

Deere & Company (NYSE: DE)

Sector: Agriculture and Forestry (NAICS: 11)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$87.00	\$85.38	\$95.60	\$79.50	1.48	9.8	\$32.69B (Large Cap)	2.39%

Industry Trends

The world's population is projected to grow at approximately 1.1% a year; world food production will need to increase by 1.5% a year to meet this demand. The difference in growth rates is caused by increasing global demand for meat. The world will need to produce more food with the same amount of land, less water and less people. Much of this production is expected to come from developing nations which often use antiquated farming techniques. Developing countries will need to modernize their farming techniques to include the large machinery that companies like Deere produce in order to meet demand. The company's performance is influenced by government subsidies of farmers around the world, which is a trend that only seems to be increasing. For example, Brazil plans on increasing its farm subsidies by 18% this year.

Investment Thesis

Deere will be able to profit from the aforementioned strong global economic tailwinds that show no sign of diminishing. Deere has constructed an additional 7 factories in Brazil, Russia, China, and India, and has expanded its financing arm into many other countries to better meet increasing demand. Moreover, management has a proven record of returning equity to shareholders through consistent stock buyback programs and steadily increasing dividends. On 12/4/2013, Deere announced that it had increased its share repurchasing program by \$8 billion. Deere has a 2.7% free cash flow yield

Business Summary

Deere & Company produces machinery for the agricultural, forestry, and construction industries, and also has a financing arm to facilitate purchases. 40% of Deere's sales come from non-US and Canada countries, and is expected to increase to 50% by 2018. 75% of Deere's sales are from its Agriculture and Turf division, 17.6% Construction and Forestry, and 7.4% from Financing.

DE 5-year stock performance vs. S&P 500:



(Google Finance)

Corporate Social Responsibility:

ESG Disclosure Rating	28.1 (Ind. Avg.: 25.92)
Environmental Disclosure Score	13.95 (Ind. Avg.: 27.52)
Carbon Disclosure Score	76.00 (Ind. Avg.: 66)
Social Disclosure Score	33.33 (Ind. Avg.: 26.32)
Governance Disclosure Score	55.36 (Ind. Avg.: 55.36)
Equal Opportunity Policy	Yes (Ind. Avg.: Yes)
Community Spending	24.4 (Ind. Avg.: 14.44)
Total Energy Consumption	N/A (Ind. Avg.: 3.61)

Source: Bloomberg Terminal, Value Line Investment Survey, Google Finance

Competition:

- Three of DE's competitors are: AGCO (\$5.74bn), CNH Industrial NV (\$14.16bn), and Kubota Corp (\$20.45bn)

Pros:

- Strong share buyback and dividend program.
- Increasing economies of developing countries will support revenue growth long into the future.
- Government spending on agriculture in many countries is increasing, making farmers more likely to buy new machinery.
- Trading well below its historical average P/E; this seems to imply that the risks are already priced in.

Cons:

- In 2014 in the U.S., deductions on income taxes that farmers are allowed to take for buying machinery will decrease from \$500,000 a year to \$25,000, due to the current policy expiring. This is abnormal behavior for Congress, and it is speculated that new subsidies will be put in place after mid-term elections next year.
- 60% of sales come from U.S. and Canada, and thus Deere will be heavily impacted by farmers' income in these countries.
- Because farmer income is impacted by fluctuating agricultural commodity prices, Deere has exposure to the risks associated with these prices.

Value Estimate:

\$115 - \$155

(2016-2018)

Estimated Real Annual Return:

11%-19%

Overall Rating:

Overall Rating:	Four Stars
Expected inflation	3%
Current EPS	9.09
Forecasted EPS Growth	8%
Credit Quality	A
ROE	41.35%
ROA	6.11%
Price/Book	3.18
Debt/Equity	.03
Debt/Capital	0.14
Current Ratio	36.93
Price/Cash Flow	9.95
10 yr. Risk Free Rate	2.8%
WACC	5.73%

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