

Deere & Co.

1Q24 EPS Beat, But FY24 Net Income Guidance Missed Consensus

Earnings Review

1Q24 EPS Beat, But FY24 Guidance Missed Consensus

Deere (DE) reported a strong 1Q24 EPS of \$6.23, beating Bloomberg consensus of \$5.27. Global net sales from equipment operations were down 8% YoY to \$10.5bn, and was above Bloomberg consensus of \$10.3bn. Revenues from Production and Precision Agriculture declined 7% YoY to \$4.8bn and Small Agriculture and Turf sales declined 19% YoY to \$2.4bn with operating profits decreasing -13% YoY to \$1.0bn and -27% YoY to \$326mn, respectively. The Construction and Forestry sales of \$3.2bn were flat YoY with positive price realization offset by lower shipment volumes. Operating profit decreased 9% YoY to \$566mn primarily due to higher production costs and higher SG&A and R&D expenses. Financial Services net income increased 12% YoY to \$207mn.

Deere is coming off three years of record farm income and the projected reduction puts Deere in line with historical averages that are still supportive of mid-cycle equipment demand. Moving forward, Deere expects fleet replenishment to moderate as agricultural fundamentals normalize from record levels in 2022 and 2023. Deere updated its FY24 outlook: net income is expected to be in the range of \$7.5bn-\$7.75bn, down 5% at the midpoint from prior guidance of \$7.75bn-\$8.25bn, and below Bloomberg consensus of \$7.83bn. Net operating cash flow is expected to be \$7.0bn-\$7.5bn.

Balance Sheet

Deere continues to maintain a strong balance sheet and is committed to its A rating. The company had total cash of \$5.1bn including \$1.7bn of cash at John Deere Capital. Industrial debt at quarter-end was \$8.5bn with LTM EBITDA of \$14.5bn resulting in industrial gross leverage of 0.6x (net 0.3x). Including debt at John Deere Capital, total company debt was \$39.95bn. On February 15th, Moody's upgraded Deere's senior unsecured rating to A1 from A2; the outlook was changed to stable from positive.

Maintain Overweight

We recognize that the Deere bonds trade through the investment grade index, but they offer excellent quality, in our view. Deere is expected to continue benefiting from the strong demand as order books across most product lines are full through the second quarter. Improvements in the industry outlook are reflective of a better-than-expected demand backdrop and stabilized optimism through the balance of the year as dealer inventories return to more normal levels. End markets remain healthy with single-family housing starts improving. In addition, the fleet age is well above average and as farmers benefit from higher crop prices, they are seeking to replace old equipment. The strong demand in combination with limited inventory ensures that strong pricing will remain. On a relative value basis, John Deere Capital Corp 3.90% June-32's trade at g-spread of about 51bps about flat to Caterpillar Inc. 5.30% September-35's which trade at a g-spread of about 47bps.

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High Grade Credit
United States
Machinery

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Table 1: Ratings

Ratings

Agency Ratings	DE
Mdys/S&P/Fitch	A1/A/A+
Outlooks	S/S/S

Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

Table 2: Selected Bonds

Levels are offer side

Sr Unsecured	Price	STW	G-Sprd
2.000% 2031	\$83.320	48	47
3.900% 2032	\$94.090	53	51
3.900% 2042	\$85.975	55	61

Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

Valuation & risk

Deere & Co (DE)

Deere has a strong liquidity position that provides a cushion against volatility in EBITDA, large market share, and a strong global brand. It has more than offset inflationary costs with favorable pricing arising from limited inventory and strong demand as farmers seek to replace aging fleets. Upside risks are a resolution to trade disputes, higher farm incomes, and increased demand for agriculture equipment. Downside risks are high exposure to cyclical agriculture markets, potential to make debt-financed acquisitions to expand global footprint, and price undercutting by foreign competitors. We have an OW recommendation on bonds and Neutral recommendation on CDS for the Deere complex.

Analyst Certification

I, Douglas Karson, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security/Loan pricing

Deere & Co. / DE

	Amt		Ratings			Yield	Spread
Security		Maturity date	Moody's/S&P/Fitch	Price	Price date	(%)	(bps)
7.125, Senior, USD, 2031:B	300	03-MAR-2031	A2/A/A+	113.57	14-Feb-2024	4.83	58
3.1, Senior, USD, 2030:B	700	15-APR-2030	A2/A/A+	90.89	14-Feb-2024	4.83	57
Senior Unsecured, USD, Y5:CDS					15-Feb-2024		41

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Deere & Co. / DE

Company	Date ^{R1}	Action	Recommendation	
Deere & Co. / DE	31-Jan-2021		Marketweight	
	23-Nov-2022	Upgrade	Overweight	
Security	Date ^{R1}	Action	Recommendation	Price
7.125, Senior, USD, 2031:B	31-Jan-2023		Overweight	
3.1, Senior, USD, 2030:B	31-Jan-2023		Overweight	
Senior Unsecured, USD, Y5:CDS	31-Jan-2023		Neutral	

Table reflects credit opinion history as of previous business day's close.^{R1}First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

Pricing information in the table is provided for each action where available. In the case of bonds, loans, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

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Buy Protection: Buy CDS, therefore going short credit risk.

Neutral: No purchase or sale of CDS is recommended.

Sell Protection: Sell CDS, therefore going long credit risk.

Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R2}	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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