

Deere & Company (DE)

Overview & Current Events

Deere & Company is the world's largest farming equipment manufacturer. The company has large operations in the United States, Brazil, Russia, India, China, and Europe. Deere & Company operates in 3 segments: Agriculture & Turf, Construction & Forestry, and Financial Services.

Deere & Company released its fiscal 2015 results on November 25th. The company saw earnings-per-share decline 33% on the year. The company has done well reducing costs to increase profits during the current down cycle in agricultural prices. Growth slowdowns in emerging markets have also affected the company's profitability. Total earnings were \$1.9 billion in 2015. 2016 earnings are expected to be around \$1.4 billion as weakness continues.

Despite weakness in the industry, Deere & Company remains a safe long-term investment. The company pays out about \$800 million a year in dividends. Even during industry lows, the company expects to make around \$1.4 billion in profits in 2016 for a dividend payout ratio of 57%.

Next Dividend Record Date: Late March, 2016

Next Earnings Release: Late February, 2016

Competitive Advantage & Recession Performance

Deere & Company's competitive advantage comes from its brand recognition and reputation for quality in the farming machinery industry. Deere & Company's competitive advantage has given it a 60% market share of the farming equipment industry in the US and Canada.

Recessions and falling grain prices hamper Deere & Company's earnings. The company saw EPS fall from a high of \$4.70 in 2008 to a low of \$2.82 during the depths of the Great Recession in 2009. Deere & Company's earnings are cyclical and depend upon grain prices. Farmers hold off on large capital investments when their cash flows diminish due to low grain prices.

Growth Prospects, Valuation, & Catalyst

Deere & Company has averaged earnings-per-share growth of 12.8% a year from earnings lows in 2009 to earnings lows in 2015. Peak-to-peak (2008 to 2013) earnings-per-share grew at 14.1% a year for the company. When grain prices rise, Deere & Company will see its earnings surge. I expect the company to continue to deliver 10%+ (likely closer to 13%) EPS growth over full economic cycles. This growth combined with the company's current ~3% dividend yield gives Deere & Company investors expected total returns of 13%+.

Deere & Company is deeply undervalued. The company's average dividend yield over the last decade is 2%. The company is currently yielding 3.1%. Based on its average dividend yield, Deere & Company's fair value is around \$117 a share. The stock is currently trading for \$78.42 a share.

Maximum Drawdown (starting in year 2000): -73% in March of 2009

DRIP Available:	Yes, with fees
Dividend Yield:	3.1%
10 Year EPS Growth Rate:	12.8% (used trough-to-trough growth)
10 Year Dividend Growth Rate:	13.3%
Most Recent Dividend Increase:	No Increase in last 12 months
Dividend History:	28 consecutive years without a reduction

Deere & Company Dividend Yield History

