road building equipment such as pavers and compaction equipment. John Deere becomes the first manufacturer to have crushing and screening, and mobile equipment. The buyout is in sync with Deere's long-term strategy to expand in both agriculture and construction. The company is focused on realization of synergies. Deere also acquired PLA, which will assist the company in providing innovative, cost-effective equipment, technology, and services to customers. In October 2019, Deere entered into a definitive agreement to acquire Unimil, a privately held Brazilian company in the aftermarket service parts business for sugarcane harvesters.

Reasons To Sell:

Deere's Construction & Forestry segment will be hurt by weak construction activity. The company's sales and margins will bear the impact of the coronavirus outbreak in the near term.

- For fiscal 2020, Deere anticipates net income of $2.7-$3.1 billion, lower than net income of $3.25 billion in fiscal 2019. Deere's results will continue to bear the brunt of higher raw material costs on account of the implementation of tariffs. Further, the coronavirus outbreak has impacted agricultural exports to China. It also remains to be seen whether China will be able to honor its terms of the trade agreement. This will remain an overhang on the company.

- Activity in the overall construction sector has slowed, which in turn is weighing on the Construction & Forestry segment. In the wake of weak demand, Deere is cutting down production and lower inventories. Due to these factors, the segment is expected to witness decline in sales in fiscal 2020.

- Deere continues to face challenging conditions in Canada. In contrast to the United States, the company's inventories, remains elevated in Canada. This is primarily due to challenging industry conditions, namely existing trade barriers on Canadian canola and a declining exchange rate. Even though net farm income in Canada is expected to increase this year, it will still be below long-term averages. Further, in Latin American markets like Mexico and Argentina, Deere continues to face near-term challenges thanks to adverse policies impacting the agricultural sector.

- The coronavirus outbreak will have a direct two pronged impact on the company — on sales and the supply chain. The company's sales into the China market for its agricultural and turf business and traditional Construction and Forestry business is relatively small. The company's road building business has a bigger exposure to China, with sales contributing 10% to 15% of the overall sales. With lack of activity in this area due to the outbreak, this is likely to impact revenues in the ongoing quarter. Deere has suppliers in China that cater to operations globally. Deere anticipates $40 million of expedited freight in the second quarter to make up for the disruption in the supply. Consequently, second-quarter fiscal 2020's earnings and revenues are likely to bear the impact of the coronavirus outbreak.

Last Earnings Report

Deere's Earnings and Revenues Trump Estimates in Q1

Quarter Ending	01/2020
Report Date	Feb 21, 2020
Sales Surprise	5.25%
EPS Surprise	27.34%
Quarterly EPS	1.63
Annual EPS (TTM)	10.00

Deere posted first-quarter fiscal 2020 (ended Feb 2, 2020) earnings of $1.63 per share, beating the Zacks Consensus Estimate of $1.28. The reported figure increased 5.8% from the prior-year quarter's earnings per share of $1.54.

The quarterly results reflect signs of stabilization in the U.S. farm sector. Farmer sentiment improved on expectations of easing of trade tensions and higher agricultural exports.

Net sales of equipment operations (which comprise Agriculture and Turf, Construction and Forestry) came in at $6.53 billion, down 6% year over year. Revenues, however, surpassed the Zacks Consensus Estimate of $6.20 billion. Total net sales (including financial services and others) came in at around $7.63 billion, down 4% year over year.

Operational Update

Cost of sales in the reported quarter was down 6.5% year over year to $5.1 billion. Gross profit, excluding financial services, for the January-end quarter fell 3.7% year over year, to $1.45 billion. Selling, administrative and general expenses flared up 5.9% year over year to $809 million. Equipment operations reported operating profit of $466 million in the quarter compared with the $577 million witnessed in the prior-year period. Total operating profit (including financial services) dipped to $645 million from $769 million reported in the year-ago quarter.

Segment Performance

The Agriculture & Turf segment's sales slid 4% year over year to $4.5 billion, primarily due to lower shipment volumes and unfavorable currency-translation impact, partly offset by price realization. Operating profit in the segment increased 7% year over year to $373 million, resulting from higher price realization, improved production costs, and lower warranty-related expenses, partly offset by lower shipment volumes and voluntary employee-separation expenses.

Construction & Forestry sales slipped 10% year over year to $2 billion from the year-earlier quarter, due to lower shipment volumes and unfavorable foreign currency, partly offset by price realization. This segment's operating profit plummeted 59% year over year to $93 million.

Net revenues in Deere's Financial Services division came in at $931 million in the reported quarter, up 9% year on year. The segment's operating profit came in at $179 million, down 7% year over year.

Financial Update

Deere reported cash and cash equivalents of $3.60 billion at the end of the fiscal first quarter compared with the $3.63 billion recorded at the end of the prior-year quarter. Cash utilized in operating activities were $508 million in the fiscal first quarter compared with the year-ago quarter's $1,651 million. At the end of the reported quarter, long-term borrowing was $30.5 billion, up from $27.9 billion at the year-ago quarter's end.

Outlook

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

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 be down 5%, due to softer large equipment demand in Canada. Moreover, Construction and Forestry equipment sales are expected to slip 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.

Recent News

Deere Announces Quarterly Dividend – Feb 26, 2020

Deere's board of directors declared a regular quarterly dividend of 76 cents per share, payable May 8, 2020, to stockholders of record on Mar 31, 2020.

Valuation

Deere's shares are down 1.2% in the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Industrial Products sector were down 6.9% and 5%, respectively.

The S&P 500 index has gained 4.9% in the past year.

The stock is currently trading at 15.51X forward 12-month earnings, which compares to 15.09X for the Zacks sub-industry, 16.27X for the Zacks sector and 16.87X 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 17.38X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $173 price target reflects 17.14X 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	16.24	15.78	16.77	17.66
	5-Year High	26.35	23.16	19.89	19.34
	5-Year Low	11.29	11.88	12.6	15.18
	5-Year Median	17.37	17.36	16.67	17.46
P/S F12M	Current	156	1.09	2.53	3.26
	5-Year High	1.74	1.24	2.73	3.43
	5-Year Low	0.97	0.76	1.51	2.54
	5-Year Median	1.36	0.99	1.99	3.01
EV/EBITDA TTM	Current	12.1	10.6	15.36	10.93
	5-Year High	14.89	13.39	17.42	12.88
	5-Year Low	9.72	8.31	10.89	8.49
	5-Year Median	12.4	10.71	14.73	10.79

As of 03/02/2020

Industry Analysis **Zacks Industry Rank:** Bottom 22% (198 out of 255)

Top Peers

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

Industry Comparison Industry: Manufacturing - Farm Equipment

Industry Peers

	DE Neutral	X Industry	S&P 500	AGCO Neutral	CAT Neutral	TWI Neutral
VGM Score	F	-	-	A	B	-
Market Cap	51.41 B	604.21 M	22.14 B	4.80 B	70.19 B	127.81 M
# of Analysts	10	3	13	7	11	2
Dividend Yield	1.85%	0.94%	1.98%	1.01%	3.23%	0.94%
Value Score	D	-	-	A	B	A
Cash/Price	0.09	0.11	0.05	0.09	0.12	0.59
EV/EBITDA	10.26	10.26	12.79	10.32	7.63	4.76
PEG Ratio	2.17	3.06	1.92	3.06	1.40	NA
Price/Book (P/B)	4.31	1.20	3.00	1.65	4.80	0.51
Price/Cash Flow (P/CF)	9.92	8.00	11.97	6.08	7.92	1.72
P/E (F1)	17.02	15.52	17.43	12.36	13.56	NA
Price/Sales (P/S)	1.32	0.48	2.48	0.53	1.30	0.08
Earnings Yield	5.87%	5.87%	5.74%	8.10%	7.37%	0.00%
Debt/Equity	2.55	0.52	0.70	0.46	1.80	1.87
Cash Flow ($/share)	16.53	1.23	6.94	10.47	16.10	1.23
Growth Score	F	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	16.20%	8.15%	10.85%	8.15%	27.28%	NA
Proj. EPS Growth (F1/F0)	-3.12%	5.71%	6.48%	15.89%	-14.91%	100.00%
Curr. Cash Flow Growth	4.09%	4.09%	6.03%	31.75%	-6.65%	149.86%
Hist. Cash Flow Growth (3-5 yrs)	3.09%	-6.42%	8.52%	-3.29%	4.31%	-9.56%
Current Ratio	2.12	2.00	1.23	1.29	1.47	2.00
Debt/Capital	71.88%	38.40%	42.57%	31.56%	64.24%	66.37%
Net Margin	8.41%	-0.58%	11.57%	1.38%	11.32%	-2.53%
Return on Equity	26.92%	-0.43%	16.66%	11.31%	41.85%	-12.51%
Sales/Assets	0.53	1.09	0.54	1.11	0.68	1.20
Proj. Sales Growth (F1/F0)	-7.32%	0.00%	4.07%	1.16%	-8.15%	1.51%
Momentum Score	C	-	-	D	D	-
Daily Price Chg	4.75%	0.00%	3.82%	5.25%	2.70%	-4.50%
1 Week Price Chg	-11.81%	-7.04%	-12.06%	-11.88%	-9.45%	1.37%
4 Week Price Chg	3.56%	-7.60%	-6.43%	-10.70%	-1.67%	-29.10%
12 Week Price Chg	-2.37%	-3.79%	-5.15%	-16.28%	-10.66%	-28.86%
52 Week Price Chg	-1.15%	-1.15%	4.77%	-7.38%	-7.77%	-67.23%
20 Day Average Volume	1,882,200	375,976	2,363,047	632,747	3,756,574	375,976
(F1) EPS Est 1 week change	0.64%	0.00%	0.00%	0.00%	-0.03%	NA
(F1) EPS Est 4 week change	1.98%	-2.54%	-0.04%	-3.08%	-2.11%	NA
(F1) EPS Est 12 week change	-0.40%	-1.98%	-0.33%	-8.44%	-13.47%	NA
(Q1) EPS Est Mthly Chg	-9.77%	-16.45%	-0.38%	-32.12%	-15.36%	0.00%

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	D
Growth Score	F
Momentum Score	C
VGM Score	F

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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