

Deere & Company (DE)

\$126.80 (As of 05/14/20)

Price Target (6-12 Months): **\$132.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: D

Momentum: A

Summary

Deere has withdrawn fiscal 2020 guidance citing that the impact of the coronavirus pandemic on its results cannot be reasonably estimated at this time. Demand for its products and services and supply chain are likely to be impacted. The company anticipates expedited freight costs to make up for the disruption in the supply, which will dent margins. Further, temporary closures owing to restrictions imposed by the governments will hinder this year's performance. Construction & Forestry segment sales will bear the brunt of weak construction activity and the company's efforts to lower production this fiscal. Nevertheless, growing U.S farm income bodes well for agricultural equipment demand. Acquisitions, introduction of advanced technologies in its products and efforts to expand in precision agriculture will drive growth.

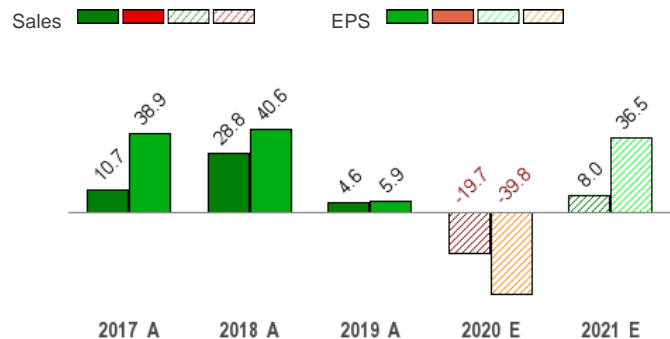
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$181.99 - \$106.14
20 Day Average Volume (sh)	1,694,995
Market Cap	\$39.8 B
YTD Price Change	-26.8%
Beta	0.93
Dividend / Div Yld	\$3.04 / 2.4%
Industry	Manufacturing - Farm Equipment
Zacks Industry Rank	Bottom 23% (194 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.3%
Last Sales Surprise	5.3%
EPS F1 Est- 4 week change	-9.2%
Expected Report Date	05/22/2020
Earnings ESP	0.0%
P/E TTM	12.7
P/E F1	21.2
PEG F1	2.7
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,476 E	8,274 E	6,875 E	7,519 E	30,256 E
2020	6,530 A	8,010 E	6,569 E	7,067 E	28,018 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	\$1.53 E	\$2.82 E	\$2.03 E	\$2.14 E	\$8.16 E
2020	\$1.63 A	\$1.99 E	\$1.22 E	\$1.51 E	\$5.98 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 05/14/2020. The reports text is as of 05/15/2020.

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 \$44.3 billion, IL-based Deere is the only agricultural and farm machinery player in the S&P 500 Index.

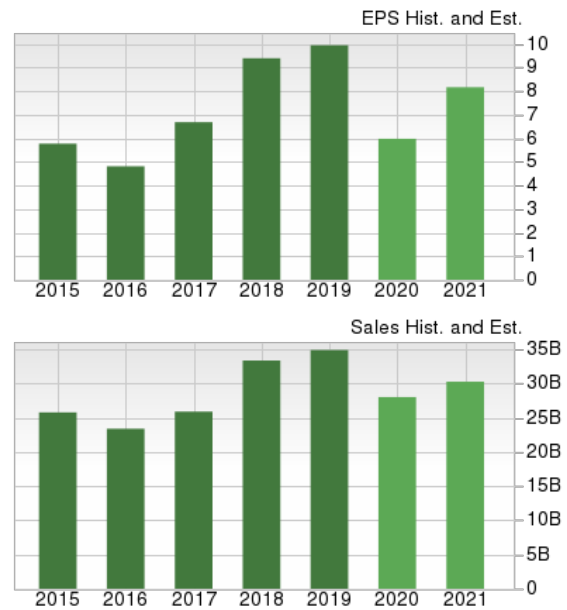
The **Agriculture and Turf** segment manufactures farm equipment and related service parts, including tractors, sugarcane harvesters, sprayers, irrigation equipment, and more. It manufactures and distributes equipment, products and service parts for commercial and residential use.

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:

- ▲ 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.

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.

Reasons To Sell:

- ▼ Deere has withdrawn fiscal 2020 guidance. The company stated that the eventual impact of the coronavirus pandemic on its financial and operational results cannot be estimated at this time. It will ultimately depend on the duration of the pandemic, its geographic spread and the governmental regulations imposed in response to the crisis. Further, effect on the demand for the company's products and services, and supply chain and operations cannot be quantified now. 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. Some of Deere's facilities are reducing operations and, in some cases, are temporarily shutting down operations to curb the spread of the coronavirus. This will also dent this year's performance.
- ▼ Over the last three years, Deere's total debt has gone up at a CAGR of 4%. Deere has liabilities of \$23.1 billion due within 12 months, and liabilities of \$36.8 billion due beyond 12 months. The company has a cash balance of \$4.2 billion and \$6.8 billion in receivables, which seems inadequate to cover its liabilities. The company has a debt-to-capital ratio of 0.79, which is on the higher side but in line with the industry. The company's times interest earned ratio has been going down over the past few years and is currently at 3.7, a tad lower than the industry's 3.8.

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

Last Earnings Report

Deere's Earnings and Revenues Trump Estimates in Q1

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.

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

Recent News

Deere Suspends Production at Iowa Factory - Mar 30, 2020

Deere suspended production of its Construction and Forestry equipment factory in Dubuque, IA, after an employee was tested COVID-19 positive. During the suspension, the facility will undergo a thorough disinfection per local and state health-department guidance. Employees will return to work via staggered, scheduled start-ups. Meanwhile, those who are able to work remotely will continue to do so.

Deere's Parts Operation in Campina Brazil Continues to Support Famers – Mar 25, 2020

Deere announced that its parts operation in Campinas is open and its dealers are servicing customers. This is a critical time for their business as Brazilian farmers are harvesting their first crop and beginning to plant their second. However, Deere's agricultural and construction equipment factories in Brazil are undergoing temporary closures. These facilities are anticipated to resume operation as soon as possible.

Deere Withdraws Fiscal 2020 Guidance on Coronavirus Impact – Mar 23, 2020

Deere withdrew its guidance for fiscal 2020 on account of the coronavirus outbreak. The company stated that the ultimate impact of the coronavirus pandemic on its financial and operational results cannot be estimated at this time. It will ultimately depend on the duration of the pandemic, its geographic spread and the governmental regulations imposed in response to the crisis. Further, effect on the demand for the company's products and services, and supply chain and operations cannot be quantified now.

As Deere falls under the critical infrastructure industry as defined by the Department of Homeland Security, the company continues to operate its domestic operations. The company intends to continue to operate in other parts of the world to the extent possible. These operations, however, may be affected by issues such as remote working arrangements, adherence to social distancing guidelines, and other COVID-19-related challenges. The company added that some of its facilities are reducing operations and, in some cases, are temporarily shutting down operations on account of the coronavirus-crisis. Deere has assured that it is taking all necessary steps to protect the safety, health and well-being of employees, customers and suppliers.

Valuation

Deere's shares are down 14.4% in the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Industrial Products sector were down 16.2% and 19.1%, respectively.

The S&P 500 index has declined 1.3% in the past year.

The stock is currently trading at 17.59X forward 12-month earnings, which compares to 18.10X for the Zacks sub-industry, 18.25X for the Zacks sector and 20.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.35X and as low as 11.13X, with a 5-year median of 17.49X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$132 price target reflects 18.56X 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	17.59	18.1	18.25	20.67
	5-Year High	26.35	23.16	19.93	20.79
	5-Year Low	11.13	11.88	12.55	15.19
	5-Year Median	17.49	17.51	16.65	17.45
P/S F12M	Current	1.36	0.95	2.36	3.22
	5-Year High	1.74	1.24	2.72	3.44
	5-Year Low	0.97	0.76	1.52	2.54
	5-Year Median	1.38	1	1.99	3.02
EV/EBITDA TTM	Current	10.84	9.3	10.32	14.07
	5-Year High	14.89	13.39	17.37	12.86
	5-Year Low	10.18	8.66	10.8	8.28
	5-Year Median	12.42	10.69	14.76	10.77

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BriggsStratton Corporation (BGG)	Neutral	3
CNH Industrial N.V. (CNHI)	Neutral	3
Lindsay Corporation (LNN)	Neutral	3
Terex Corporation (TEX)	Neutral	3
Toro Company The (TTC)	Neutral	2
Titan International, Inc. (TWI)	Neutral	3
AGCO Corporation (AGCO)	Underperform	5
Caterpillar Inc. (CAT)	Underperform	4

Industry Comparison Industry: Manufacturing - Farm Equipment				Industry Peers		
	DE	X Industry	S&P 500	AGCO	CAT	TWI
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	5	4	3
VGM Score	D	-	-	F	C	C
Market Cap	39.77 B	502.60 M	18.95 B	3.42 B	57.47 B	66.66 M
# of Analysts	8	3	14	7	10	2
Dividend Yield	2.40%	0.61%	2.2%	1.40%	3.88%	1.82%
Value Score	F	-	-	F	C	D
Cash/Price	0.10	0.10	0.06	0.10	0.12	0.84
EV/EBITDA	8.72	6.64	11.58	6.64	6.46	11.42
PEG Ratio	2.69	2.73	2.60	5.91	2.20	NA
Price/Book (P/B)	3.33	0.98	2.59	1.27	4.04	0.37
Price/Cash Flow (P/CF)	7.67	7.67	10.20	4.36	6.59	7.67
P/E (F1)	21.15	21.22	19.00	21.81	21.28	NA
Price/Sales (P/S)	1.02	0.41	1.93	0.38	1.13	0.05
Earnings Yield	4.72%	4.58%	5.05%	4.58%	4.70%	-93.64%
Debt/Equity	2.55	0.51	0.75	0.67	1.71	2.48
Cash Flow (\$/share)	16.53	1.22	7.01	10.47	16.10	0.14
Growth Score	D	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	16.20%	11.29%	10.82%	11.29%	30.62%	NA
Proj. EPS Growth (F1/F0)	-39.88%	-38.70%	-10.48%	-52.83%	-54.87%	-34.87%
Curr. Cash Flow Growth	4.09%	-16.08%	5.68%	31.75%	-6.65%	-88.27%
Hist. Cash Flow Growth (3-5 yrs)	3.09%	-12.10%	8.52%	1.73%	4.31%	-31.97%
Current Ratio	2.12	1.77	1.27	1.49	1.42	1.87
Debt/Capital	71.88%	37.02%	44.25%	40.22%	63.12%	72.41%
Net Margin	8.41%	-1.93%	10.54%	1.39%	10.41%	-5.58%
Return on Equity	26.92%	-0.68%	16.29%	11.59%	37.15%	-24.72%
Sales/Assets	0.53	1.07	0.54	1.12	0.65	1.19
Proj. Sales Growth (F1/F0)	-19.69%	-7.04%	-2.55%	-14.09%	-24.07%	-16.62%
Momentum Score	A	-	-	D	C	B
Daily Price Chg	0.78%	-0.64%	1.17%	0.24%	1.64%	-4.35%
1 Week Price Chg	-0.86%	0.00%	3.23%	1.67%	1.11%	-7.09%
4 Week Price Chg	-2.42%	-4.54%	1.06%	1.69%	-6.21%	-7.56%
12 Week Price Chg	-23.54%	-33.76%	-22.80%	-32.30%	-22.45%	-51.11%
52 Week Price Chg	-13.15%	-35.12%	-12.40%	-35.12%	-16.13%	-78.13%
20 Day Average Volume	1,694,995	599,176	2,553,422	599,176	4,364,676	789,562
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-5.17%	0.00%	0.00%
(F1) EPS Est 4 week change	-9.16%	-9.16%	-5.57%	-23.92%	-26.78%	12.77%
(F1) EPS Est 12 week change	-35.39%	-38.49%	-16.22%	-59.02%	-46.98%	NA
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-11.63%	-94.11%	-44.66%	5.41%

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	F
Growth Score	D
Momentum Score	A
VGM Score	D

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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