

## Deere & Company (DE)

**\$205.40** (As of 08/24/20)

Price Target (6-12 Months): **\$236.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 07/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

### Summary

Deere's third-quarter fiscal 2020 earnings and revenues beat the Zacks Consensus Estimates but declined year on year. It projects fiscal 2020 net income at \$2.25 billion. The company remains well poised for long term growth, backed by steady investments in new products with advanced technologies. 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. Growing reliance on advanced technology to run complex operations smoothly will continue to fuel Deere's revenues. Apart from this, growing U.S farm income also bodes well for agricultural equipment demand. Moreover, the company's efforts to expand in precision agriculture will drive growth. The company's cost-reductions actions will help improve margins.

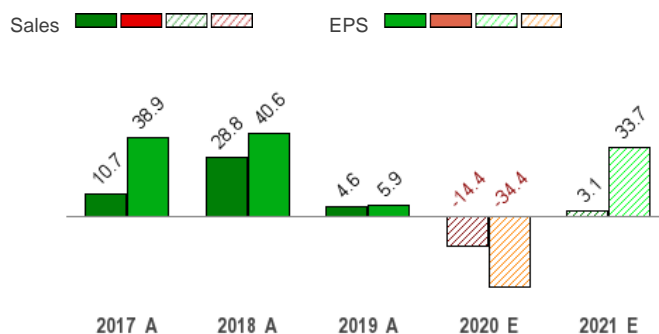
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$206.48 - \$106.14
20 Day Average Volume (sh)	1,685,976
Market Cap	\$64.3 B
YTD Price Change	18.6%
Beta	0.98
Dividend / Div Yld	\$3.04 / 1.5%
Industry	<a href="#">Manufacturing - Farm Equipment</a>
Zacks Industry Rank	Top 10% (26 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	97.7%
Last Sales Surprise	18.4%
EPS F1 Est- 4 week change	4.9%
Expected Report Date	11/25/2020
Earnings ESP	2.9%
P/E TTM	24.3
P/E F1	31.5
PEG F1	4.5
P/S TTM	1.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,543 E	8,683 E	7,226 E	7,722 E	30,785 E
2020	6,530 A	8,224 A	7,859 A	7,223 E	29,852 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	\$1.51 E	\$3.08 E	\$2.08 E	\$2.16 E	\$8.72 E
2020	\$1.63 A	\$2.11 A	\$2.57 A	\$1.39 E	\$6.52 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 08/24/2020. The reports text is as of 08/25/2020.

## 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 \$64.3 billion, IL-based Deere is the only agricultural and farm machinery player in the S&P 500 Index.

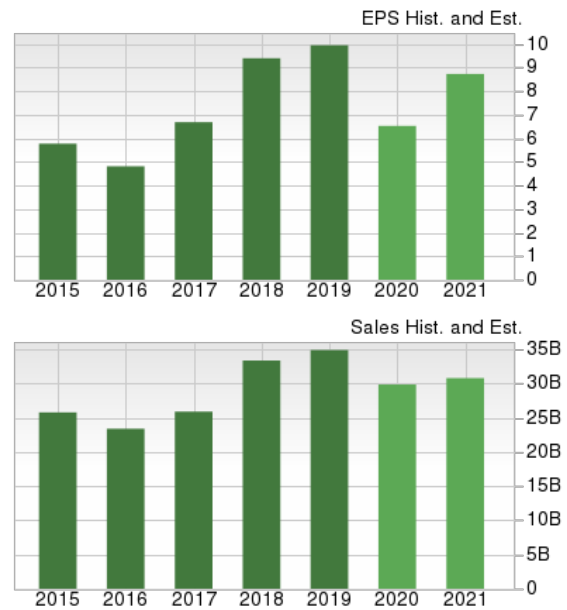
The **Agriculture and Turf** segment manufactures farm equipment and related service parts, including tractors, sugarcane harvesters, sprayers, irrigation equipment, and more. It manufactures and distributes equipment, products and service parts for commercial and residential use.

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.



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## 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. 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. Moreover, sales for small tractors have been strong as the pandemic has driven an increase in projects for home and property owners.

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.

▲ In June, the company announced the new operating model. The model is designed to provide more profitable and sustainable growth to customers while revolutionizing agriculture through the rapid introduction of new technologies. To accomplish this, the company redesigned organization in three targeted primary areas - Production Systems, Technology Stack, and Lifecycle Solutions. Production systems will enable customers to do their jobs more efficiently, while making better decisions that minimize inputs and maximize outputs. Technology stack is the full set of components required to deliver solutions to customers. Lifecycle solutions will enhance the company's aftermarket and support capabilities. The new design will bring innovative and integrated solutions to the market faster than ever before.

▲ 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. These programs will provide an annual run rate savings of around \$260 million in the fiscal 2020. The company is focused on driving capital-allocation decisions, intensifying investments in precision agriculture, as well as enhancing capabilities in aftermarket and retrofit business. Deere has implemented actions to strengthen its financial position and preserve liquidity. These actions include raising more than \$4 billion two medium-term note offerings in addition to renewing its credit facilities. Given the strength of operating results and strong cash generation, Deere might restart its share-repurchase program.

▲ 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. In fact, Deere's continued investment in precision technologies support customer demand in the current situation.

▲ Deere acquired the world's leading road-construction equipment maker, Wirtgen, for \$5.2 billion which 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.

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## Risks

- Deere projects fiscal 2020 net income to be \$2.25 billion compared with its prior-year quarter projection of \$3.2 billion. The company has stated that uncertainties regarding the impact of the COVID-19 pandemic might affect results. It expects to incur \$175 million cost related to the recent employee-separation program in the fiscal fourth quarter. Deere continues to expect bleak demand for large agriculture machines in the current fiscal relative to 2019. Farmers' sentiment continues to be weighed down by concerns regarding the U.S.-China trade spat and a sharp decline in ethanol that have kept grain stocks elevated going into the harvest season. As the pandemic has impacted agricultural exports to China, it also remains to be seen whether China will be able to honor its terms of the Phase 1 trade agreement. This will remain an overhang on the company.
  - Deere expects Agriculture and Turf equipment sales to be down 10% for fiscal 2020. Industry sales of agricultural equipment are expected to be down 5-10% from last year in the U.S. and Canada, while sales in Europe are also expected to be down 5-10% due to lower grain prices and weak yields for arable farmers and a difficult market for dairy producers. South American industry sales of tractors and combines are projected to be down 10-15% for this fiscal. Despite relatively positive fundamentals in Brazil, farmers have adopted a cautious stance due to uncertainties related to COVID-19 and possible implications stemming from the Phase 1 U.S.-China trade agreement. Asian sales are forecasted to decline slightly as key growth markets like India are recovering after significant impact of the countrywide lockdown. Industry retail sales of turf and utility equipment in the U.S. and Canada are expected to be down about 5% for fiscal 2020.
  - Activity in the overall construction sector has slowed, which in turn is weighing on the Construction & Forestry segment. The segment's sales for fiscal 2020 are expected to be down 25% compared to last year. The outlook reflects market uncertainty due to the coronavirus pandemic as well as efforts to bring down field inventory levels. Industry construction-equipment sales in the United States and Canada are likely to decline by approximately 20% for the current fiscal, reflecting sharp declines in oil and gas sector, rental capital expenditure, as well as overall moderation in general economic activity. In forestry, global industry sales are expected to be down 20-25% this fiscal, with the United States and Canada markets declining more than the rest of the world.
  - Deere continues to face challenging conditions in Canada. In contrast to the United States, the company's inventories remain 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.
  - Over the last three years, Deere's total debt has gone up at a CAGR of 4%. Deere has liabilities of \$9 billion due within 12 months, and liabilities of \$34 billion due beyond 12 months. The company has a cash balance of \$8.2 billion and \$6.7 billion in receivables in the fiscal third quarter, which seems inadequate to cover its liabilities. The company's times interest earned ratio has been going down over the past few years and is currently at 3.6.
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## Last Earnings Report

### Deere's Earnings & Revenues Beat Estimates in Q3

Deere posted third-quarter fiscal 2020 earnings of \$2.57 per share, beating the Zacks Consensus Estimate of \$1.30. The reported figure, however, declined 8.5% from the prior-year quarter.

Net sales of equipment operations (which comprise Agriculture and Turf, Construction and Forestry) came in at \$7.86 billion, declining 12.4% year over year. Revenues, however, surpassed the Zacks Consensus Estimate of \$6.64 billion. Total net sales (including financial services and others) came in at \$8.92 billion, down 11% year over year.

Quarter Ending **07/2020**

Report Date	Aug 21, 2020
Sales Surprise	<b>18.43%</b>
EPS Surprise	<b>97.69%</b>
Quarterly EPS	<b>2.57</b>
Annual EPS (TTM)	<b>8.45</b>

### Operational Update

Cost of sales in the reported quarter was down 15% year over year to \$5.8 billion. Total gross profit for the reported quarter fell 2.4%, year over year, to \$3.01 billion. Selling, administrative and general expenses dipped 16% to \$752 million from the prior-year quarter. Equipment operations reported an operating profit of \$1,147 million in the quarter compared with the \$990 million witnessed in the prior-year quarter. Total operating profit (including financial services) increased 16% year over year to \$1,390 million in the fiscal third quarter.

### Segment Performance

The Agriculture & Turf segment's sales was down 5% year over year to \$5.67 billion, primarily due to lower shipment volumes and an unfavorable currency-translation impact, partly offset by price realization. Operating profit in the segment climbed 54% year over year to \$942 million, resulting from price realization, and lower selling, administrative, and general expenses. However, this was offset by unfavorable impact of foreign-currency exchange, lower shipment volumes/sales mix as well as impairments and closure costs.

Construction & Forestry sales slid 28% to \$2.19 billion from the year-earlier quarter on lower shipment volumes and unfavorable foreign-currency translation, partly negated by price realization. This segment's operating profit plummeted 46% year over year to \$205 million, mainly due to a lower shipment volumes/sales mix, partly offset by price realization and lower selling, administrative, and general expenses.

Net revenues in Deere's Financial Services division came in at \$892 million in the reported quarter, down 2% year on year. The segment's operating profit came in at \$243 million, up 19% year over year.

### Financial Update

Deere reported cash and cash equivalents of \$8.2 billion at the end of the fiscal third quarter 2020 compared with the \$3.4 billion recorded at the end of the prior-year quarter. Cash generated from operating activities were \$4,057 million in the nine-month period ended Aug 2, 2020 compared with the \$404 million witnessed in the prior-year period. At the end of the reported quarter, long-term borrowing was \$34 billion, up from the \$29 billion witnessed at the year-ago quarter's end.

### Outlook

Net income for fiscal 2020 is projected at \$2.25 billion. However, the company has stated that uncertainties regarding the impact of the COVID-19 pandemic might affect results.

Deere expects Agriculture and Turf equipment sales to be down 10% for fiscal 2020. The Construction and Forestry equipment segment's sales are expected to be down 25% for the fiscal year. The outlook reflects market uncertainty due to the pandemic as well as efforts to bring down field inventory levels.

Additionally, the company has announced broad employee-separation programs that will be completed during the fiscal fourth quarter in support of its strategy to create a leaner, more agile organization. The program is expected generate annual savings of \$175 million.

## Valuation

Deere's shares are up 18.6% in the year-to-date period and 36.2% in the trailing 12-month period. Year to date, stocks in the Manufacturing - Farm Equipment industry and Industrial Products sector are up 15% and down 0.9%, respectively. Over the past year, the Zacks sub-industry and sector are up 32.3% and 16.9%, respectively.

The S&P 500 index is up 6.5% in the year-to-date and 19.5% in the past year.

The stock is currently trading at 25.0X forward 12-month earnings, which compares to 23.75X for the Zacks sub-industry, 22.19X for the Zacks sector and 23.05X 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 17.89X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$236 price target reflects 28.72X 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	25	23.75	22.19	23.05
	5-Year High	26.35	23.75	22.19	23.05
	5-Year Low	11.13	11.9	12.55	15.25
	5-Year Median	17.89	18.29	17.48	17.58
P/S F12M	Current	2.12	1.54	2.98	3.76
	5-Year High	2.12	1.54	2.98	3.76
	5-Year Low	0.97	0.8	1.52	2.53
	5-Year Median	1.41	1.08	2.04	3.05
EV/EBITDA TTM	Current	14.85	13.1	20.03	13.03
	5-Year High	14.89	13.76	20.14	13.03
	5-Year Low	10.18	8.84	10.74	8.25
	5-Year Median	12.57	11.12	14.96	10.92

As of 08/24/2020

## Industry Analysis Zacks Industry Rank: Top 10% (26 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
AGCO Corporation (AGCO)	Outperform	1
Alamo Group, Inc. (ALG)	Neutral	3
CNH Industrial N.V. (CNHI)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Lindsay Corporation (LNN)	Neutral	3
Terex Corporation (TEX)	Neutral	3
Toro Company The (TTC)	Neutral	3
Titan International, Inc. (TWI)	Neutral	3

Industry Comparison Industry: Manufacturing - Farm Equipment				Industry Peers		
	DE	X Industry	S&P 500	AGCO	ETN	TWI
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	1	3	3
VGM Score	C	-	-	B	B	A
Market Cap	64.26 B	626.69 M	23.81 B	5.40 B	41.16 B	146.83 M
# of Analysts	9	2	14	7	9	1
Dividend Yield	1.48%	0.00%	1.64%	0.89%	2.84%	0.00%
Value Score	D	-	-	B	B	B
Cash/Price	0.14	0.10	0.07	0.07	0.01	0.54
EV/EBITDA	11.81	9.30	13.37	9.30	12.91	13.40
PEG Ratio	4.50	4.10	3.02	5.24	2.38	NA
Price/Book (P/B)	4.99	1.51	3.17	1.99	2.89	0.83
Price/Cash Flow (P/CF)	12.43	12.43	12.77	6.88	13.01	16.81
P/E (F1)	31.50	21.83	21.72	19.35	26.16	NA
Price/Sales (P/S)	1.80	0.63	2.48	0.63	2.14	0.12
Earnings Yield	3.17%	3.88%	4.44%	5.16%	3.82%	-24.90%
Debt/Equity	2.64	0.41	0.76	0.66	0.51	2.62
Cash Flow (\$/share)	16.53	1.98	6.93	10.47	7.91	0.14
Growth Score	C	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	18.49%	7.65%	10.41%	12.37%	7.09%	NA
Proj. EPS Growth (F1/F0)	-34.36%	-26.29%	-5.05%	-16.12%	-30.63%	21.05%
Curr. Cash Flow Growth	4.09%	-16.08%	5.20%	31.75%	0.36%	-88.27%
Hist. Cash Flow Growth (3-5 yrs)	3.09%	-5.19%	8.50%	1.73%	2.58%	-31.97%
Current Ratio	2.26	1.98	1.33	1.48	1.50	2.15
Debt/Capital	72.53%	29.03%	44.50%	39.72%	33.67%	73.39%
Net Margin	7.61%	0.63%	10.13%	0.63%	8.03%	-5.88%
Return on Equity	22.24%	8.52%	14.66%	9.99%	12.73%	-29.60%
Sales/Assets	0.48	1.01	0.51	1.09	0.61	1.16
Proj. Sales Growth (F1/F0)	-14.43%	0.00%	-1.45%	-7.52%	-19.59%	-15.71%
Momentum Score	A	-	-	A	C	A
Daily Price Chg	2.96%	0.00%	1.32%	0.00%	2.28%	-1.23%
1 Week Price Chg	4.38%	0.00%	-1.45%	-2.05%	-0.30%	15.64%
4 Week Price Chg	16.70%	9.03%	3.38%	13.64%	8.03%	31.69%
12 Week Price Chg	37.72%	12.22%	7.69%	27.34%	21.52%	86.82%
52 Week Price Chg	36.20%	0.22%	3.85%	8.71%	33.91%	-2.03%
20 Day Average Volume	1,685,976	438,392	1,873,293	519,558	1,515,543	438,392
(F1) EPS Est 1 week change	3.38%	0.00%	0.00%	7.64%	0.00%	0.00%
(F1) EPS Est 4 week change	4.93%	4.58%	1.00%	53.44%	8.32%	41.46%
(F1) EPS Est 12 week change	11.55%	17.72%	3.40%	77.83%	5.09%	41.46%
(Q1) EPS Est Mthly Chg	2.10%	2.10%	0.00%	113.75%	15.43%	50.69%



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## 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.

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### 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	C
Momentum Score	A
VGM Score	C

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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