Deere & Company (DE)

Updated May 21st, 2021 by Eli Inkrot

Key Metrics

Current Price:	$361	**5 Year CAGR Estimate:**	-0.6%	**Market Cap:**	$114 B
Fair Value Price:	$298	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	06/29/21
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.8%	**Dividend Payment Date[1]:**	08/10/21
Dividend Yield:	1.0%	**5 Year Price Target**	$328	**Years Of Dividend Growth:**	1
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	18.4%

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 $114 billion.

On February 24th, 2021 Deere increased its quarterly dividend 18.4% to $0.90.

On May 21st, 2021 Deere reported Q2 fiscal year 2021 results for the period ending May 2nd, 2021. For the quarter sales came in at $12.06 billion, representing a 30.3% increase compared to Q2 2020. Results were up across the board with the Production & Precision Ag, Small Ag & Turf and Construction & Forestry segments posting gains of 35%, 30% and 36% respectively. Net income equaled $1.79 billion or $5.68 per share compared to $666 million or $2.11 per share in Q2 2020. For the first six months of fiscal 2021, Deere has generated $21.17 billion in sales, a 25% increase, and $9.55 in earnings-per-share compared to $3.73 in the first two quarters of 2020.

Deere also updated its 2021 outlook, with the company now expecting to generate between $5.3 billion and $5.7 billion in net income, up from $4.6 - $5.0 billion and $3.6 - $4.0 billion previously. This works out to ~$16.80 to ~$18.10 in anticipated EPS.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$6.36	$7.64	$9.08	$8.63	$5.77	$4.81	$6.68	$9.34	$9.92	$8.69	***$17.50***	***$19.32***
DPS	$1.52	$1.79	$1.99	$2.22	$2.40	$2.40	$2.40	$2.58	$3.04	$3.04	***$3.60***	***$5.05***
Shares[2]	406	388	374	346	317	315	322	318	313	317	***315***	***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. In the 2008 through 2019 period, excluding 2020's down year, 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. In addition, benefiting from long-term economic growth around the world and ramping up its share repurchase program down the line could add to the growth thesis. The company reduced its share count by -25% in the 2008 to 2016 timeframe, but the number of shares has been stagnant since.

Last fiscal year was difficult, but results came in better than anticipated, down less than -15% amidst the COVID-19 pandemic. Moreover, per management's most recent guidance, it appears that Deere is poised to post significantly better results in fiscal year 2021. Due to the materially higher expectations for this year, we are forecasting just 2% growth over the intermediate term to reflect some of the inherent cyclicality in the business. We had been cautious on

[1] Estimated date.

[2] In millions.

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.

the company's prospects in the near term due to demand uncertainty, but we are encouraged by the company's recent results, guidance and long-standing history in needed industries. Indeed, recent guidance implies a blockbuster year.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.5	10.4	9.5	10.1	15.2	16.7	17.1	16.1	15.9	19.8	***20.6***	***17.0***
Avg. Yld.	1.8%	2.3%	2.3%	2.5%	2.7%	3.0%	2.1%	1.7%	1.9%	1.8%	***1.0%***	***1.5%***

During the past decade shares of Deere have traded hands with an average P/E ratio of 14 times earnings. We are using 17 times earnings, the 5-year average, considering the expectation for a standout 2021 paired against the company's cyclical nature. With a current valuation near 21 times earnings, this could imply a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	24%	23%	22%	26%	42%	50%	36%	27%	31%	35%	***21%***	***26%***

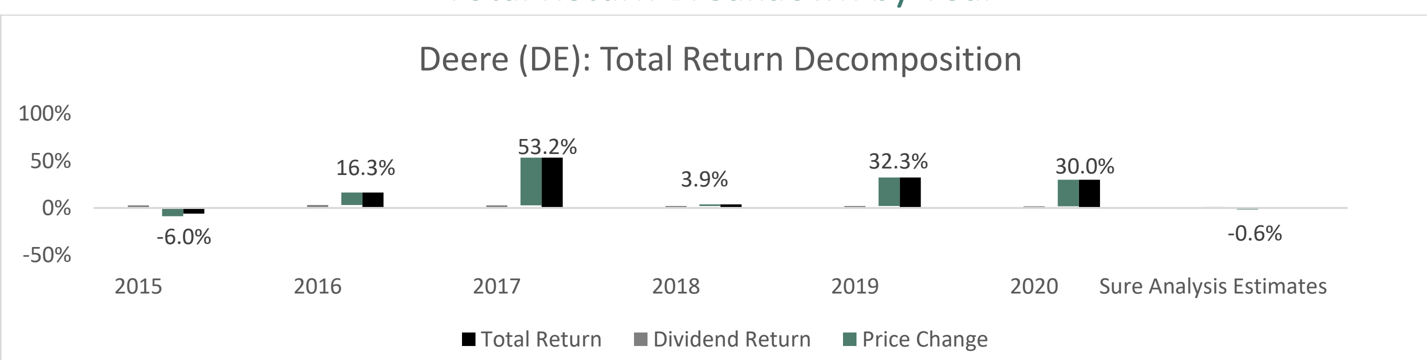
Deere's dividend payout ratio has never been especially high. The company paid out ~50% of its net profits during 2016. Since then, the payout ratio has trended downwards as earnings-per-share have risen considerably. We believe that the dividend is quite safe, but dividend growth has not been overly reliable in the past – during 2015 to 2017 the company froze its dividend at $2.40 each year. More recently Deere paid the same $0.76 payment for 9 quarters in a row.

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 acquisitions. 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%. Results in 2020 were down, but more resilient than anticipated. Furthermore, 2021 appears to be setting up for a standout year.

Final Thoughts & Recommendation

After being up 41%, 29% and 27% in our last three reports, shares are up another 9% in the last three months. Earnings expectations continue to improve, but we believe the share price has more than priced this in. Deere is the market leader in the agricultural equipment industry and the company's global presence provides sizeable competitive advantages. Growth has been acceptable during the last decade, albeit in an irregular fashion. However, the valuation leaves a lot to be desired. Total return potential comes in at -0.6% per annum, stemming from 2% expected growth and a 1.0% dividend yield offset by the potential for a valuation headwind. This could be too conservative if shares continue trading at 20+ times earnings, but we are not ready to make that speculation. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	31842	35963	37621	35816	28609	26364	29116	37021	39258	35260
Gross Profit	9048	10051	11069	10225	7626	7242	8182	10036	11000	10150
Gross Margin	28.4%	27.9%	29.4%	28.5%	26.7%	27.5%	28.1%	27.1%	28.0%	28.8%
SG&A Exp.	3362	3662	3810	3608	3056	2979	3285	3631	3551	3677
D&A Exp.	915	1004	1140	1307	1382	1560	1716	1927	2019	2118
Operating Profit	4212	4720	5468	4781	2755	2134	2762	4056	4088	3857
Op. Margin	13.2%	13.1%	14.5%	13.3%	9.6%	8.1%	9.5%	11.0%	10.4%	10.9%
Net Profit	2800	3065	3537	3162	1940	1524	2159	2368	3253	2751
Net Margin	8.8%	8.5%	9.4%	8.8%	6.8%	5.8%	7.4%	6.4%	8.3%	7.8%
Free Cash Flow	646	-953	879	867	933	815	-393	-1130	-37	4827
Income Tax	1424	1659	1946	1627	840	700	971	1727	852	1082

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	48207	56266	59521	61336	57948	57919	65786	70108	73011	75090
Cash & Equivalents	3647	4652	3504	3787	4162	4336	9335	3904	3857	7066
Acc. Receivable	26123	29576	33544	35302	32695	31840	33188	36080	38808	38620
Inventories	4371	5170	4935	4210	3817	3341	3904	6149	5975	4999
Goodwill & Int.	1127	1026	922	860	790	920	1251	4663	4297	4408
Total Liabilities	41393	49404	49254	52271	51190	51388	56226	58817	61594	62150
Accounts Payable	2675	2986	2739	2325	1872	2096	2551	2894	1996	1926
Long-Term Debt	26589	32421	34476	36958	36850	35612	40045	42257	45334	45840
Total Equity	6800	6842	10266	9063	6743	6520	9557	11288	11413	12940
D/E Ratio	3.91	4.74	3.36	4.08	5.46	5.46	4.19	3.74	3.97	3.54

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.1%	5.9%	6.1%	5.2%	3.3%	2.6%	3.5%	3.5%	4.5%	3.7%
Return on Equity	42.8%	44.9%	41.4%	32.7%	24.5%	23.0%	26.9%	22.7%	28.7%	22.6%
ROIC	8.7%	8.4%	8.4%	7.0%	4.3%	3.6%	4.7%	4.6%	5.9%	4.8%
Shares Out.	406	388	374	346	317	315	322	318	313	317
Revenue/Share	75.38	89.57	96.66	97.83	85.15	83.27	90.06	113.11	122.45	111.37
FCF/Share	1.53	-2.37	2.26	2.37	2.78	2.57	-1.21	-3.45	-0.12	15.25

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