Deere & Company (DE)

Updated November 21st, 2018 by Jonathan Weber

Key Metrics

Current Price:	$142	**5 Year CAGR Estimate:**	10.1%	**Volatility Percentile:**	56.8%
Fair Value Price:	$158	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	56.8%
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Growth Percentile:**	48.4%
Dividend Yield:	2.0%	**5 Year Price Target**	$211	**Valuation Percentile:**	69.1%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	55.0%

Overview & Current Events

Deere manufactures equipment used in agriculture, construction, forestry & turf care. Deere also produces engines and provides financial solutions to its customers. Deere was founded in 1837, is headquartered in Moline, Illinois and is currently valued at $46 billion.

Deere reported its fourth quarter (fiscal 2018) earnings results on November 21. The company grossed revenues of $8.34 billion during the quarter, which was an increase of 17.6% compared to the previous year's quarter. This steep revenue increase was possible thanks to a combination of different factors. The acquisition of Wirtgen, which closed in December 2017, impacted sales by 11%. Higher prices and some organic volume growth rounded out the strong revenue growth pace. The construction & forestry segment grew by 65% year over year, aided by the Wirtgen takeover. Deere generated earnings-per-share of $2.30 during the fourth quarter, which was 46% more than the company's earnings-per-share during Q4 2017. In fiscal 2018 Deere generated revenues of $37.4 billion, 26% more than during fiscal 2017. Deere managed to grow its earnings-per-share to $9.39 during fiscal 2018.

Deere guides towards a sales growth rate of 7% during fiscal 2019, with net earnings rising to $3.6 billion, which equates to roughly $11.25 in earnings-per-share for the current fiscal year. Deere also guides for cash flows of $4.8 billion.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.82	$4.35	$6.36	$7.64	$9.08	$8.63	$5.77	$4.81	$6.68	$9.39	***$11.25***	***$15.06***
DPS	$1.12	$1.16	$1.52	$1.79	$1.99	$2.22	$2.40	$2.40	$2.40	$2.58	***$2.76***	***$3.80***
Shares	423	422	406	388	374	346	317	315	322	321	***318***	***305***

Deere's earnings-per-share are relatively cyclical. Depending on conditions in the markets the company addresses (agriculture, forestry, and construction), demand for Deere's products can wary widely on a year-to-year basis. Overall the earnings-per-share growth trend is positive, but it took Deere five years to grow its EPS above the peak from 2013. Between 2011 (after the financial crisis) and 2018 Deere has grown its earnings-per-share by 5.7% annually.

During Q1 of fiscal 2019 and beyond there are several factors that should prove positive for the company's profitability. The first one is the takeover of Wirtgen Group that closed during December of 2017. Wirtgen is a German manufacturer of construction machinery, which has increased Deere's market share in this segment considerably. Expanding its presence in the construction machinery industry is an opportunistic move by Deere, as growth rates in the construction machinery business are higher than in the agriculture & turf business. With a wider presence in the construction machinery market Deere should be able to benefit from strong construction activity in markets such as the US and China. Deere has also forecasted that its financial solutions business (*Worldwide Financial Services*) will be significantly more profitable going forward.

With rising profits and cash flows Deere will likely ramp up its share repurchases in the near future. The company lowered its share count by close to 30% in the 2008 to 2016 time frame, but its share count has not declined much since. During fiscal 2018, Deere spent $1 billion on buybacks, which is still well below the peak buyback level from 2015, when Deere bought back $2.5 billion worth of stock in a single year.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.0	13.7	12.5	10.4	9.5	10.1	15.2	16.7	17.1	16.1	***12.6***	***14.0***
Avg. Yld.	2.8%	1.9%	1.8%	2.3%	2.3%	2.5%	2.7%	3.0%	2.1%	1.8%	***2.0%***	***1.6%***

Deere has seen its valuation move in a relatively wide range over the last decade, which can be explained by the cyclicality of the company's earnings. Right now shares trade at just 12.6 times this year's expected earnings-per-share, which leaves some upside potential towards a fair valuation of 14 times earnings, the long-term median valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	39.7%	26.7%	23.9%	23.4%	21.9%	25.7%	41.6%	49.9%	35.9%	27.5%	***24.5%***	***25.2%***

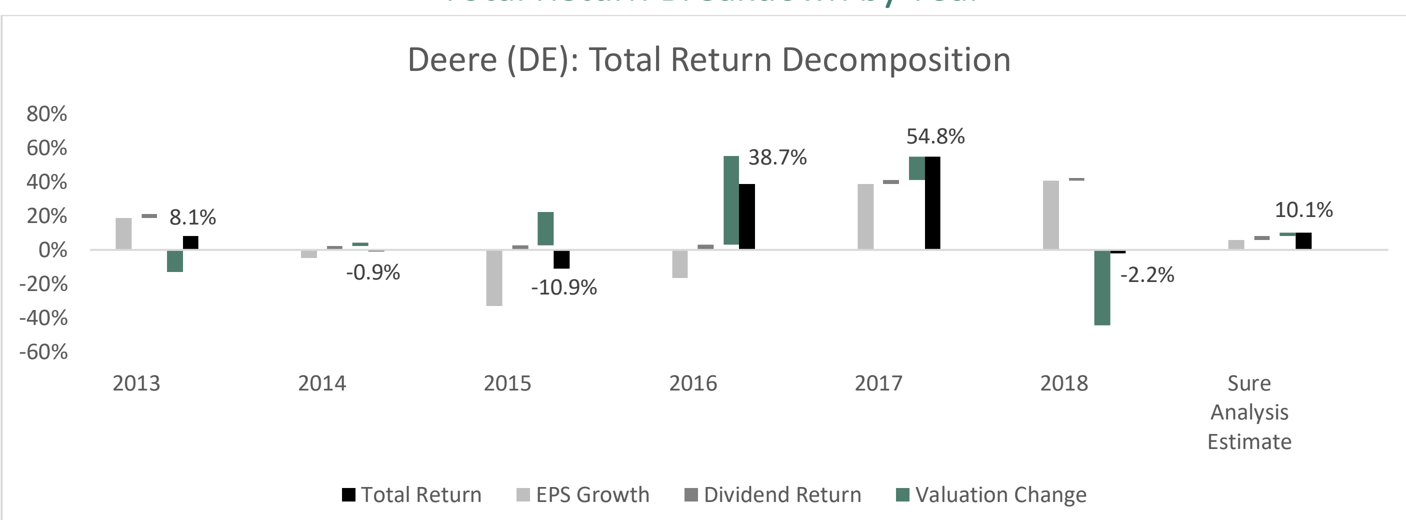
Deere has a relatively high liabilities to assets ratio, but this is due to the Worldwide Financial Services business segment. Deere's financial solutions business, which includes financing for products that Deere sells to its customers, leads to a huge amount of assets in the form of financing receivables ($24 billion on a net basis). Total liabilities are high as well, but, once again, this is in a huge part due to the debt that belongs to Deere's banking business. Deere is (somewhat resembling a real bank) able to generate net interest profits with its financing business, which is why the company does not pay any net interest expenses at all.

Deere is the largest player in the agricultural machinery manufacturing industry. This means that it is hard for new competitors to steal market share from Deere, especially since it is difficult to replicate Deere's global sales/dealership network. Deere is nevertheless impacted by downturns in the industries it addresses. During the last financial crisis Deere remained profitable, but its EPS declined by 40%.

Final Thoughts & Recommendation

Deere is the market leader in a major industry and a truly global company. Deere will likely produce compelling total returns over the coming years through a combination of share price gains and dividends. Despite the fact that its earnings can be cyclical, Deere earns a buy recommendation from Sure Dividend for long-term-oriented investors at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	21270	25873	31842	35963	37621	35816	28609	26364	29116	37358
Gross Profit	4825	7464	9048	10051	11069	10225	7626	7189	8115	10583
Gross Margin	22.7%	28.9%	28.4%	27.9%	29.4%	28.5%	26.7%	27.3%	27.9%	28.3%
SG&A Exp.	2948	3115	3362	3662	3810	3608	3056	2952	3254	3456
D&A Exp.	N/A	915	915	1004	1140	1307	1382	1560	1716	1927
Operating Profit	540	3015	4212	4720	5468	4781	2755	2133	2761	4071
Op. Margin	2.5%	11.7%	13.2%	13.1%	14.5%	13.3%	9.6%	8.1%	9.5%	10.9%
Net Profit	874	1865	2800	3065	3537	3162	1940	1524	2159	2368
Net Margin	4.1%	7.2%	8.8%	8.5%	9.4%	8.8%	6.8%	5.8%	7.4%	6.3%
Free Cash Flow	677	969	646	-953	879	867	933	815	-393	-1130
Income Tax	460	1162	1424	1659	1946	1627	840	700	971	1727

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	41133	43267	48207	56266	59521	61336	57948	57919	65786	70108
Cash & Equivalents	4652	3791	3647	4652	3504	3787	4162	4336	9335	3904
Acc. Receivable	3520	3464	3295	3799	3758	3278	3051	3011	3925	5004
Inventories	2397	3063	4371	5170	4935	4210	3817	3341	3904	6149
Goodwill & Int.	1173	1116	1127	1026	922	860	790	920	1251	4663
Total Liabilities	36314	36963	41393	49404	49254	52271	51190	51388	56226	58817
Accounts Payable	1721	2007	2675	2986	2739	2325	1872	2096	2551	10111
Long-Term Debt	24551	24349	26589	32421	34476	36958	36850	35612	40045	42256
Total Equity	4819	6290	6800	6842	10266	9063	6743	6520	9557	11288
D/E Ratio	5.09	3.87	3.91	4.74	3.36	4.08	5.46	5.46	4.19	3.74

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.2%	4.4%	6.1%	5.9%	6.1%	5.2%	3.3%	2.6%	3.5%	3.5%
Return on Equity	15.4%	33.6%	42.8%	44.9%	41.4%	32.7%	24.5%	23.0%	26.9%	22.7%
ROIC	3.0%	6.2%	8.7%	8.4%	8.4%	7.0%	4.3%	3.6%	4.7%	4.6%
Shares Out.	423	422	406	388	374	346	317	315	322	321
Revenue/Share	50.12	60.37	75.38	89.57	96.66	97.83	85.15	83.27	90.06	114.14
FCF/Share	1.59	2.26	1.53	-2.37	2.26	2.37	2.78	2.57	-1.21	-3.45

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.