

Deere & Co

Deere stumbles: coast isn't clear (yet) on what ultimately matters....2025

Reiterate Rating: NEUTRAL | PO: 412.00 USD | Price: 364.66 USD

Cuts 2024: understandable? sure but certainly atypical

DE reported a solid FQ1 (see page 2) yet cut its '24 net income guidance from \$7.75-8.25bn to \$7.5-7.75bn, down ~25% YoY at midpoint & 3% below cons. DE's end market commentary continues to support our ['miners over farmers view'](#) (prefer Buy-rated CAT to Neutral-rated DE). While the guidance revision is somewhat understandable given weakening ag fundamentals, it is rare to see DE trim its guide this early into the year (only happened once in Q118 on a tax impact in 14 years). DE proactively managing inventories is clearly sensible, yet it is still surprising to see such a shift in 3 months.

Ag: 2024 downside is likely fully captured now but...

Elements of the revised 2024 guide likely captures the downside risks: i) large ag decremental margin of ~42% in FQ2-FQ4: larger volume drag, underproduction in EU & SA, mix headwind yet hard to see downside, ii) Ag pricing kicked off the year +3-4% (partly due to carry-over effect) – likely to moderate in an effort to clean out the channel yet hard to see downside to FY+1.5%, iii) C&F: less refueling a headwind and cautious pricing commentary worth monitoring, yet underlying demand/visibility remains stable.

...2025 is what truly matters – coast isn't clear yet

2024 EPS is down YoY yet likely to be DE's second highest in company history - DE's execution (and pricing) driving structurally higher margins. While DE is focusing on what is in its control by aligning production with retail demand into 2025, another down year is not 'off the table' (ag feels vulnerable): i) order velocity on tractors trended down in recent weeks, ii) customers shifting to a typical replacement pattern post 3 strong years – replacement demand is likely not enough of a driver of an upturn at this stage, iii) unclear if relief in certain areas (rates, costs) can offset falling crop prices (-11% YTD).

Metals vs Crops: prefer CAT (Buy) to DE (Neutral)

We reduce DE estimates post results. We raise our PO to \$412 (\$399) based on 15x '24e EPS as a higher multiple is warranted as we near mid-cycle (vs 14x prior). Reiterate Neutral: DE is a quality market leader yet struggle to see valuation upside given ag cycle risks. As we highlight in our year ahead, we believe the story in '24 is ultimately '25. As a result, we continue to prefer CAT (Buy) to DE (Neutral) in large cap Machinery: both trade ~15x '25 EPS, both exposed to construction, yet we see higher support for CAT's other markets – for example, BofA sees upside risk to metals (iron ore, copper) into '25.

Estimates (Oct) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	23.28	34.63	27.50	27.50	30.00
EPS Change (YoY)	22.6%	48.8%	-20.6%	0%	9.1%
Consensus EPS (Bloomberg)			28.41	28.37	29.91
DPS	4.28	4.83	5.76	6.62	7.62
Valuation (Oct)					
P/E	15.7x	10.5x	13.3x	13.3x	12.2x
Dividend Yield	1.2%	1.3%	1.6%	1.8%	2.1%
EV / EBITDA*	12.0x	8.4x	11.1x	11.5x	10.7x
Free Cash Flow Yield*	4.9%	10.0%	6.2%	7.1%	7.7%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 16 February 2024 05:30AM EST

16 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	399.00	412.00
2024E Rev (m)	48,617.6	47,340.2
2025E Rev (m)	50,142.5	47,270.5
2026E Rev (m)	52,674.4	49,660.5
2024E EPS	28.50	27.50
2025E EPS	29.75	27.50
2026E EPS	32.50	30.00
2024E DPS	5.50	5.76

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Stock Data

Price	364.66 USD
Price Objective	412.00 USD
Date Established	16-Feb-2024
Investment Opinion	B-2-7
52-Week Range	345.55 USD - 450.00 USD
Mkt Val (mn) / Shares Out (mn)	104,621 USD / 286.9
Free Float	92.7%
Average Daily Value (mn)	494.54 USD
BofA Ticker / Exchange	DE / NYS
Bloomberg / Reuters	DE US / DE.N
ROE (2024E)	52.0%
Net Dbt to Eqty (Oct-2023A)	18.4%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

DE: Deere
CAT: Caterpillar
PPA: Production & Precision Agriculture
C&F: Construction & Forestry

W

iQprofileSM Deere & Co

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	26.4%	41.3%	30.9%	27.5%	25.7%
Return on Equity	52.2%	69.7%	52.0%	44.0%	38.1%
Operating Margin	18.3%	23.2%	20.5%	19.7%	20.2%
Free Cash Flow	5,108	10,425	6,474	7,425	8,034

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	1.1x	1.2x	1.1x
Asset Replacement Ratio	1.1x	1.3x	1.6x	1.2x	0.9x
Tax Rate	21.6%	22.0%	25.3%	25.3%	25.3%
Net Debt-to-Equity Ratio	36.1%	18.4%	25.4%	-0.9%	-19.3%
Interest Cover	22.5x	31.4x	23.7x	22.7x	24.5x

Income Statement Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	47,916	55,566	47,340	47,271	49,661
% Change	20.6%	16.0%	-14.8%	-0.1%	5.1%
Gross Profit	12,575	17,827	14,439	14,087	15,146
% Change	18.4%	41.8%	-19.0%	-2.4%	7.5%
EBITDA	9,179	13,116	9,921	9,564	10,351
% Change	18.7%	42.9%	-24.4%	-3.6%	8.2%
Net Interest & Other Income	(826)	(679)	(585)	(585)	(585)
Net Income (Adjusted)	7,130	10,167	7,680	7,401	7,954
% Change	19.6%	42.6%	-24.5%	-3.6%	7.5%

Free Cash Flow Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	7,130	10,167	7,680	7,401	7,954
Depreciation & Amortization	1,041	1,123	1,173	1,223	1,273
Change in Working Capital	(1,269)	1,979	(479)	300	(93)
Deferred Taxation Charge	8	(959)	0	0	0
Other Adjustments, Net	(671)	(391)	0	0	0
Capital Expenditure	(1,131)	(1,494)	(1,900)	(1,500)	(1,100)
Free Cash Flow	5,108	10,425	6,474	7,425	8,034
% Change	1.0%	104.1%	-37.9%	14.7%	8.2%
Share / Issue Repurchase	(3,534)	(7,216)	(5,934)	(1,701)	(1,776)
Cost of Dividends Paid	(1,313)	(1,427)	(1,601)	(1,774)	(2,009)
Change in Debt	(1,082)	(672)	0	0	0

Balance Sheet Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,828	5,824	4,763	8,713	12,961
Trade Receivables	9,559	7,713	6,680	6,475	6,803
Other Current Assets	8,495	8,160	7,311	7,374	7,670
Property, Plant & Equipment	6,021	6,843	7,570	7,847	7,674
Other Non-Current Assets	11,305	12,050	12,050	12,050	12,050
Total Assets	39,208	40,590	38,374	42,460	47,158
Short-Term Debt	1,132	1,327	1,327	1,327	1,327
Other Current Liabilities	13,342	15,314	12,953	13,113	13,642
Long-Term Debt	7,917	7,210	7,210	7,210	7,210
Other Non-Current Liabilities	2,351	2,032	2,032	2,032	2,032
Total Liabilities	24,742	25,883	23,522	23,682	24,211
Total Equity	14,466	14,707	14,852	18,778	22,947
Total Equity & Liabilities	39,208	40,590	38,374	42,460	47,158

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Agricultural Machinery

Company Description

Deere is the largest manufacturer/distributor of agricultural equipment worldwide with leading market shares in large farm-equipment segments. DE's 3 main areas: 1) Agriculture and Turf (farm equipment, lawn and garden, other outdoor products), 2) Construction and Forestry (construction earth-moving material-handling and timber-harvesting equipment), 3) Credit (financing).

Investment Rationale

Deere is the global market leader and best in class operator in farm equipment. We see the company widening its competitive advantage in precision agriculture in coming years, which should continue to drive pricing power, improving mix, and share gains. That said we are more cautious on the farm economy as the macro economic environment shifts. We expect the C&F segment to benefit from a revival of construction activity, boost in rental capex, and potential infrastructure stimulus.

Stock Data

Average Daily Volume 1,356,178

Quarterly Earnings Estimates

	2023	2024
Q1	6.55A	6.23A
Q2	9.65A	8.05E
Q3	10.20A	7.01E
Q4	8.26A	6.20E

Deere results

FQ1 results come in better than expected

DE reported EPS of \$6.23, beating consensus of \$5.25 by 19% and BofAe of \$4.83 by 29%. Total revenue came in at \$10.5bn (-27% YoY), 3% above BofAe and +1.4% above consensus. Operating profit (ex-fin) of \$1.94bn (-27% YoY) beat consensus by 7% and BofAe by 12%. Operating margin (ex-fin) of 18.5% was above consensus of 17.5% and above BofAe of 17.1%. By segment, Deere reported better than expected operating margin performance across all three segments: PPA (21.6% vs BofAe of 19.5%), Small Ag & Turf (13.4% vs BofAe of 12.5%) and Construction (17.6% vs BofAe of 17.5%).

2024 guidance update details

Deere lowered its 2024 net income guidance from \$7.75-8.25bn to \$7.5-7.75bn, down ~25% YoY at midpoint & 3% below consensus. Details include: i) maintained ag industry outlook estimates in all regions except Europe – now down 10%-15% vs down 10%, ii) lowered PPA segment outlook: sales growth down 20% (vs down 15-20%), operating margin of 21.5-22.5% (vs prior 23-24%). The decrease in the PPA sales and margin outlook was due to the underproduction of equipment in Europe & South America. Iii) C&F industry outlook was raised in NA construction to flat to -5% YoY from -5% to -10% YoY. US and CA compact construction equipment also increased to flat YoY from flat to -5% YoY. C&F segment sales are expected to be down 5-10% vs down 10% YoY.

Farm equipment trends: weakening ag fundamentals

According to DE, Ag fundamentals have returned to near mid-cycle levels following a robust three-year period. As we understand, incrementally order trends weakened in recent weeks in tractors for North America and remain soft in Combines (albeit, in line to slightly ahead of trajectory 3 months ago). Volumes for HHP tractors were flat in 1Q24 and expected to remain flat through 1H24, yet DE expects a stronger pull back in volumes in 2H24 to keep production in line with retail. Further commentary: i) Europe: underproduce demand for the remainder of 2024 due to softening market conditions, ii) SA: In Brazil, seeing progress from efforts to reduce field inventory in response to the market pullback – combine inventory is down 25% on an absolute basis in 1Q, and on track to reach target levels by FY end, iii) In NA, managing production to be in-line with industry demand. Looking forward, DE expects to end the year positioned to produce in line with retail demand in 2025.

C&F: stable visibility, some cautious price commentary

Construction end markets remain healthy with i) single-family housing starts improving, ii) infrastructure spending increasing and iii) manufacturing investment levels ramping. Roadbuilding markets are expected to be flat in 2024, driven by strong infrastructure spending in the U.S., offset by softness in Europe. DE expects slightly stronger sales through 2H24 – embedded in the updated outlook. Also, government infrastructure projects in the U.S are likely to drive construction growth. Through 2023, ~40% of the IJJA dollars have been awarded, but relatively minimal amounts have been spent. DE expects infrastructure spending to provide a strong tailwind well into '25 and '26 across both construction and road building segments. A cautious trend to monitor – competitive dynamics likely emerge as inventories are fully rebuilt at this stage. We were a bit surprised to see price growth of only +2.7% in the FQ1 period.

Price objective basis & risk

Caterpillar Inc (CAT, B-1-7, \$323.07)

Our \$363 PO on CAT is on based on 16.5x 2024e EPS which is in-line with the long term historical range of 15-17x. While we see some headwinds that are likely to slow growth (higher inventories, capex plateauing, pricing moderating, backlog softening), there are unique macro and business cycle factors that are underpinning stronger cycle over cycle earnings: infrastructure, construction spending mix shifts towards heavy vs light, higher miner free cash flow generation, aging fleets, and data centers.

Downside risks to our PO: 1) widening global coronavirus pandemic that tilts global economy into recession, 2) a greater-than-expected reduction or delay in capital spending among large mining, and oil and gas customers, 3) intensifying pricing pressure in the construction and mining equipment industries, 4) greater than expected dealer destocking, 5) ongoing deterioration in dealer sales growth.

Upside risks: 1) a faster recovery in the global economy, 2) firming earthmoving construction equipment market, 3) stronger-than-expected fleet replacement, 4) continuing recovery in commodity prices, 5) stronger-than-expected demand trends in gas compression, 6) quicker-than-expected resolution to the pandemic.

Deere & Co (DE)

Our \$412 PO is based on 15x our FY24 EPS forecast. Our target 15x PE multiple is at the low end of the long term average range of 15-17x given the rising rate environment, lower ag commodity prices, and macro concerns that farm equipment units could enter a downturn. We do not believe a lower multiple is appropriate relative to its historical range given Deere is generating higher profits per unit vs prior cycles.

Risks to our PO: 1) slowdown in the farm economy due to better expected yields later this year, 2) disappointment in construction equipment, 3) peak in the used equipment market, 4) extended improvement in commodity prices reverses, 5) ongoing supply chain disruption leads to earnings misses.

Analyst Certification

I, Michael Feniger, 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.

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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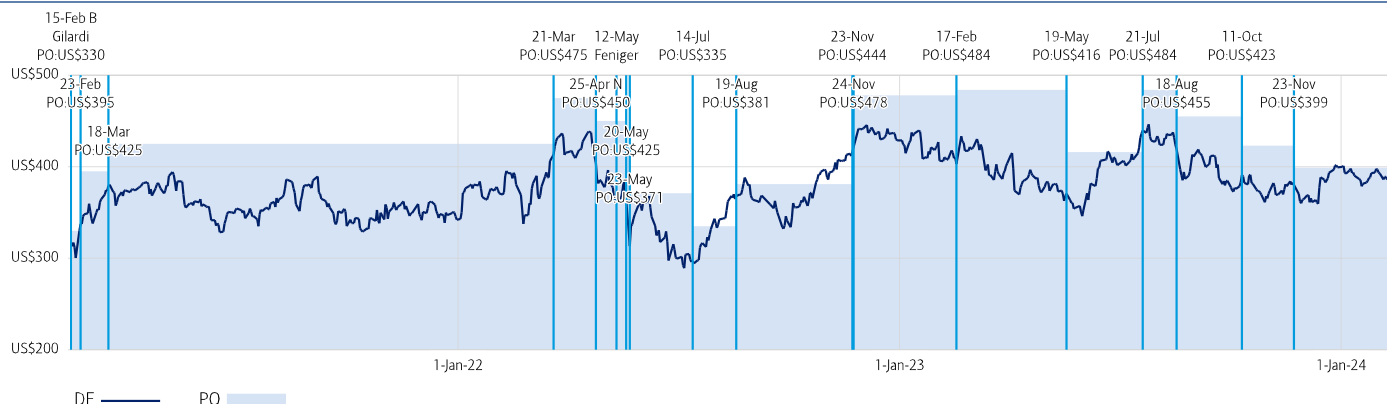
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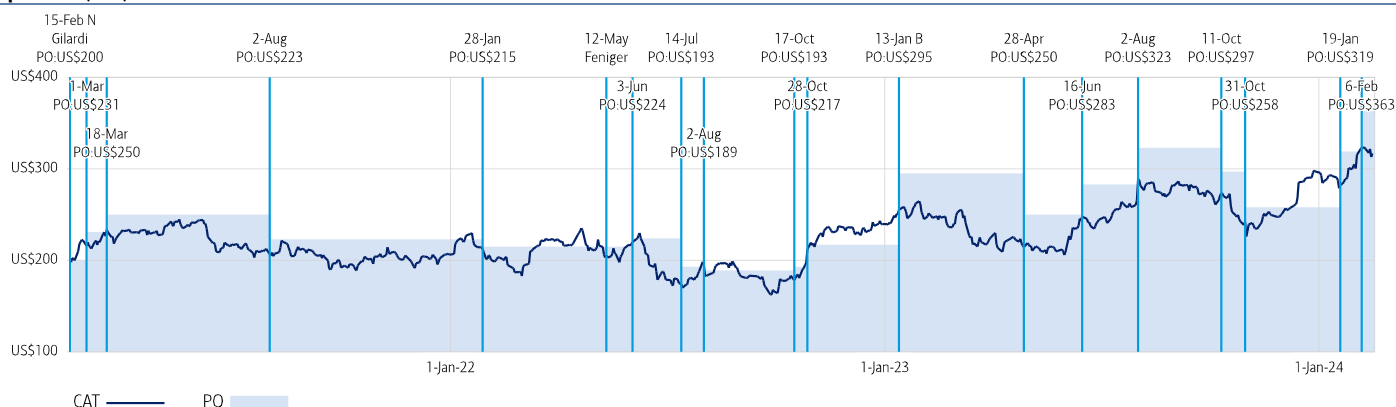
Deere & Co (DE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Caterpillar Inc (CAT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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