



## John Deere (NYSE: DE) Sector: Industrials (Manufacturing)

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend	Beta
\$224.08	\$218.49	\$221.60	\$106.14	25.48	\$68.47B	1.41%	0.94

### Investment Thesis

As a leader in the farm and heavy construction industry with a supportive financing arm, John Deere (DE) is a standout among its peers and is poised for both conservative and continual growth for years to come. We see 5 key drivers that will continue to propel DE forward in months and years to come. Firstly, with utilization of new technologies and AI, along with robust R&D expenditures, DE continues to remain the market leader in precision agriculture. Secondly, the growth in their Construction & Forestry arm (C&F) will be supported by a pending infrastructure bill, urbanization, and movement into more road building activities. Thirdly, the U.S. - China trade deal presents the opportunity for an additional \$200B in crops to be purchased from farmers and therefore prop up the agriculture industry in general. Federal assistance to crop losses from the pandemic will also continue to boost farmer confidence and capital, thus allowing them a great opportunity at purchasing DE equipment. Finally, growth in aftermarket sales as the result of an ageing equipment fleet will spur new demand and top line growth for DE.

### Business Description

John Deere was founded in Moline, IL in 1837, with distributions to 160 countries and 5,000 independent retailers. John Deere operates under 3 segments: Agriculture and Turf (A&T), Construction and Forestry (C&F) and Financial Services. Under their A&T segment, Deere provides a full line of equipment for all farming and turf needs including crop harvesting, turf and utility, hay and forage, crop care, and tractor equipment. Under their C&F segment, Deere provides a full line of construction, earthmoving, roadbuilding, and timber harvesting equipment. Deere maintains the most complete forestry equipment in the world. As part of a recent acquisition in 2018, Deere added Wirtgen Group in order to capitalize on growing demand for road development and maintenance. Under their Financial

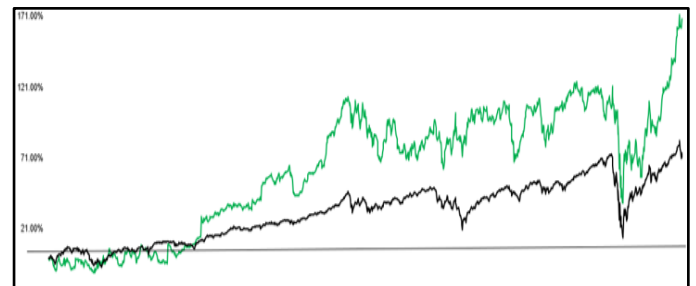
Services operations, Deere provides credit servicing, mainly for retail purchases and used equipment taken as trade-ins. A growing, yet stable business under their financial arm is their equipment leases to governmental organizations.

### Industry Description

DE operates in two major industries: construction and agriculture. The construction industry is closely tied to the global economy and economic growth and can therefore often be riskier. This sector is highly influenced by the real estate market and has seen solid advancements in recent months with positive housing start figures. Moving forward, national, and global construction spending is supposed to continue to expand into 2021. The agriculture industry saw short-term destabilization in commodity prices during the pandemic but has since recovered. Farmer sentiment remains fluid and continues to improve with a strong outlook on crop prices for 2021 ahead.

### 5-Year Stock Performance

DE vs. SPX





**Valuation Assumptions**

Implied Value	
PV Terminal Value	50,075.41
PV Cash Flows	14,882.92
Enterprise Value	64,958.33
Less: Debt	11,540
Less: Non Controlling Interests	3
Add: Cash+ Marketable. Sec.	8,352
Equity Value	61,767.33
Shares Outstanding	313.0
Deere Share Price	\$ 197.34
Finance Seg. Share Price	\$ 26.74
<b>Implied Share Price</b>	<b>\$ 224.08</b>
Current Stock Price	\$ 214.75
Margin of Safety	4%

Terminal Value Assumptions	
Discount Rate	9.00%
Perpetuity Growth Rate	3.00%
Terminal Value	91,539.81

		Sensitivity Analysis				
		Discount Rate				
Growth		7.00%	8.00%	9.00%	10.00%	11.00%
	2.0%	284.10	234.82	199.89	173.90	153.87
	2.5%	309.32	251.09	211.05	181.92	159.82
	3.0%	340.86	270.61	224.08	191.08	166.52
	3.5%	381.40	294.46	239.47	201.64	174.11
	4.0%	435.46	324.29	257.94	213.97	182.78

**ESG**

**Environmental:**

Compliance with emission standards:

- Investment in development on new engine technologies
- 50% of electricity through renewable sources
- Using Water Responsibly & Recycling More

Promoting stewardship of the land:

- Conservation through integral farming
- Using Water Responsibly & Recycling More

**Social:**

Empowering economic development:

- Advancing mechanization and entrepreneurship

**Governance:**

- Promoting and growing and independent and diverse Board of Directors

**Competitive Analysis**

John Deere operates in a highly competitive industry with many domestic and international players. However, with John Deere’s diversified product portfolio and global presence, other competitors have a challenging time performing as well as they do. Also, John Deere is the only player in its class that currently harnesses AI and other emerging technologies for their agriculture equipment.

**Risks**

- Floating agriculture prices can negatively impact sales of agriculture equipment
- John Deere operates in highly competitive markets that are on the nexus of technological innovation
- Heavy reliance on raw materials for production of their machines makes them vulnerable to price swings
- Changes in the real estate and infrastructure markets can have a significant impact on the C&F arm of the business
- Fiscal and monetary changes in governmental policy could adversely impact John Deere’s growing financing arm