



May 19, 2019

## Deere & Company

### Tariffs/trade take a toll; Maintain Outperform

**Our view:** Our OP rating has never been about a sharp 2019 turn, rather that DE is well positioned for a farm equipment cycle that is ahead. Whereas the tempered FY19 outlook is disappointing, it isn't overly surprising given US/China trade wrangling and bad weather.

#### Key points:

**Maintaining Outperform.** DE -7.7% (S&P -0.6%) on light 2Q EPS and tempered FY19 revenue/net income/cash flow outlook. Big picture, we view the reset as unsurprising, as China trade/tariff noise, well-documented weather challenges, and African swine fever in China have increasingly weighed on U.S. farmer sentiment/crop demand, deflating a promising start to the year. Plus side, DE's pricing is holding, Brazil sounds good (EU flattish), and 2H production cuts should have it well positioned for 2020, assuming a more settled environment. We shave ests to reflect push-out but otherwise view the thesis as intact with cycle to come.

#### What has changed:

- DE now sees FY19 revenue +5% from prior 7%, with net income shaved to \$3.3b from \$3.6b and cash from ops reduced to \$4.1b from \$4.4b. Full-year tariff impact est \$75-100m at 25% level, with input costs expected to improve 3Q and more so 4Q.
- A&T revenue now +2% from +4% (inc add'l 1% f/x hit) reflecting increased caution among N. America farmers (Brazil/Europe still solid) and 4% reduction in US crop cash receipt estimate since 1Q. DE maintained regional industry outlooks but now sees N. America HHP toward lower end of prior 0-5% range on aforementioned mkt challenges (including negative Canada) while mid-range tractor growth hurt by softer dairy/livestock mkts; DE does not assume NT China trade resolution. FY19 A&T margin trimmed to 11% from 12% reflecting mix and expectation to under-produce 2H retail demand (some factories 2H -20% y/y); the 11% inc 1%+ f/x headwind.
- C&F revenue +11% from prior +13%, inc softer US resi, softer Canada and \$100m Wirtgen shave (half cut for some EMs like China/Turkey/Argentina/Russia and half f/x). Margin now 11.5% from prior 12%.
- FINCO profit to \$600m from \$630m, including higher 2Q loss provisions.

**2Q highlights:** EPS (adjusted) of \$3.52 short of consensus \$3.62/our \$3.73 (\$3.14 in 2Q18). Equipment sales (\$10.27b) +5% y/y vs. consensus \$10.24b/our \$10.37b; pricing +4%, f/x -4%; DE noted pricing offset input costs. Ag & Turf sales +3% y/y, matching our est; margin 14.0% trailed our 14.8% and -100bps y/y; DE noted f/x shaved 150bps. Construction & Forestry sales +11% y/y vs. our +14%; margin 11.6% (30% incremental) below our 13.1%. FINCO income \$121m was well below our \$157m. Cash from ops \$2.1b vs. \$2.0b y/y; DE spent \$337m on share repo.

**Reducing ests, PT.** Our FY19/20E EPS to \$10.25/11.45 from \$11.25/12.95 including revenue/margin shave. Our FY20E EPS reflects A&T rev +5% and 33% incremental. PT to \$175 from \$190 (~15-15.5x 2020E EPS).

**Sector: Machinery**

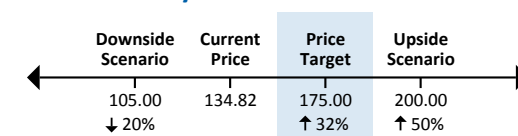
### Outperform

NYSE: DE; USD 134.82

**Price Target USD 175.00 ↓ 190.00**

WHAT'S INSIDE	
<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
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#### Scenario Analysis\*



\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	325.8	Market Cap (MM):	43,924
Dividend:	2.40	Yield:	1.8%
		Avg. Daily Volume:	1,735,620

#### RBC Estimates

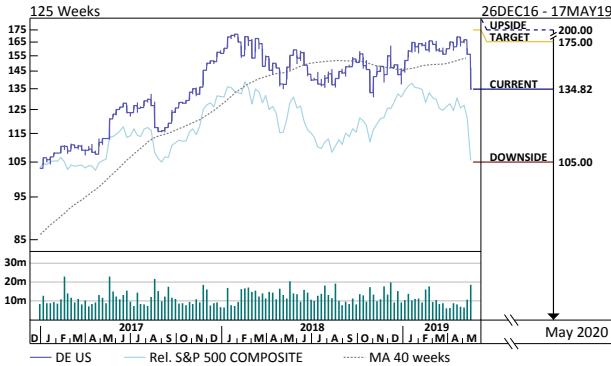
FY Oct	2017A	2018A	2019E	2020E
<b>EPS, Ops Diluted</b>	6.66	9.38	10.25	11.45
Prev.		9.35	11.25	12.95
<b>P/E</b>	20.2x	14.4x	13.2x	11.8x
<b>Revenue</b>	25,885.0	33,350.6	34,976.9	36,160.5
Prev.			35,790.7	37,498.1
<b>EPS, Ops Diluted</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
2018	1.35A	3.14A	2.59A	2.30A
Prev.	1.31A			
2019	1.54A	3.52A	2.98E	2.20E
Prev.		3.73E	3.28E	2.69E
<b>Revenue</b>				
2018	5,973.9A	9,747.0A	9,286.4A	8,343.3A
2019	6,940.9A	10,272.8A	9,772.6E	7,990.7E
Prev.		10,367.4E	9,693.8E	8,788.6E

All values in USD unless otherwise noted.



### Target/Upside/Downside Scenarios

Exhibit 1: Deere & Company



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

#### Price target/base case

Our \$175 price target assumes shares trade at ~15-15.5x our FY20 EPS estimate. Our base case FY19/20 assumptions include Ag & Turf revenue +2%/+5% with margin 11.0%/12.2%. Our Construction & Forestry forecast assumes FY19/20 revenue +11%/+0% with margins of 11.4%/11.4%.

#### Upside scenario

Our upside scenario places FY20 EPS in the low \$13 range; using a similar P/E could translate into an incremental \$25 to our price target, or a \$200 price scenario. Our upside scenario envisions stabilizing crop prices supporting cash receipts and investments in farm equipment as well as a more robust pickup in construction equipment demand. This scenario assumes aggregate FY20 net sales growth of 9%, accompanied by a roughly 23% incremental margin.

#### Downside scenario

Our downside scenario could result in a price around \$105 based on FY20 EPS in the mid-\$7 range, and applying a similar P/E multiple. This scenario envisions FY20 revenue -1%, primarily on a slower than expected rebound in farm equipment demand and slowing construction growth. With the lower revenue, we assume less opportunity for margin expansion.

### Investment summary

We rate Deere Outperform. We like the company's leadership position in firming farm machinery and healthy earth-moving equipment markets. The potent combination is enhanced by prior/ongoing cost/efficiency measures that should support big operating leverage during a positive turn. In addition, a strong capital structure and cash generation supports balance sheet opportunities.

**Potential catalysts:** 1) Monthly regional farm equipment sales/registration and market share data; 2) agricultural commodity reports (USDA's Crop Progress, WASDE) that provide insight into farmer financial health and crop consumption and production trends; 3) evidence of higher US construction/infrastructure/energy activity; 4) capital allocation/balance sheet actions.

**Risks to our thesis include:** 1) sustained downward pressure on crop prices, leading to farmers purchasing less equipment; 2) slowdown in North American construction activity; 3) excess used equipment inventory (farm and construction) weighing on residual values; 4) acquisition integration challenges.



## 2Q19 Review & Outlook; Reiterate Outperform

Deere shares -7.7% (S&P -0.6%) on light 2Q EPS and a tempered FY19 revenue/net income/cash flow outlook. Big picture, we view the reset as unsurprising, as China trade/tariff noise, well-documented weather challenges, and African swine fever in China have increasingly weighed on U.S. farmer sentiment/crop demand, deflating a promising start to the year. On the plus side, DE's equipment pricing is holding, Brazil farm equipment demand sounds good (EU flattish), and DE's planned 2H production cuts (below retail demand) should have it well positioned for 2020, assuming a more settled environment.

We shave our estimates to reflect a push-out but otherwise view the thesis as intact with the cycle to come; as such, we maintain our Outperform rating. Our Outperform rating has never been about a sharp 2019 turn in farm equipment demand, rather that DE is well positioned for a farm equipment cycle that lies ahead. We view current challenges as temporary (i.e., expect eventual resolution to China trade dispute), which supports an attractive forward set-up with core farm equipment regions nicely below peaks with EU farm income expected up modestly, Brazil industry shipments are rebounding off 2016 lows, and US high-HP equip mkt 5+ yrs off last peak. Likewise, price/cost should improve going forward.

### DE lowered its FY19 net income outlook

DE lowered its 2019 net income outlook to ~\$3.3b from ~\$3.6b (pre-report cons \$3.65b) reflecting a tempered revenue and segment margin outlook. Revenue now expected +5% y/y from +7% prior, including an incremental 1% of f/x headwind (-3% from -2%); pricing and Wirtgen contributions unchanged at +3% and +1%, respectively. FINCO profit lowered to \$600m from \$630m and cash from ops trimmed to \$4.1b from \$4.4b. Gross margin now expected 24% from 25% prior while R&D and SA&G spend expected to increase 6% and 6%, respectively, from 5% and 7% prior. Tariffs (25% rate) expected to present \$75-100m headwind (was \$100m) and Deere has not factored in any trade resolution into its guidance.

DE maintained its regional A&T industry forecasts: it sees U.S./Canada industry Ag retail sales flat to +5%, with EU 28 flat y/y (strength in Western/Central markets largely offset weakness in drought-impacted Northeast); South America (tractors/combines) flat to up 5% (Brazil improving off low base, but Argentina weak on inflation and political uncertainty; Asia flat to slightly down; U.S./Canada Turf and Utility equipment sales flat to up 5%.

A&T sales now seen +2% from +4% (f/x now -3% from -2%), reflecting increased caution among N. America farmers including a 4% reduction in US crop cash receipt estimate since 1Q and weaker Canada fundamentals. Margin now 11% from 12% on volume/mix and lower production schedules; f/x a 1%+ headwind to margin. DE expects 2H production at some larger facilities to decline 20% y/y, an expansion from prior view, as it produces below retail demand in effort to manage field inventory.

N. America HHP sales now seen toward lower end of prior 0-5% range on aforementioned mkt challenges (including negative Canada). Big tractor order board extends to Sept, about one month less relative to last year. Small ag compact tractors' order book is strong for 2019, largely driven by favorable US economy and GDP growth. Else, mid-sized tractor growth was more moderate as it contended with softness in the livestock/dairy sector.

C&F sales growth trimmed to +11% including softer US residential construction, softer Canada and \$100m Wirtgen shave (half cut for some EMs like China/Turkey/Argentina/Russia and half f/x); f/x maintained at -2%. Margin now 11.5% from prior 12%, including Wirtgen at 12.5%. DE noted order book extends into 4Q19, including supportive oil and gas and infrastructure investment, along with healthy rental fundamentals.



Farm markets

Principal 2019 US crop cash receipts expected around \$117b, 4% below 1Q's forecast, as prices have been impacted by rising stocks, trade issues and uncertain near-term demand. The late planting season has also negatively affected farmer sentiment. Corn stocks-to-use ratio expected to decline due to global demand outpacing expected supply growth; wheat stocks-to-use ratio projected up in 2019 and 2020 as production recovers from drought conditions in Europe and Australia last year. Soybean stocks-to-use ratio forecast to remain elevated on higher-than-expected US yields and the ongoing trade dispute between the U.S. and China. Additionally, potential for lower demand due to African Swine Fever in China creates uncertainty as China is faced with significantly reducing its herd size.

We reduce our FY19E EPS to \$10.25 from \$11.25; FY20E to \$11.45 from \$12.95

Our FY19E EPS reduced to \$10.25 from \$11.25, capturing light 2Q and lower projected revenue and segment operating margins; our FY19E net income to \$3.29b from \$3.59b. Our net revenue forecast declines to \$35.0b (+5% y/y) from \$35.8b prior, including A&T +2% and C&F +11% (prior +5% and +12%, respectively). We estimate A&T margin 11.0% with C&F margin 11.4%. Our FY20E EPS to \$11.45 from \$12.95, which includes A&T sales +5% (+7% prior) and C&F flat (same as before). We forecast A&T margin +130bps to 12.3% for 33% incremental. Our EPS estimates assume FY19 share repo of \$1.2b with \$1.5b in FY20. Our price target declines to \$175 from \$190; our target assumes shares trade at 15-15.5x our FY20 EPS estimate, roughly consistent with where shares traded in prior periods of moderate A&T growth, and is consistent with the multiple we apply to peer AGCO.

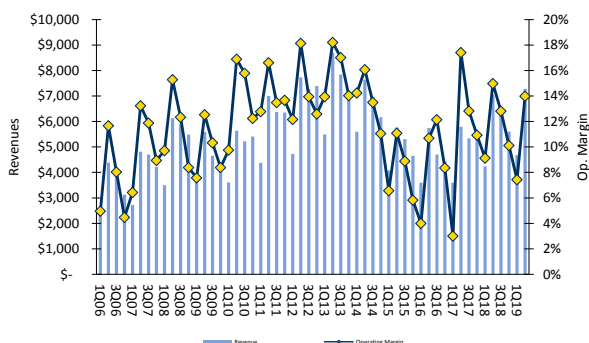
2Q19 highlights

Adj. EPS of \$3.52 (\$3.14 prior yr) trailed consensus \$3.62/our \$3.73. We estimate lower than expected tax rate added \$0.08 versus our model. Equipment revenue of \$10.27b +5% y/y compared with consensus \$10.24b/our \$10.37b. Pricing added 4% while currency subtracted 4%. FINCO profit of \$121m trailed our \$157m estimate as DE booked higher provision for credit losses. Cash from ops \$2.1b vs. \$2.0b y/y and DE spent \$337m on share repo.

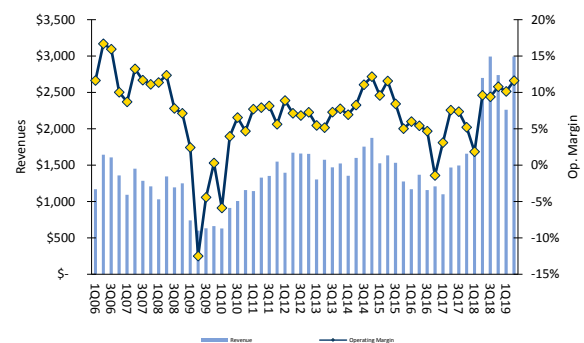
Ag & Turf sales of \$7.28b (+3% y/y) essentially in-line with our \$7.30b, though op margin of 14.0% declined 100bps y/y and lagged our 14.8%. Foreign currency a 1.5% headwind to margin. Price realization offset material and freight inflation. Construction & Forestry sales of \$2.99b (+11% y/y) trailed our \$3.07b (+14% y/y). Margin of 11.6% up from 9.6% prior year (30% incremental) but trailed our 13.1%, including higher production costs and negative mix. Wirtgen contributed \$815m revenue and \$102m op income (12.5%) margin.

Exhibit 2: DE Segment Overview

Ag & Turf Revenue & Operating Margin



Construction & Forestry Revenue & Op Margin



Source: Company reports, RBC Capital Markets



## Valuation

Our \$175 price target assumes shares trade 15-15.5x our FY20 EPS estimate, consistent with where DE traded on a relative basis in prior periods of moderate US farm equipment demand. Our price target supports our Outperform rating.

## Risks to rating and price target

- Demand for farm equipment is cyclical, typically reflecting farmer economics that are influenced by weather, crop prices, and input costs, among other things.
- The farm equipment industry is competitive, particularly in lower-HP machines.
- The recent Wirtgen acquisition was DE's largest and expands its Europe footprint and exposure to construction/road paving markets considerably.
- Potential for steel tariffs to pressure input costs.

## Company description

Deere & Co is the world's leading manufacturer of agricultural machinery products and a major manufacturer of construction and forestry equipment.



Deere & Company Equipment Operations Income Statement (\$Millions, except per share data)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19E	4Q19E	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E
Net sales	4,697.8	7,259.8	6,833.0	7,094.4	5,973.9	9,747.0	9,286.4	8,343.3	6,940.9	10,272.8	9,772.6	7,990.7	20,756.2	23,573.2	29,466.1	33,501.0	34,997.8	32,960.5	25,775.1	23,387.3	25,885.0	33,350.6	34,976.9	36,160.5
Finance & interest income	21.3	18.7	20.3	11.4	11.5	27.8	30.9	56.0	23.4	25.1	25.0	25.0	77.7	64.8	73.2	74.1	80.9	76.5	77.0	61.1	71.7	126.2	98.5	110.0
Other income	258.1	339.6	266.6	200.7	196.5	202.9	231.2	244.0	214.9	213.6	220.0	215.0	337.0	386.2	455.5	493.1	549.1	622.6	602.8	653.7	1,065.0	874.6	863.5	900.0
<b>Total revenues</b>	<b>4,977.2</b>	<b>7,618.1</b>	<b>7,119.9</b>	<b>7,306.5</b>	<b>6,181.9</b>	<b>9,977.7</b>	<b>9,548.5</b>	<b>8,643.3</b>	<b>7,179.2</b>	<b>10,511.5</b>	<b>10,017.6</b>	<b>8,230.7</b>	<b>21,170.9</b>	<b>24,024.2</b>	<b>29,994.8</b>	<b>34,068.2</b>	<b>35,627.8</b>	<b>33,659.6</b>	<b>26,454.9</b>	<b>24,102.1</b>	<b>27,021.7</b>	<b>34,351.4</b>	<b>35,938.9</b>	<b>37,170.5</b>
Cost of sales	3,797.2	5,428.1	5,265.5	5,408.8	4,705.0	7,333.8	7,153.1	6,381.2	5,432.1	7,755.1	7,427.1	6,072.9	16,256.9	17,400.4	21,920.6	25,009.2	25,668.9	24,777.8	20,145.2	18,250.8	19,899.6	25,573.1	26,687.3	27,373.5
R&D	310.9	325.4	335.4	398.2	356.8	415.2	415.7	469.9	406.8	457.1	454.4	439.5	977.1	1,052.4	1,226.2	1,433.5	1,477.2	1,452.0	1,425.1	1,389.1	1,369.9	1,657.6	1,757.8	1,789.9
S&M	539.0	644.1	639.7	720.0	590.5	799.5	768.9	775.7	644.5	795.2	854.3	798.1	2,262.2	2,495.7	2,786.7	2,988.9	3,143.5	2,765.1	2,393.7	2,262.5	2,542.8	2,934.6	3,092.1	3,188.4
Interest expense	66.7	67.0	65.8	64.1	96.0	78.2	51.4	72.2	71.5	43.5	57.5	57.5	162.6	184.1	191.4	231.2	297.1	289.4	272.7	250.5	263.6	297.8	230.0	240.0
Interest comp to Fin Services	45.7	60.4	65.4	63.0	61.7	80.6	86.2	71.3	69.0	92.4	80.0	75.0	227.9	186.3	178.5	203.7	202.8	212.2	204.9	216.6	234.5	299.8	316.4	330.0
Other operating expenses	57.9	83.2	58.1	79.2	72.2	66.7	80.3	96.4	71.4	67.1	78.2	67.9	186.2	178.0	192.4	177.9	223.9	285.3	195.1	215.8	278.4	315.6	284.6	325.4
<b>Total expenses</b>	<b>4,817.4</b>	<b>6,608.2</b>	<b>6,429.9</b>	<b>6,733.3</b>	<b>5,882.2</b>	<b>8,774.0</b>	<b>8,555.6</b>	<b>7,866.7</b>	<b>6,695.3</b>	<b>9,210.4</b>	<b>8,951.6</b>	<b>7,511.0</b>	<b>20,072.9</b>	<b>21,496.9</b>	<b>26,495.8</b>	<b>30,044.5</b>	<b>31,013.4</b>	<b>29,781.8</b>	<b>24,636.7</b>	<b>22,585.3</b>	<b>24,588.8</b>	<b>31,078.5</b>	<b>32,368.2</b>	<b>33,247.3</b>
Pre-tax profit	159.8	1,009.9	690.0	573.2	299.7	1,203.7	992.9	776.6	483.9	1,301.1	1,066.0	719.7	1,098.0	2,527.3	3,499.0	4,023.7	4,614.4	3,877.8	1,818.2	1,516.8	2,432.9	3,272.9	3,570.7	3,923.2
Income taxes	80.1	309.7	184.2	156.7	286.6	308.2	301.8	299.3	144.1	291.4	266.5	179.9	420.2	1,035.3	1,169.7	1,407.8	1,640.9	1,329.5	509.8	458.8	730.7	1,195.9	881.9	980.8
<b>Income - consolidated group</b>	<b>79.7</b>	<b>700.2</b>	<b>505.8</b>	<b>416.5</b>	<b>13.1</b>	<b>895.5</b>	<b>691.1</b>	<b>477.3</b>	<b>339.8</b>	<b>1,009.7</b>	<b>799.5</b>	<b>539.8</b>	<b>677.8</b>	<b>1,492.0</b>	<b>2,329.3</b>	<b>2,615.9</b>	<b>2,973.5</b>	<b>2,548.3</b>	<b>1,308.4</b>	<b>1,058.0</b>	<b>1,702.2</b>	<b>2,077.0</b>	<b>2,688.8</b>	<b>2,942.4</b>
Equity income of unconsolidated affiliates	113.5	108.1	136.5	94.2	429.4	139.7	157.5	270.0	159.8	126.6	154.0	160.0	195.6	372.9	470.6	456.2	564.0	614.9	632.6	463.5	452.3	996.6	600.4	645.0
Adjustments for special items	-	-	-	-	-	-	-	-	-	-	-	-	321.8	129.5	-	-	-	-	-	-	-	-	-	-
<b>Net Income - Cont ops</b>	<b>193.2</b>	<b>808.3</b>	<b>642.3</b>	<b>510.7</b>	<b>442.5</b>	<b>1,035.2</b>	<b>848.6</b>	<b>747.3</b>	<b>499.6</b>	<b>1,136.3</b>	<b>953.5</b>	<b>699.8</b>	<b>1,195.2</b>	<b>1,994.4</b>	<b>2,799.9</b>	<b>3,071.6</b>	<b>3,537.5</b>	<b>3,163.2</b>	<b>1,941.0</b>	<b>1,521.5</b>	<b>2,154.5</b>	<b>3,073.6</b>	<b>3,289.2</b>	<b>3,587.4</b>
Income from Disc ops/minority	0.6	0.2	(0.5)	(0.4)	(0.4)	(1.4)	(1.0)	0.4	(1.1)	(1.4)	-	-	-	-	-	(6.9)	-	(0.9)	-	2.4	(0.1)	(2.4)	(2.5)	-
<b>Reported Net Income</b>	<b>193.8</b>	<b>808.5</b>	<b>641.8</b>	<b>510.3</b>	<b>442.1</b>	<b>1,033.8</b>	<b>847.6</b>	<b>747.7</b>	<b>498.5</b>	<b>1,134.9</b>	<b>953.5</b>	<b>699.8</b>	<b>873.4</b>	<b>1,864.9</b>	<b>2,799.9</b>	<b>3,064.7</b>	<b>3,537.5</b>	<b>3,162.3</b>	<b>1,941.0</b>	<b>1,523.9</b>	<b>2,154.4</b>	<b>3,071.2</b>	<b>3,286.7</b>	<b>3,587.4</b>
<b>Diluted EPS - cont ops</b>	<b>\$0.61</b>	<b>\$2.50</b>	<b>\$1.97</b>	<b>\$1.57</b>	<b>\$1.35</b>	<b>\$3.14</b>	<b>\$2.59</b>	<b>\$2.30</b>	<b>\$1.54</b>	<b>\$3.52</b>	<b>\$2.98</b>	<b>\$2.20</b>	<b>\$2.82</b>	<b>\$4.65</b>	<b>\$6.63</b>	<b>\$7.63</b>	<b>\$9.08</b>	<b>\$8.63</b>	<b>\$5.78</b>	<b>\$4.80</b>	<b>\$6.66</b>	<b>\$9.38</b>	<b>\$10.25</b>	<b>\$11.45</b>
Basic shares outstanding	316.7	319.2	320.8	321.6	322.8	324.2	323.5	320.3	318.5	317.9	315.8	313.7	422.8	424.0	417.6	397.1	385.6	363.2	333.7	315.4	319.6	322.7	316.5	309.1
Diluted shares outstanding	319.8	323.0	325.1	325.8	328.3	329.2	328.0	324.7	322.7	322.2	320.1	318.0	424.4	428.7	422.6	401.5	389.5	366.3	336.0	316.8	323.4	327.5	320.8	313.4
<b>Operating Metrics</b>																								
Gross margin	19.2%	25.2%	22.9%	23.8%	21.2%	24.8%	23.0%	23.5%	21.7%	24.5%	24.0%	24.0%	21.7%	26.2%	25.6%	25.3%	26.7%	24.8%	21.8%	22.0%	23.1%	23.3%	23.7%	24.3%
R&D as % of sales	6.6%	4.5%	4.9%	5.6%	6.0%	4.3%	4.5%	5.6%	5.9%	4.4%	4.7%	5.5%	4.7%	4.5%	4.2%	4.3%	4.2%	4.4%	5.5%	5.9%	5.3%	5.0%	5.0%	5.0%
SG&A as % of sales	11.5%	8.9%	9.4%	10.1%	9.9%	8.2%	8.3%	9.3%	9.3%	7.7%	8.7%	10.0%	10.9%	10.6%	9.5%	8.9%	9.0%	8.4%	9.3%	9.7%	9.8%	8.8%	8.8%	8.8%
Other expenses as % of sales	1.2%	1.1%	0.9%	1.1%	1.2%	0.7%	0.9%	1.2%	1.0%	0.7%	0.8%	0.9%	0.9%	0.8%	0.7%	0.5%	0.6%	0.9%	0.8%	0.9%	1.1%	0.9%	0.8%	0.9%
Pre-tax profit margin	3.4%	13.9%	10.1%	8.1%	5.0%	12.3%	10.7%	9.3%	7.0%	12.7%	10.9%	9.0%	5.3%	10.7%	11.9%	12.0%	13.2%	11.8%	7.1%	6.5%	9.4%	9.8%	10.2%	10.8%
Tax rate	50.1%	30.7%	26.7%	27.3%	95.6%	25.6%	30.4%	38.5%	29.8%	22.4%	25.0%	25.0%	38.3%	41.0%	33.4%	35.0%	35.6%	34.3%	28.0%	30.2%	30.0%	36.5%	24.7%	25.0%
Net margin, consolidated group	1.7%	9.6%	7.4%	5.9%	0.2%	9.2%	7.4%	5.7%	4.9%	9.8%	8.2%	6.8%	3.3%	6.3%	7.9%	7.8%	8.5%	7.7%	5.1%	4.5%	6.0%	6.2%	7.7%	8.1%
Finance & interest income/sales	0.5%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.7%	0.3%	0.2%	0.3%	0.3%	0.4%	0.3%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.3%	0.3%
Other income/sales	5.5%	4.7%	3.9%	2.8%	3.3%	2.1%	2.5%	2.9%	3.1%	2.1%	2.3%	2.7%	1.6%	1.6%	1.5%	1.5%	1.6%	1.9%	2.3%	2.8%	4.1%	2.6%	2.5%	2.5%
Other operating expenses/sales	1.2%	1.1%	0.9%	1.1%	1.2%	0.7%	0.9%	1.2%	1.0%	0.7%	0.8%	0.9%	0.9%	0.8%	0.7%	0.5%	0.6%	0.9%	0.8%	0.9%	1.1%	0.9%	0.8%	0.9%
Interest comp to Fin Services/sales	1.0%	0.8%	1.0%	0.9%	1.0%	0.8%	0.9%	0.9%	1.0%	0.9%	0.8%	0.9%	1.1%	0.8%	0.6%	0.6%	0.6%	0.6%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%

Source: Company Reports and RBC Capital Markets Estimates



Deere & Company Segment Information (\$Millions, except per share data)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19E	4Q19E	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	
<b>Revenue</b>																									
Unaffiliated customers:																									
Agriculture & Turf	3,598	5,794	5,338	5,437	4,243	7,049	6,293	5,605	4,681	7,282	6,450	5,253	18,122	19,867	24,095	27,123	29,131	26,380	19,811	18,487	20,167	23,190	23,666	24,849	
Construction & Forestry	1,100	1,466	1,495	1,657	1,731	2,698	2,993	2,738	2,260	2,991	3,322	2,738	2,634	3,706	5,372	6,378	5,867	6,581	5,965	4,903	5,718	10,160	11,311	11,311	
<b>Total net sales</b>	<b>4,698</b>	<b>7,260</b>	<b>6,833</b>	<b>7,094</b>	<b>5,974</b>	<b>9,747</b>	<b>9,286</b>	<b>8,343</b>	<b>6,941</b>	<b>10,273</b>	<b>9,773</b>	<b>7,991</b>	<b>20,756</b>	<b>23,573</b>	<b>29,467</b>	<b>33,501</b>	<b>34,998</b>	<b>32,961</b>	<b>25,775</b>	<b>23,387</b>	<b>25,885</b>	<b>33,350</b>	<b>34,977</b>	<b>36,161</b>	
<b>Operating Profit</b>																									
Agriculture & Turf	108	1,009	685	594	387	1,056	806	567	348	1,019	755	488	1,810	2,790	3,448	3,922	4,680	3,649	1,650	1,700	2,396	2,816	2,610	3,019	
Construction & Forestry	34	111	110	86	32	259	281	295	229	347	402	307	(83)	119	390	476	377	648	528	181	341	867	1,285	1,289	
<b>Total equipment operating profit</b>	<b>142</b>	<b>1,120</b>	<b>795</b>	<b>680</b>	<b>419</b>	<b>1,315</b>	<b>1,087</b>	<b>862</b>	<b>577</b>	<b>1,366</b>	<b>1,157</b>	<b>795</b>	<b>1,727</b>	<b>2,909</b>	<b>3,838</b>	<b>4,398</b>	<b>5,057</b>	<b>4,297</b>	<b>2,178</b>	<b>1,881</b>	<b>2,737</b>	<b>3,683</b>	<b>3,895</b>	<b>4,309</b>	
<b>Operating Margin</b>																									
Agriculture & Turf	3.0%	17.4%	12.8%	10.9%	9.1%	15.0%	12.8%	10.1%	7.4%	14.0%	11.7%	9.3%	10.0%	14.0%	14.3%	14.5%	16.1%	13.8%	8.3%	9.2%	11.9%	12.1%	11.0%	12.2%	
Construction & Forestry	3.1%	7.6%	7.4%	5.2%	1.8%	9.6%	9.4%	10.8%	10.1%	11.6%	12.1%	11.2%	-3.2%	3.2%	7.3%	7.5%	6.4%	9.8%	8.9%	3.7%	6.0%	8.5%	11.4%	11.4%	
<b>Total equipment</b>	<b>3.0%</b>	<b>15.4%</b>	<b>11.6%</b>	<b>9.6%</b>	<b>7.0%</b>	<b>13.5%</b>	<b>11.7%</b>	<b>10.3%</b>	<b>8.3%</b>	<b>13.3%</b>	<b>11.8%</b>	<b>10.0%</b>	<b>8.3%</b>	<b>12.3%</b>	<b>13.0%</b>	<b>13.1%</b>	<b>14.4%</b>	<b>13.0%</b>	<b>8.5%</b>	<b>8.0%</b>	<b>10.6%</b>	<b>11.0%</b>	<b>11.1%</b>	<b>11.9%</b>	
<b>Sales Growth</b>																									
Agriculture & Turf	0%	1%	13%	22%	18%	22%	18%	3%	10%	3%	3%	-6%	-14%	10%	21%	13%	7%	-9%	-25%	-7%	9%	15%	2%	5%	
Construction & Forestry	-6%	7%	29%	37%	57%	84%	100%	65%	31%	11%	11%	0%	-45%	41%	45%	19%	-8%	12%	-9%	-18%	17%	78%	11%	0%	
<b>Total net sales</b>	<b>-1%</b>	<b>2%</b>	<b>17%</b>	<b>26%</b>	<b>27%</b>	<b>34%</b>	<b>36%</b>	<b>18%</b>	<b>16%</b>	<b>5%</b>	<b>5%</b>	<b>-4%</b>	<b>-20%</b>	<b>14%</b>	<b>25%</b>	<b>14%</b>	<b>4%</b>	<b>-6%</b>	<b>-22%</b>	<b>-9%</b>	<b>11%</b>	<b>29%</b>	<b>5%</b>	<b>3%</b>	
<b>% Revenue</b>																									
Agriculture & Turf	77%	80%	78%	77%	0%	0%	68%	67%	0%	0%	0%	0%	87%	84%	82%	81%	83%	80%	77%	79%	78%	70%	68%	69%	
Construction & Forestry	23%	20%	22%	23%	0%	0%	32%	33%	0%	0%	0%	0%	13%	16%	15%	19%	17%	20%	23%	21%	22%	30%	32%	31%	
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>	<b>97%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
<b>Incremental Margins</b>																									
Agriculture & Turf	1800.0%	759.6%	18.0%	22.4%	48.7%	17.5%	22.4%	-16.1%	79.5%	437.3%	-32.6%	22.3%	23%	56%	16%	16%	38%	37%	30%	-4%	41%	24%	-43%	35%	
Construction & Forestry	52.2%	37.8%	16.6%	23.0%	-0.3%	12.0%	11.4%	19.3%	37.2%	30.0%	36.7%	NMF	25%	19%	16%	9%	19%	38%	19%	33%	20%	12%	36%	NMF	
<b>Total equipment</b>	<b>101.4%</b>	<b>288.0%</b>	<b>17.5%</b>	<b>22.6%</b>	<b>21.7%</b>	<b>7.8%</b>	<b>11.9%</b>	<b>14.6%</b>	<b>16.3%</b>	<b>9.7%</b>	<b>14.3%</b>	<b>19.0%</b>	<b>24%</b>	<b>42%</b>	<b>16%</b>	<b>14%</b>	<b>44%</b>	<b>37%</b>	<b>29%</b>	<b>12%</b>	<b>34%</b>	<b>13%</b>	<b>13%</b>	<b>35%</b>	

Source: Company Reports and RBC Capital Markets Estimates

RBC Capital Markets



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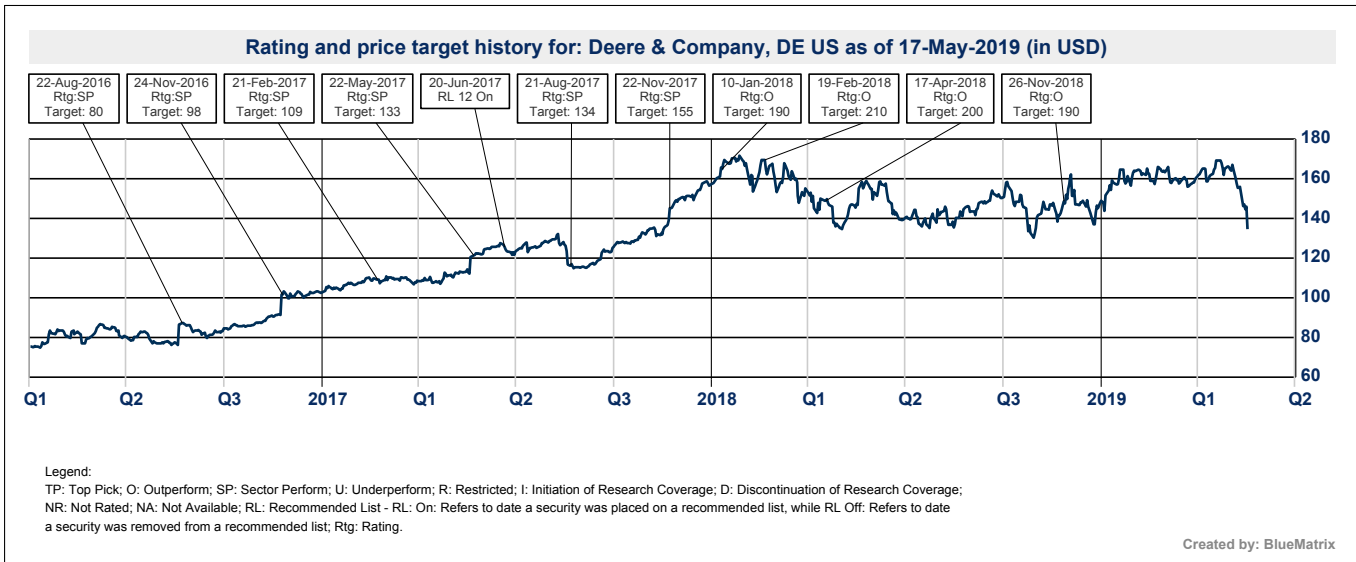
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### Deere & Company

#### Valuation

Our \$175 price target assumes shares trade 15-15.5x our FY20 EPS estimate, consistent with where DE traded on a relative basis in prior periods of moderate US farm equipment demand. Our price target supports our Outperform rating.

#### Risks to rating and price target

- Demand for farm equipment is cyclical, typically reflecting farmer economics that are influenced by weather, crop prices, and input costs, among other things.
- The farm equipment industry is competitive, particularly in lower-HP machines.
- The recent Wirtgen acquisition was DE's largest and expands its Europe footprint and exposure to construction/road paving markets considerably.
- Potential for steel tariffs to pressure input costs.

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