# Deere & Company (DE)

*Updated August 21st, 2020 by Eli Inkrot*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $202 | **5 Year CAGR Estimate:** | -1.9% | **Market Cap:** | $64 B |
| **Fair Value Price:** | $112 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 09/27/20[1] |
| **% Fair Value:** | 180% | **5 Year Valuation Multiple Estimate:** | -11.1% | **Dividend Payment Date[1]:** | 11/08/20[1] |
| **Dividend Yield:** | 1.5% | **5 Year Price Target** | $165 | **Years Of Dividend Growth:** | 3 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **Last Dividend Increase:** | 10.1% |

## Overview & Current Events

Deere & Company is the largest manufacturer of farm equipment in the world. The company also makes equipment used in construction, forestry & turf care, produces engines and provides financial solutions to its customers. Deere was founded in 1837, is headquartered in Moline, Illinois and is currently valued at $64 billion.

On August 21st, 2020 Deere reported Q3 2020 results for the period ending August 2nd, 2020. (Deere's fiscal year ends October 29th.) For the quarter sales came in at $8.925 billion, representing an -11.1% decline compared to Q3 2019. Results were down across the board as the company continues to struggle with the COVID-19 pandemic, with sales of the Equipment Operations, Agriculture & Turf and Construction & Forestry segments down -12%, -5% and -28% respectively. Net income equaled $811 million or $2.57 per share compared to $899 million or $2.81 per share in the year ago period. For the first nine months of fiscal 2020, Deere has earned $1.993 billion or $6.30 per share compared to $2.532 billion or $7.87 for the same period in 2019.

At the beginning of the year Deere was anticipating net income of $2.7 billion to $3.1 billion for fiscal year 2020. Last quarter this was reduced to $1.6 billion to $2 billion due to the pandemic. In Q3 2020, Deere updated its outlook, anticipating "about $2.25 billion" in net income. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $4.35 | $6.36 | $7.64 | $9.08 | $8.63 | $5.77 | $4.81 | $6.68 | $9.34 | $9.92 | ***$7.10*** | ***$11.75*** |
| **DPS** | $1.16 | $1.52 | $1.79 | $1.99 | $2.22 | $2.40 | $2.40 | $2.40 | $2.58 | $3.04 | ***$3.04*** | ***$4.08*** |
| **Shares[2]** | 422 | 406 | 388 | 374 | 346 | 317 | 315 | 322 | 318 | 313 | ***316*** | ***295*** |

Deere's earnings-per-share are relatively cyclical. Depending on the 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. Dating back to 2008 through 2019, Deere has grown its earnings-per-share by 7% per annum.

Over time there are several factors that could prove positive for the company's profitability. For instance, acquisitions such as the takeover of Wirtgen Group that closed during December of 2017, which expanded its presence in the construction machinery industry. With a wider presence in this industry Deere could be benefit from construction activity in markets such as the US and China over the long-term. In addition, Deere could ramp up its share repurchases. The company reduced its share count by -25% in the 2008 to 2016 timeframe, but shares been stagnant since.

With those items in mind, the short-term is apt to be challenging. To this point, we are expecting lower earnings this year, per management's guidance. For valuation purposes we are using $8 in underlying earnings power to go along with a growth rate of 8%. We are cautious on the company's prospects in the near term, but we are encouraged by the company's long-standing history in needed industries and its ability to rebound.

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[1] Estimate.

[2] In millions.

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## Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 13.7 | 12.5 | 10.4 | 9.5 | 10.1 | 15.2 | 16.7 | 17.1 | 16.1 | 15.9 | ***25.2*** | ***14.0*** |
| **Avg. Yld.** | 1.9% | 1.8% | 2.3% | 2.3% | 2.5% | 2.7% | 3.0% | 2.1% | 1.7% | 1.9% | ***1.5%*** | ***2.5%*** |

During the past decade shares of Deere have traded hands with an average P/E ratio of about 14 times earnings. We believe this is a fair starting place, considering the company's reasonable growth prospects coupled with its cyclical nature. With a current valuation near 25 times earnings, this could imply a significant valuation headwind.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 27% | 24% | 23% | 22% | 26% | 42% | 50% | 36% | 27% | 31% | ***38%*** | ***35%*** |

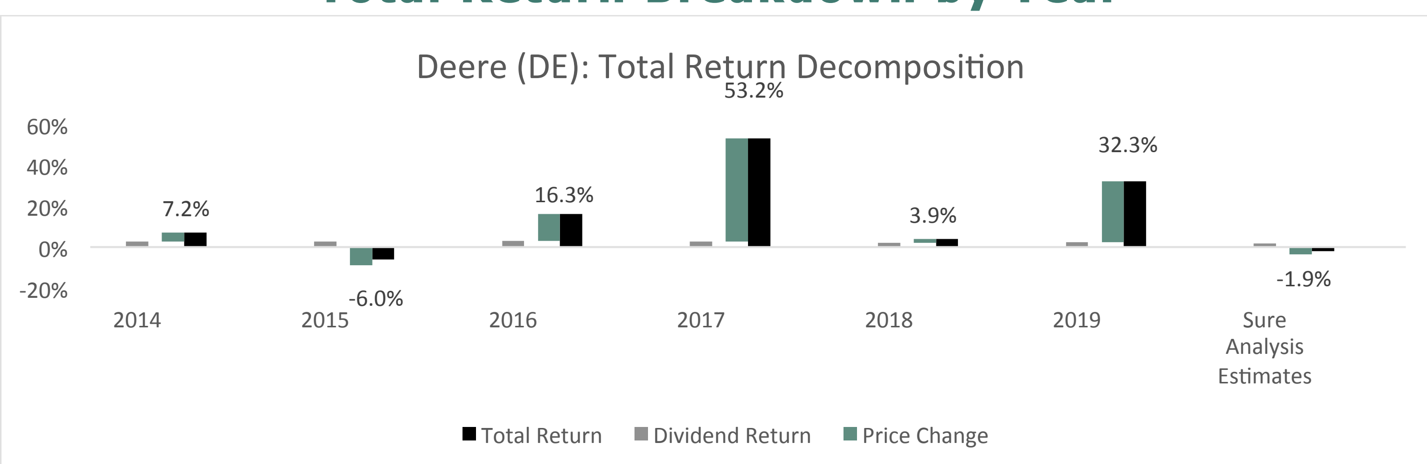
Deere's dividend payout ratio has never been especially high. The company paid out a maximum of ~50% of its net profits during 2016. Since then, the payout ratio has trended downwards as earnings-per-share have risen considerably. We believe that the dividend is quite safe, but dividend growth has not been overly reliable in the past – during 2015 to 2017 the company froze its dividend at $2.40 each year. And the payout ratio is expected to increase this year.

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 the company's global sales and dealership network. Deere has also been growing its presence in the higher-growth construction machinery market, both organically as well as via takeovers. The company is impacted by downturns in the industries it addresses. During the last financial crisis Deere remained profitable, but its earnings-per-share declined by -40%. We expect the company to be tested this time around as well.

## Final Thoughts & Recommendation

Shares are up an exceptional 41% since our last report. Deere is the market leader in the agricultural equipment industry. The company's global presence provides sizeable competitive advantages. Growth has been acceptable during the last decade, albeit in irregular fashion. However, the valuation leaves a lot to be desired. Total return potential comes in at -1.9% per annum, stemming from 8% expected growth and a 1.5% dividend yield offset by the potential for a significant valuation headwind. We are reducing our rating from hold to sell due to the materially higher valuation.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 25873 | 31842 | 35963 | 37621 | 35816 | 28609 | 26364 | 29116 | 37021 | 39258 |
| Gross Profit | 7464 | 9048 | 10051 | 11069 | 10225 | 7626 | 7242 | 8182 | 10036 | 11000 |
| Gross Margin | 28.9% | 28.4% | 27.9% | 29.4% | 28.5% | 26.7% | 27.5% | 28.1% | 27.1% | 28.0% |
| SG&A Exp. | 3115 | 3362 | 3662 | 3810 | 3608 | 3056 | 2979 | 3285 | 3631 | 3551 |
| D&A Exp. | 915 | 915 | 1004 | 1140 | 1307 | 1382 | 1560 | 1716 | 1927 | 2019 |
| Operating Profit | 3015 | 4212 | 4720 | 5468 | 4781 | 2755 | 2134 | 2762 | 4056 | 4088 |
| Op. Margin | 11.7% | 13.2% | 13.1% | 14.5% | 13.3% | 9.6% | 8.1% | 9.5% | 11.0% | 10.4% |
| Net Profit | 1865 | 2800 | 3065 | 3537 | 3162 | 1940 | 1524 | 2159 | 2368 | 3253 |
| Net Margin | 7.2% | 8.8% | 8.5% | 9.4% | 8.8% | 6.8% | 5.8% | 7.4% | 6.4% | 8.3% |
| Free Cash Flow | 969 | 646 | -953 | 879 | 867 | 933 | 815 | -393 | -1130 | -37 |
| Income Tax | 1162 | 1424 | 1659 | 1946 | 1627 | 840 | 700 | 971 | 1727 | 852 |

## Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 43267 | 48207 | 56266 | 59521 | 61336 | 57948 | 57919 | 65786 | 70108 | 73011 |
| Cash & Equivalents | 3791 | 3647 | 4652 | 3504 | 3787 | 4162 | 4336 | 9335 | 3904 | 3857 |
| Acc. Receivable | 23385 | 26123 | 29576 | 33544 | 35302 | 32695 | 31840 | 33188 | 36080 | 38808 |
| Inventories | 3063 | 4371 | 5170 | 4935 | 4210 | 3817 | 3341 | 3904 | 6149 | 5975 |
| Goodwill & Int. | 1116 | 1127 | 1026 | 922 | 860 | 790 | 920 | 1251 | 4663 | 4297 |
| Total Liabilities | 36963 | 41393 | 49404 | 49254 | 52271 | 51190 | 51388 | 56226 | 58817 | 61594 |
| Accounts Payable | 2277 | 2675 | 2986 | 2739 | 2325 | 1872 | 2096 | 2551 | 2894 | |
| Long-Term Debt | 24349 | 26589 | 32421 | 34476 | 36958 | 36850 | 35612 | 40045 | 42257 | 45334 |
| Total Equity | 6290 | 6800 | 6842 | 10266 | 9063 | 6743 | 6520 | 9557 | 11288 | 11413 |
| D/E Ratio | 3.87 | 3.91 | 4.74 | 3.36 | 4.08 | 5.46 | 5.46 | 4.19 | 3.74 | 3.97 |

## Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 4.4% | 6.1% | 5.9% | 6.1% | 5.2% | 3.3% | 2.6% | 3.5% | 3.5% | 4.5% |
| Return on Equity | 33.6% | 42.8% | 44.9% | 41.4% | 32.7% | 24.5% | 23.0% | 26.9% | 22.7% | 28.7% |
| ROIC | 6.2% | 8.7% | 8.4% | 8.4% | 7.0% | 4.3% | 3.6% | 4.7% | 4.6% | 5.9% |
| Shares Out. | 422 | 406 | 388 | 374 | 346 | 317 | 315 | 322 | 318 | 313 |
| Revenue/Share | 60.37 | 75.38 | 89.57 | 96.66 | 97.83 | 85.15 | 83.27 | 90.06 | 113.11 | 122.45 |
| FCF/Share | 2.26 | 1.53 | -2.37 | 2.26 | 2.37 | 2.78 | 2.57 | -1.21 | -3.45 | -0.12 |

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