



Deere & Co.

"Nothing Runs Like a Deere."

Presented By: The Munger Games

May the market be ever in your favor.

Background

Josh



Background

- ▶ 1837 - The Deere Brothers, John and Charles, announce their new steel plow in Grand Detour, Illinois
- ▶ 1838 - Undergoes name change from John Deere, blacksmith to John Deere, manufacturer.
- ▶ 1868 - Company is now known as Deere & Company. 65% of stock is owned by Charles and John Deere.
- ▶ 1869 - Establishes first branch house, Deere, Mansur & Co., in Kansas City.
- ▶ 1900 - Business exceeds \$2 Million for the first time
- ▶ 1911 - Company first issued preferred stock.
- ▶ 1943 - John Deere begins creating military tractors, ammunition, aircraft parts and mobile laundry units.
- ▶ 1949 - First diesel-powered unit, Model "R" Tractor
- ▶ 1973 - John Deere total sales reach \$2 Billion for the first time.
- ▶ 2001 - Record number of products introduced
- ▶ 2012 - Company breaks new records for Net Sales and Revenues and New Income.



Recent News

- ▶ John Deere announces quarterly dividend. (Feb 25, 2015)
 - ▶ \$0.60 per share on common stock
- ▶ Created new iPhone mobile application for John Deere Equipment users (Jan 20, 2015)
- ▶ Released WorkSight™ Video Series (Jan 14, 2015)
- ▶ Agreement to sell Crop Insurance Business (Dec 18, 2014)



Commodities

- ▶ Demand for large equipment is down due to low commodity prices and falling farm incomes
 - ▶ U.S. Livestock sectors are supporting demand for small sized equipment.
 - ▶ Trade regulations could possibly hinder John Deere's profitability and growth
-
- ▶ Income from maintenance services
 - ▶ Focusing on long-term returns throughout business cycle
 - ▶ Recognizes the worlds growing need for food, shelter, and infrastructure



Business Model

Tyler



Business Model

- ▶ “Committed to those linked to the land”
- ▶ DE is the #1 manufacturer of construction, agricultural, forestry, and turf equipment products worldwide.
- ▶ Agricultural and construction products provide for 70% of competitive moat, whereas forestry and turf equipment makeup the remaining 30%.
- ▶ DE is able to finance products through internal sources, often beating bank loan rates, and strengthening diversification among borrowers.



Client Base

- ▶ Customers who rely on the land i.e- farmers, construction companies, and turf workers.



Beck- Top construction company in U.S. swears by JD products.



Commercial Farmer, Tim Pare also stands by JD products.



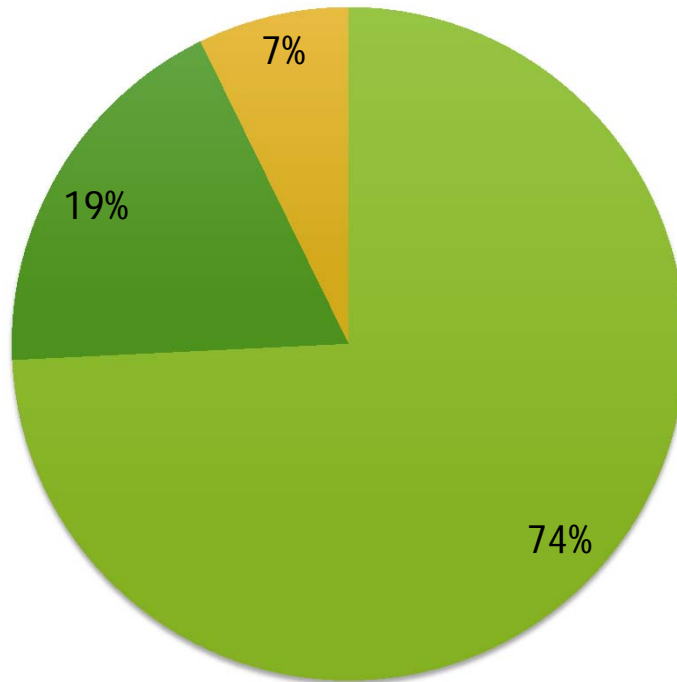
Agriculture & Turf



Construction & Forestry



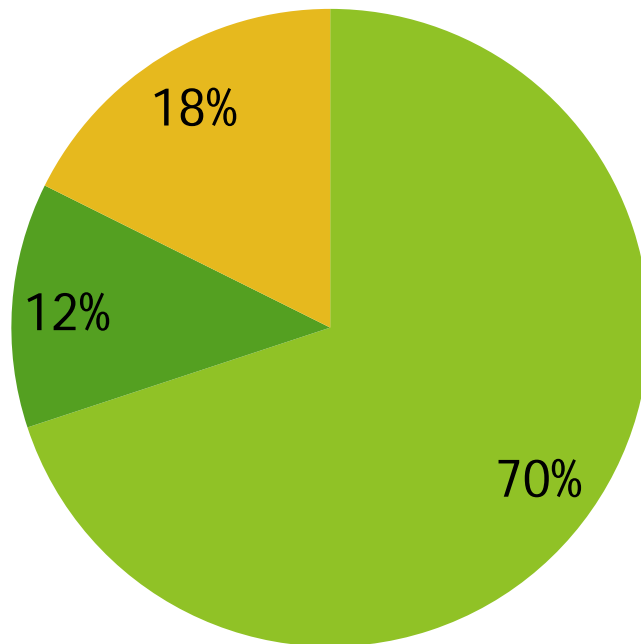
Revenues by Segment



- Agricultural and Turf
- Construction and Forestry
- Financial Services



Operating Profit

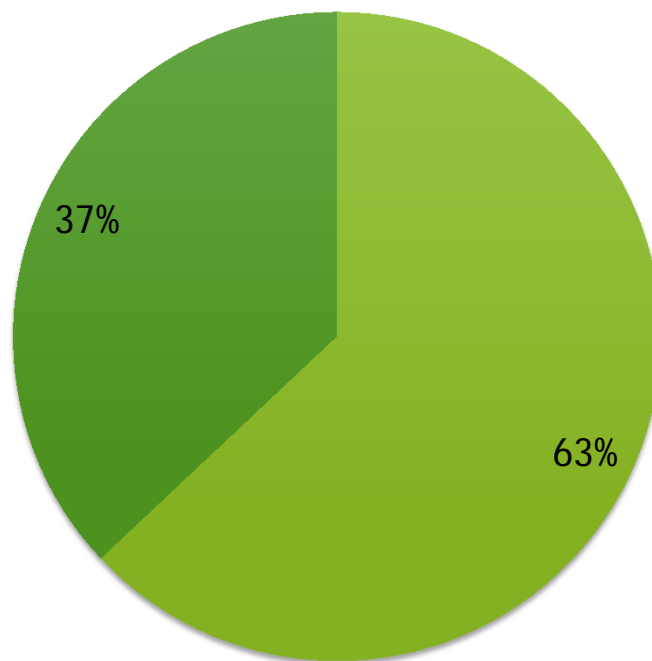


- Agricultural and Turf
- Construction and Forestry
- Financial Services



Source Income

Revenues



- U.S. & Canada
- Outside U.S. & Canada



Competitors

- ▶ CNH Industrial N.V.
- ▶ AGCO Corp.
- ▶ Caterpillar Inc
- ▶ Kubota Corp.



Qualitative Review

Amanda



Competitive Advantage

- ▶ Brand Recognition
- ▶ Innovations in machinery and technology
 - ▶ Patents, Trade Secrets, Licenses and Trademarks
- ▶ Global presence/ manufacturing capacity
- ▶ Supporting businesses
- ▶ Customer loyalty



Risk Factors

- ▶ Government farm programs and policies
- ▶ Governmental policies regulating bio-fuel utilization/ engine emissions
- ▶ Crop price fluctuations
- ▶ Competitive market



Protective Moat

- ▶ Crop demand
- ▶ Economies of scale
- ▶ Brand recognition/ customer loyalty



Quantitative Analysis



What type of business is this: commodity or sustained competitive advantage?	Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	Yes
Does it require heavy capital infusion?	Yes
Does it require lots of research and development?	Yes
Can inventory become obsolete?	Yes/No*
Are there chronic "one time" write offs?	No
Is the company able to raise its prices to offset inflation?	No
Will the company be able to sell more in the future?	Yes
If I gave you \$1 billion could you develop a competitor?	No

Interpretation of Financial Statements

Audra



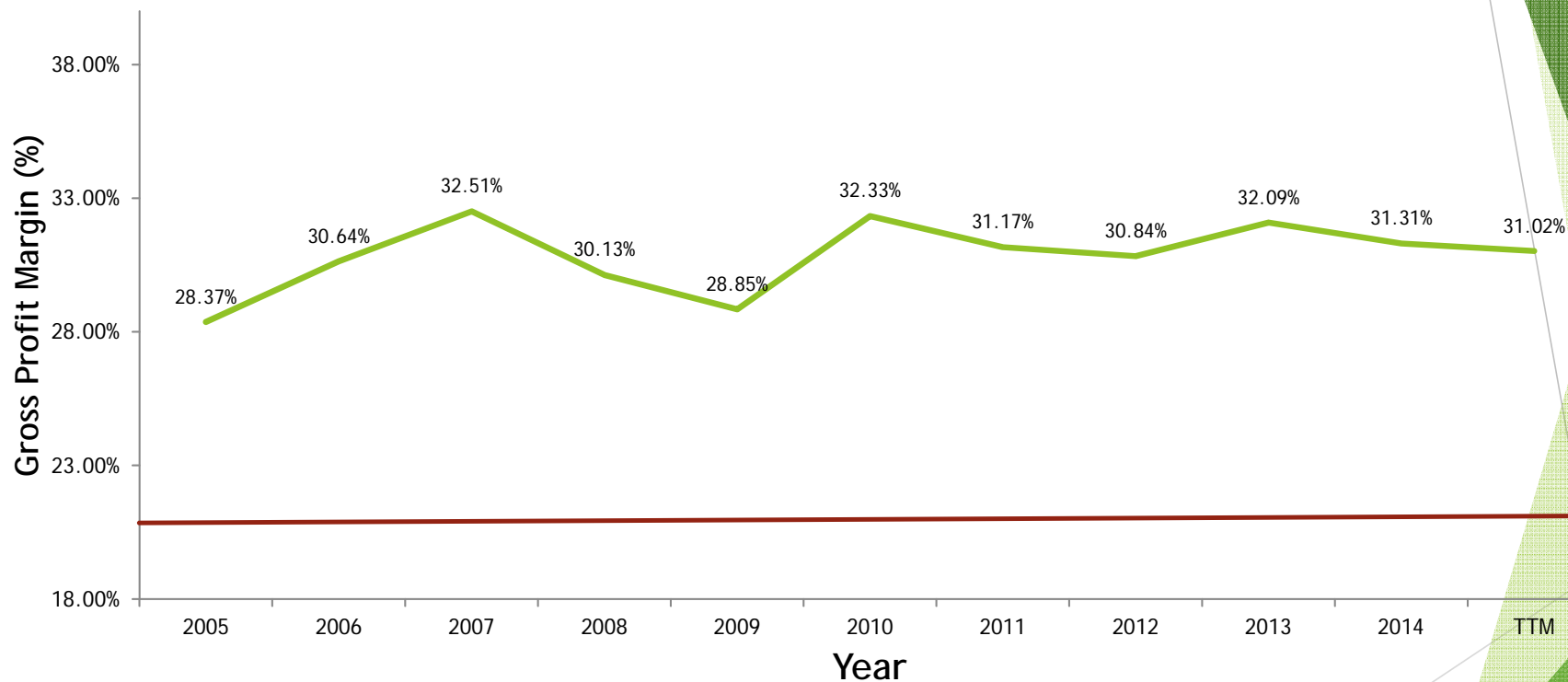


Interpretation of the Financial Statements

TTM	Value	Low Threshold	Pass?
Gross Profit Margin	31.02%	≥ 20%	Yes
% SGA	32.44%	≤ 80%	Yes
% R&D	13.54%	≤ 10%	No
% Depreciation	12.10%	≤ 10%	No
Interest % of OP	14.22%	≤ 15%	Yes
Net Profit Margin	8.24%	≥ 10%	No
Current Ratio	2.26	≥ 1	Yes
Obligation Ratio*	1.53 9.28	< 5 years	Yes
Adj. Debt to Shareholder Equity	2.37	< 0.8	No
Return on Equity	34.77%	≥ 15%	Yes
Return on Capital*	22.95%	≥ 15%	Yes
Dividend Payout Ratio	29.00%	≤ 60%	Yes
Preferred Stock	None	None	Yes
Capital Expenditures	92.09%	≤ 25%	No
Net Earning Trend	Up	Up	Yes
Retained Earnings Trend	Up	Up	Yes

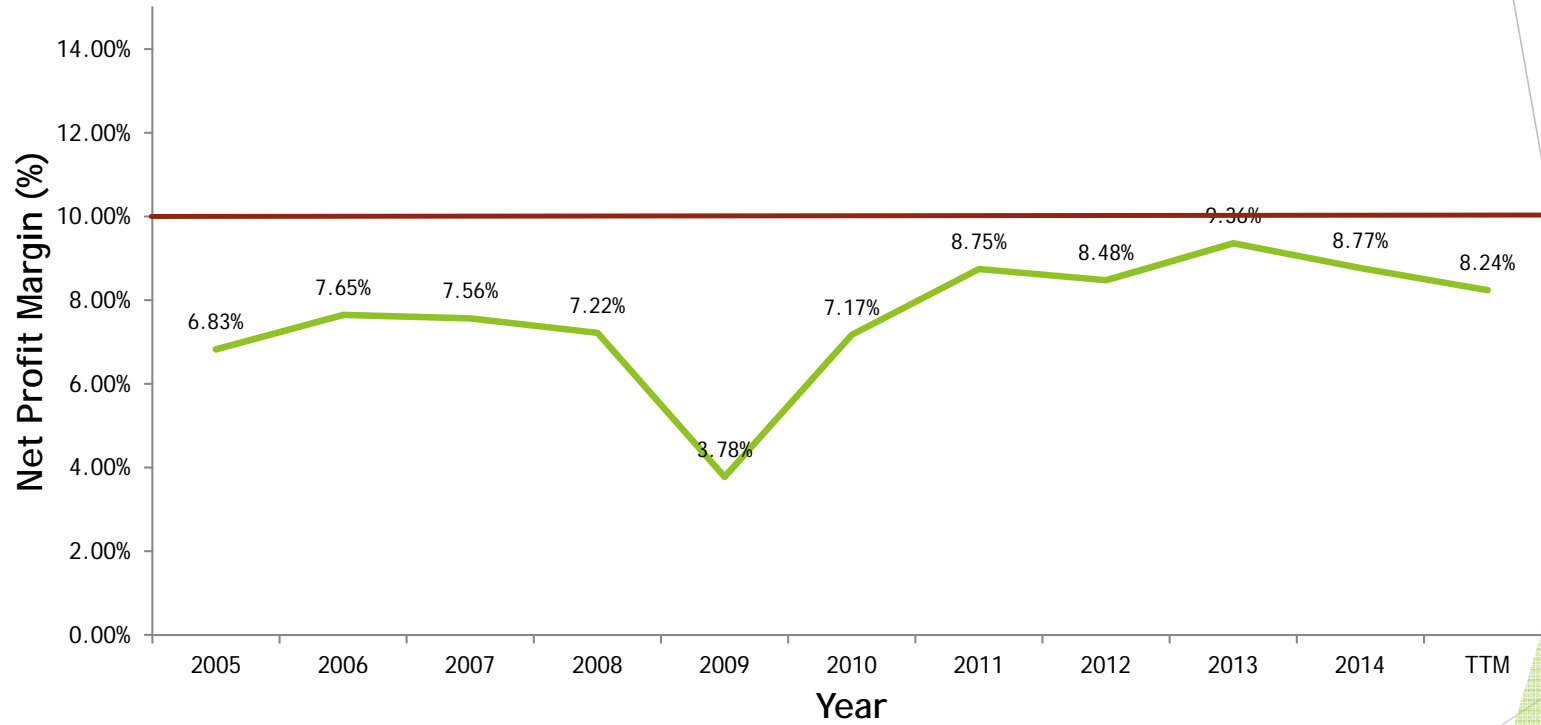


Gross Profit Margin



$$\text{Gross Profit Margin as \%} = \frac{\text{Gross Profit}(\$)}{\text{Revenue}(\$)}$$

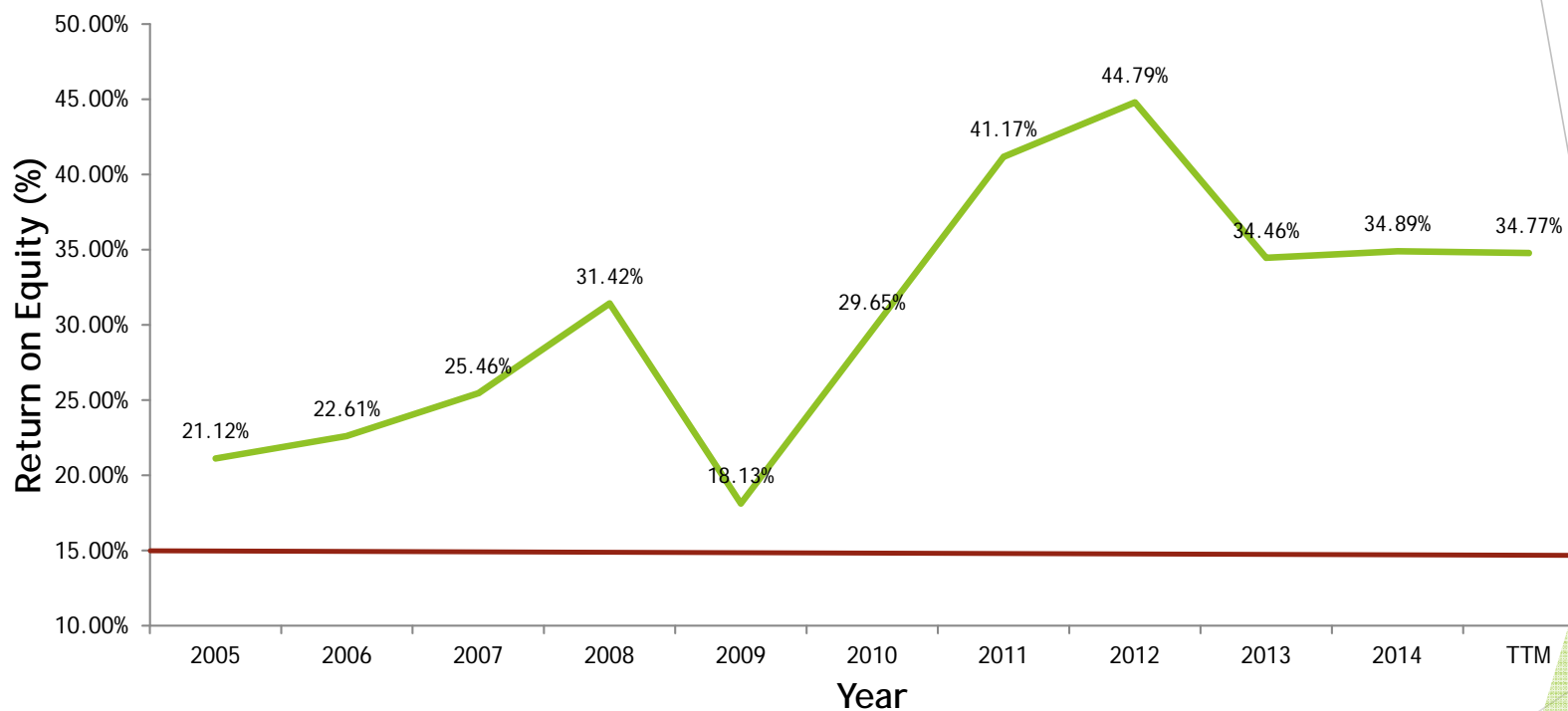
Net Profit Margin



$$\text{Net Profit Margin as \%} = \frac{\text{Net Profit}(\$)}{\text{Revenue}(\$)}$$

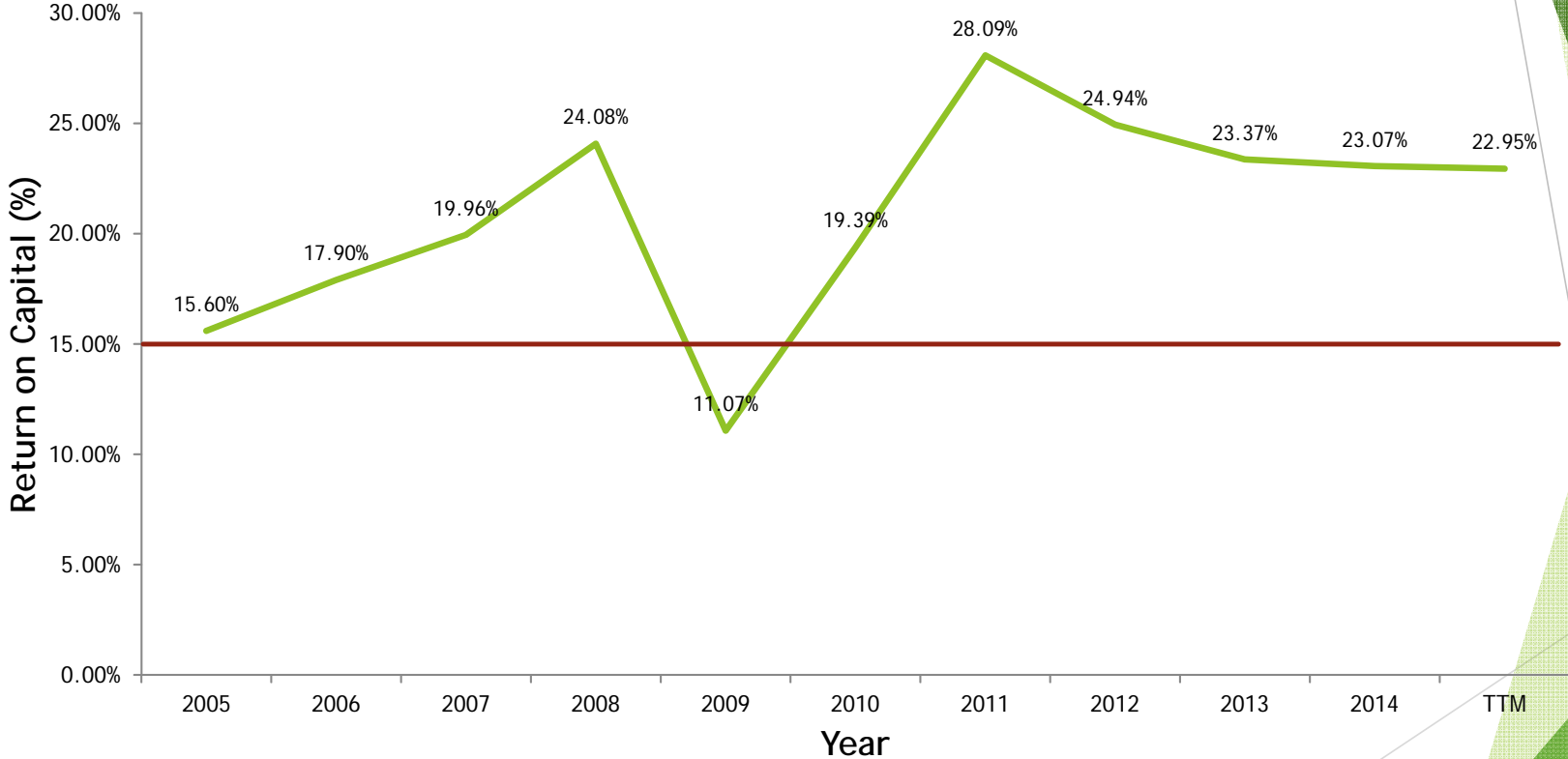


Return on Equity



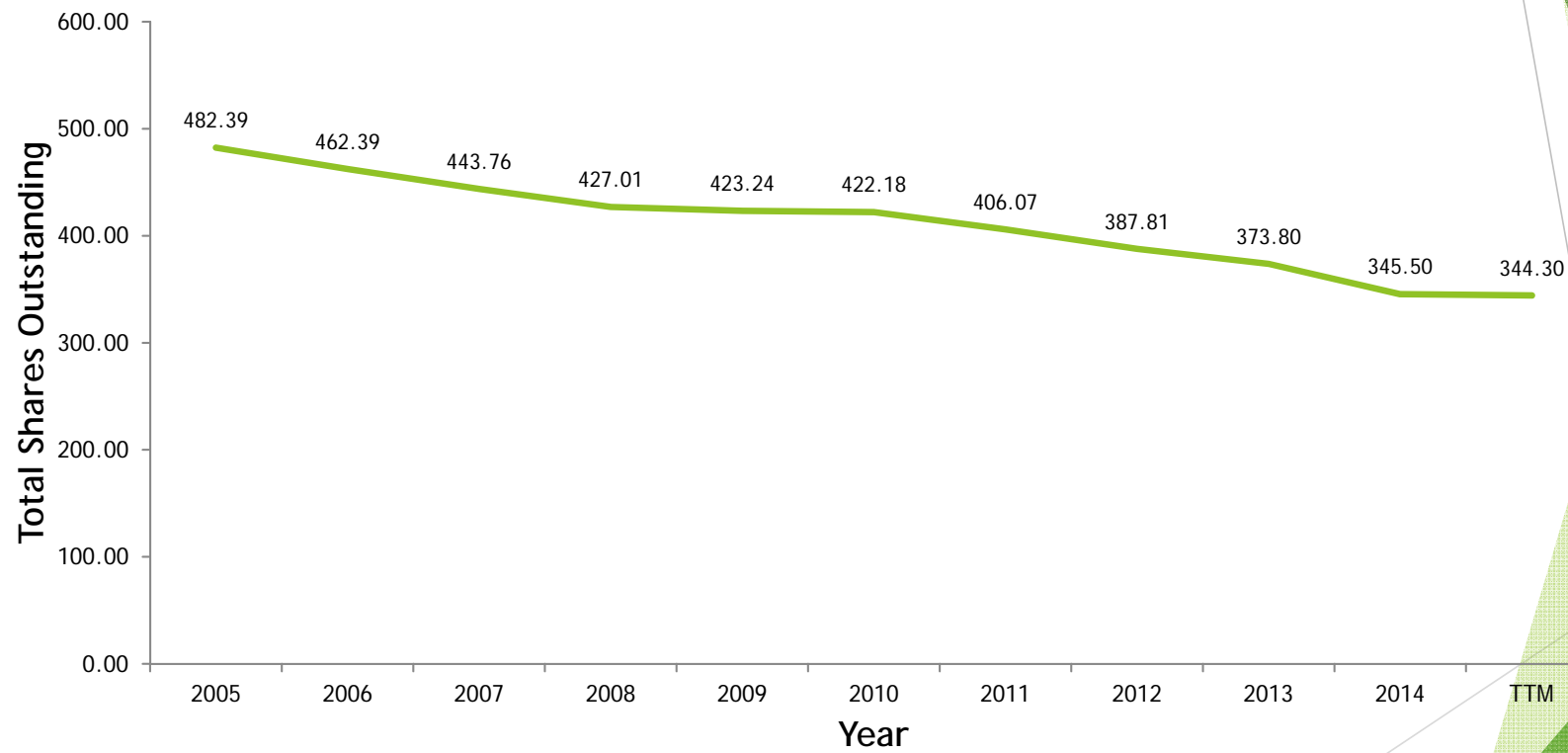
$$\text{Return on Equity as \%} = \frac{\text{Net Profit}(\$)}{\text{Total Equity}(\$)}$$

Return on Capital





Total Shares Outstanding



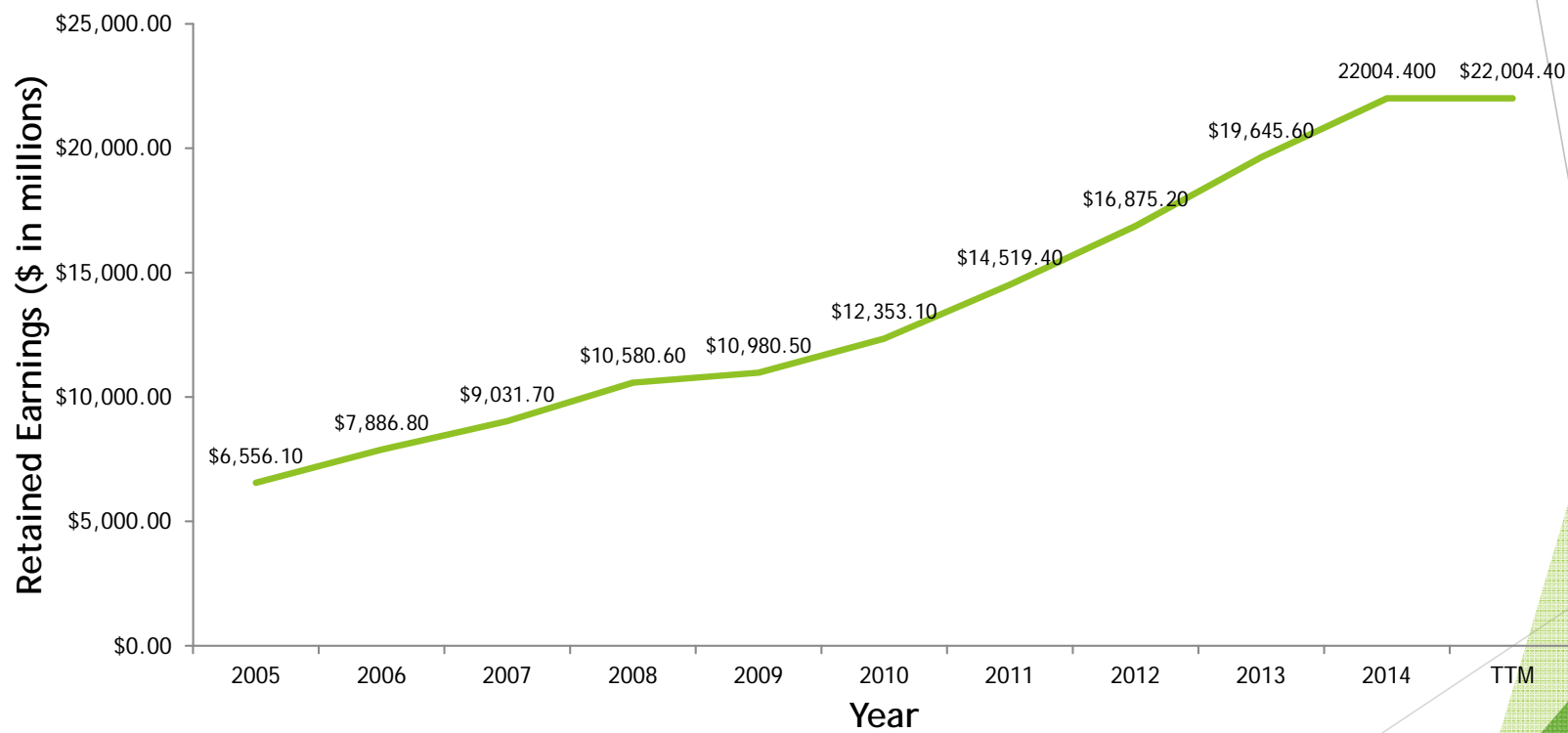


Revenues (10 year)

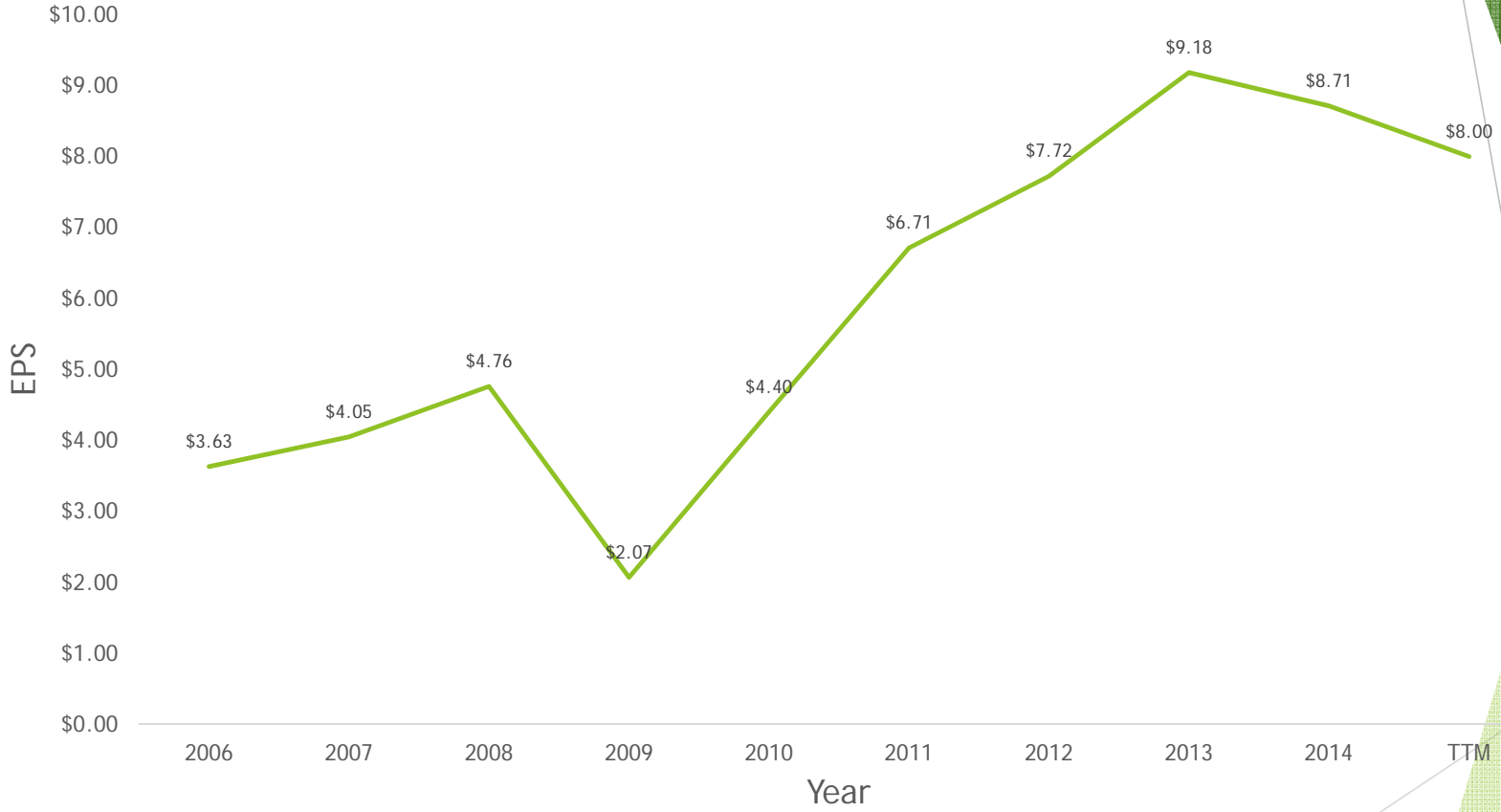




Retained Earnings



Earnings Per Share



Earnings Per Share = $\frac{\text{Net Profit}(\$)}{\text{Total Shares Outstanding}}$

Buffettology

Statistical Array Analysis	
Sales per Share	Increasing
Cashflows per Share	Increasing
Earnings per Share	Increasing
Dividends Declared per Share	Increasing
Capital Spending per Share	Increasing
Book Value per Share	Increasing
Revenues (Sales)*	Increasing
Gross Profit Margin	Stable
Operating Profit Margin	Stable
Number of Stores	N/A
Net Profit	Increasing
Net Profit Margin	Stable
Working Capital	Stable
Shareholder's Equity	Increasing
Return on Total Capital	Stable
Return on Shareholder's Equity	Stable
Common Shares Outstanding	Decreasing
Long-Term Debt	Yes
LT Debt Payable in 5 years	Yes
All Dividends to Net Profit under 60%	Yes





Du Pont Analysis: Competition

Company	Total Asset Turnover (Revenue/Total Assets)	Net Profit Margin (Net Income/Revenue)	Financial Leverage Multiplier (Total Assets/Total Equity)	Return on Equity
Deere & Co	.597	.082	6.43	34.77%
Caterpillar Inc	.652	.067	5.06	18.94%
Kubota Corp	.685	.093	2.07	14.27%
AGCO Corp	1.31	.042	2.14	10.75%
CNH Industrial N.V.	.592	.021	10.55	13.53%

Du Pont Analysis: Comparative



Deere & Co	Total Asset Turnover (Revenue/Total Assets)	Net Profit Margin (Net Income/Revenue)	Financial Leverage Multiplier (Total Assets/Total Equity)	Return on Equity
TTM	.597	.082	6.43	34.77%
2014	.588	.088	5.97	34.89%
2013	.635	.094	8.70	34.46%
2012	.643	.085	8.27	44.79%

Industry Breakdown

Company	Deere & Co	Caterpillar	Kubota	AGCO	CNH Industrial
Market Cap (bil)	30.71	49.54	20.17	4.42	12.11
Revenue (mil)	34,796	55,184	14,691	9,724	20,949
P/E (ttm)	11.4	13.10	18.4	11.4	8.53 (2012)
P/S	.9	.9	1.6	.5	.48 (2012)
EV/EBIT	9.67	14.28	14.6	7.95	15.95 (2012)
ROE (%)	34.77%	18.94%	14.7%	10.75%	14.88%
ROA (%)	4.78%	4.33%	6.71%	5.04%	3.66%
Net Margin (%)	8.24%	6.7%	9.26%	4.22%	6.28%
Operating Margin (%)	13.58%	9.65%	13.28%	6.65%	8.95%
Yield (%)	7.8%	7.2%	6.9%	12.7%	6.27%
Number of Guru Holders	14	16	0	13	3
Combined Weightings	2.51%	1.44%	0%	.2%	0
Guru Predictability Stars	3.5	3	3	3	Not Rated



Quantitative Analysis

Tasha



Conscious Investor: 3 Yr



Deere & Co 

Farm & Construction Machinery

	10/05	10/06	10/07	10/08	10/09	10/10	10/11	10/12	10/13	10/14
EPS (\$)	2.936	3.590	4.000	4.700	2.058	4.351	6.629	7.633	9.089	8.636
SPS (\$)	41.722	43.002	48.425	60.429	49.041	55.837	74.100	88.126	95.452	97.784

Last trade 2015-02-24

Return Analysis

EPSttm	Years	HGROWTH	STAAGR®
\$8.636	3	6.37%	95.72%
	3	5.34%	99.19%



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	91.50	\$8.636	10.43	6.37%	24.0%	6.12%
Safety	91.50	\$8.636	9.44	2.83%	0.0%	1.10%



Conscious Investor: 6 Yr



Deere & Co 

Farm & Construction Machinery

	10/05	10/06	10/07	10/08	10/09	10/10	10/11	10/12	10/13	10/14
EPS (\$)	2.936	3.590	4.000	4.700	2.058	4.351	6.629	7.633	9.089	8.636
SPS (\$)	41.722	43.002	48.425	60.429	49.041	55.837	74.100	88.126	95.452	97.784

Last trade 2015-02-24

Return Analysis

EPSttm	Years	HGROWTH	STAEGR®
\$8.636	6	30.97%	77.34%
	6	16.31%	93.62%



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	91.50	\$8.636	10.43	30.97%	24.0%	27.07%
Safety	91.50	\$8.636	9.44	8.64%	0.0%	5.30%



Conscious Investor: 10 Yr



Deere & Co 

Farm & Construction Machinery

	10/05	10/06	10/07	10/08	10/09	10/10	10/11	10/12	10/13	10/14
EPS (\$)	2.936	3.590	4.000	4.700	2.058	4.351	6.629	7.633	9.089	8.636
SPS (\$)	41.722	43.002	48.425	60.429	49.041	55.837	74.100	88.126	95.452	97.784

Last trade 2015-02-24		Return Analysis	
EPSttm	Years	HGROWTH	STAEGR®
\$8.636	10	13.56%	75.24%
	10	10.86%	90.45%



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	91.50	\$8.636	10.43	13.56%	24.0%	11.78%
Safety	91.50	\$8.636	9.44	5.97%	0.0%	3.30%



Conscious Investor: Kill It



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	90.45	\$7.994	10.57	13.56%	24.0%	11.25%
Safety	90.45	\$7.994	9.76	5.97%	0.0%	3.06%
Saved	91.50	\$8.636	6.00	5.85%	0.0%	0.00%

10 Yr Safety:

cut P/E by 7.66%

cut earnings growth by 55.97%

10 Yr Kill it:

cut P/E by another 38.52% (for a total reduction of 46.18%)

cut earnings growth by another 2.01 (for a total reduction of 57.98%)



Discounted Cash Flow Model

Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability ★★★★★ ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

→

DCF Reverse DCF ^{NEW}

Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$ 85.38 ?

Terminal Value: \$ 61.64 ?

= Fair Value: \$ 147.02 ?

Margin Of Safety: 38% ↗

Financial Data of Deere & Co

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	10.20	13.90	-1.90
EBITDA Growth (%)	11.30	19.20	-8.20
EBIT Growth (%)	11.20	35.10	-16.50
EPS without NRI Growth (%)	13.50 ↗	31.30	-14.20
Free Cash Flow Growth (%)			-11.70
Book Value Growth (%)	6.10	18.90	-13.80

DCF-Continued using Value Line



2015	2016	© VALUE LINE PUB. LLC	18-20
82.60	81.75	Sales per sh ^A	95.95
8.20	8.15	"Cash Flow" per sh	11.30
5.50	5.40	Earnings per sh ^{AB}	8.15
2.40	2.40	Div'ds Decl'd per sh ^C	2.56

Earnings Per Share : \$?
 Growth Rate In the Next: Years : % ?
 Business Predictability ?
 Terminal Growth Rate: % ?
 Years of Terminal Growth: ?
 Discount Rate: % ?



DCF Reverse DCF ^{NEW}
 Tangible Book Value: \$ Add to Fair Value ?
 Growth Value: \$ 50.69 ?
 Terminal Value: \$ 32.2 ?
= Fair Value: \$ 82.89 ?
 Margin Of Safety: -9% ?



Guru's Definition of Discounted Rate



Discount Rate: 12 % ? Margin Of Safety: -9%

Data of Deere & Co

(per share)	10 yrs	5
Dividend Yield (%)	10.20	1
Return on Equity (%)	11.30	1
...

A reasonable discount rate assumption should be at least the long term average return of the stock market, which is about 11%, because investors can always invest passively in an index fund and get an average return. Some investors use their expected rate of return, which is also reasonable. A typical discount rate can be anywhere between 10% - 20%.

Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability ★★★★☆ ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

➔

DCF Reverse DCF NEW

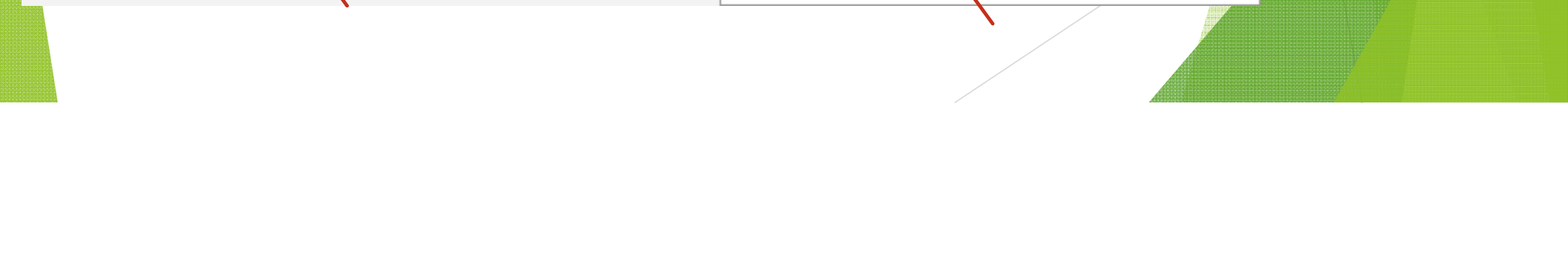
Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$ 55.92 ?

Terminal Value: \$ 42.17 ?

= Fair Value: \$ 98.09 ?

Margin Of Safety: 8%



DCF Kill it



Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?



DCF Reverse DCF NEW

Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$ 52.58 ?

Terminal Value: \$ 37.7 ?

= Fair Value: \$ 90.28 ?

Margin Of Safety: 0%

Morningstar Debt Analysis



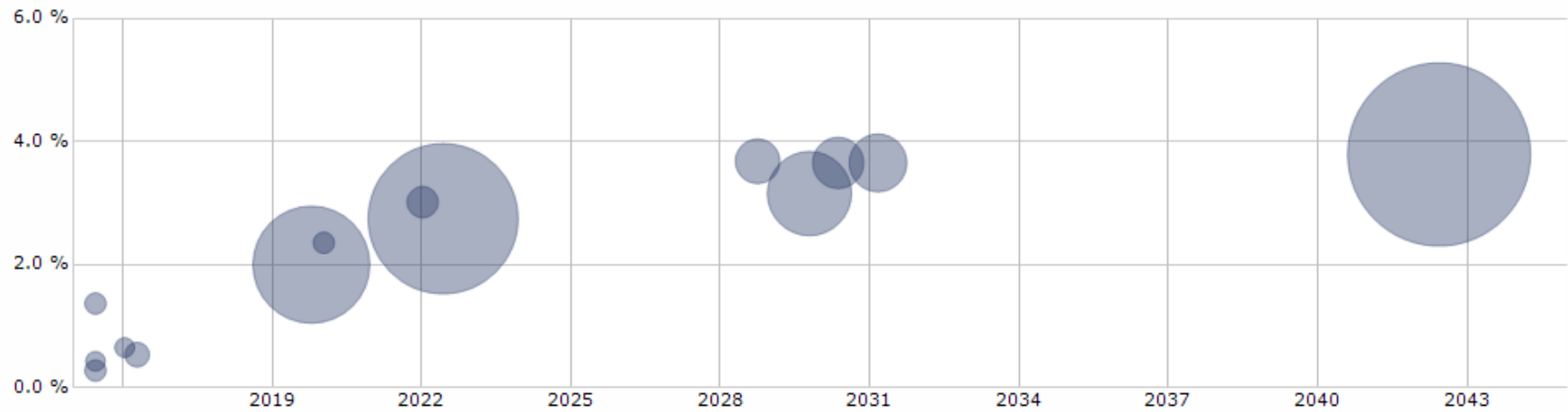
Name	Maturity Date	Amount \$(Mil)	Credit Quality	Price	Coupon %	Coupon Type (Fixed/Floating)	Callable	Rule 144A	Yield to Maturity %
Deere John Cr Inc Mtn Cds- 3.25%	04/08/2015	120.1	---	---	3.250	Fixed	No	No	---
John Deere Cap Corp Corenote P 3%	06/15/2015	31.1	---	100.8	3.000	Fixed	No	No	0.27
John Deere Cap Corp Corenote P 5.25%	06/15/2015	30.3	---	101.2	5.250	Fixed	No	No	1.36
John Deere Cap Corp Corenote P 4.85%	06/15/2015	11.1	---	101.3	4.850	Fixed	No	No	0.42
Deere John Cr Inc Mtn Cds- 5.45%	09/16/2015	300.3	---	---	5.450	Fixed	No	No	---
John Deere Cap Corp Corenote P 3.75%	01/15/2016	11.5	---	102.7	3.750	Fixed	No	No	0.65
John Deere Cap Corp Corenote P 3.25%	04/15/2016	50.0	---	103.1	3.250	Fixed	No	No	0.53
Deere 4.375%	10/16/2019	750.0	---	110.4	4.375	Fixed	No	No	1.99
John Deere Cap Corp Corenote P 2.5%	01/15/2020	25.0	---	100.7	2.500	Fixed	No	No	2.35
Deere 8.5%	01/09/2022	105.0	---	134.4	8.500	Fixed	No	No	3.01
Deere 2.6%	06/08/2022	1,000.0	---	99.1	2.600	Fixed	Yes	No	2.74
Deere 6.55%	10/01/2028	200.0	---	130.5	6.550	Fixed	No	No	3.68
Deere 5.375%	10/16/2029	500.0	---	125.9	5.375	Fixed	No	No	3.15
Deere 8.1%	05/15/2030	250.0	---	151.6	8.100	Fixed	No	No	3.65
Deere 7.125%	03/03/2031	300.0	---	141.8	7.125	Fixed	No	No	3.65
Deere 3.9%	06/09/2042	1,250.0	---	101.9	3.900	Fixed	Yes	No	3.79

Morningstar



Yield to Maturity

● Debt ● Preferred ● Convertible ● ● Circle size determined by issue amount



Intra-Portfolio Valuations



P/E

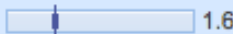


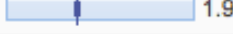
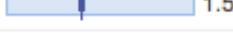
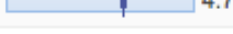

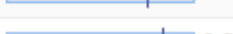
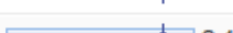
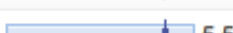
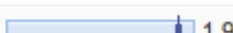
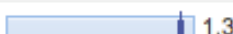
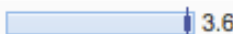


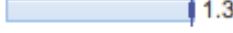

	Ticker	▲ Price / Earnings
▷	AIG-WT	-
▷	WRLD	8.3
▷	IBM	10.3
▷	AIG	10.6
▷	DE	11.3
▷	BBBY	15.1
▷	BRK.B	17.3
▷	MSFT	17.4
▷	WMT	17.6
▷	ORCL	18.3
▷	PETM	19.6
▷	LO	20.6
▷	NSRGY	22.1
▷	AAP	22.7
▷	PEP	22.8
▷	CHRW	24.3
▷	MDT	25.2
▷	KO	26.6
▷	WBA	39.2

	Ticker	▲ 5-Year Price / Earnings Range
▷	AIG-WT	
▷	NSRGY	
▷	AIG	2.1 -
▷	IBM	9.7 - 16.0
▷	DE	9.0 - 29.0
▷	WRLD	6.7 - 13.0
▷	BBBY	11.8 - 20.9
▷	ORCL	13.3 - 25.3
▷	BRK.B	11.8 - 22.9
▷	CHRW	14.9 - 36.1
▷	PETM	13.6 - 25.0
▷	WMT	11.0 - 19.0
▷	AAP	11.5 - 25.8
▷	MSFT	8.8 - 19.5
▷	LO	10.9 - 22.1
▷	PEP	15.1 - 23.5
▷	MDT	9.9 - 26.6
▷	KO	11.9 - 27.5
▷	WBA	10.0 - 39.3



P/S


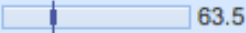

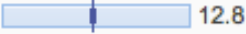




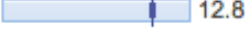
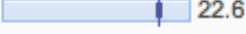
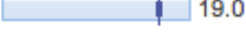
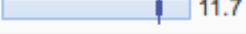
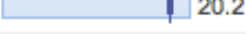
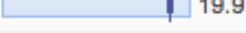
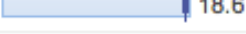
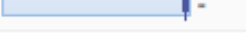
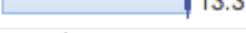
	Ticker	▲ Price / Sales
▷	AIG-WT	-
▷	WMT	0.6
▷	CHRW	0.8
▷	DE	0.9
▷	WBA	1.0
▷	AAP	1.1
▷	PETM	1.2
▷	BBBY	1.2
▷	AIG	1.3
▷	WRLD	1.4
▷	IBM	1.8
▷	BRK.B	1.8
▷	PEP	2.2
▷	NSRGY	2.4
▷	LO	3.5
▷	MSFT	3.9
▷	KO	4.1
▷	MDT	4.5
▷	ORCL	5.1

	Ticker	▲ 5-Year Price / Sales Range
▷	AIG-WT	
▷	NSRGY	
▷	DE	0.8  1.6
▷	IBM	1.6  2.4
▷	WRLD	1.2  2.3
▷	BBBY	1.0  1.9
▷	CHRW	0.6  1.5
▷	MSFT	2.9  4.7
▷	KO	3.3  4.8
▷	AAP	0.7  1.4
▷	WMT	0.4  0.6
▷	PEP	1.5  2.4
▷	ORCL	3.6  5.5
▷	BRK.B	1.1  1.9
▷	PETM	0.7  1.3
▷	LO	1.9  3.6
▷	MDT	2.0  4.5
▷	WBA	0.4  1.0
▷	AIG	0.0  1.3



P/CF

	Ticker	▲ Price / Cash FL..
▷	AIG-WT	-
▷	WRLD	3.5
▷	DE	8.6
▷	IBM	9.7
▷	WMT	10.7
▷	BRK.B	10.7
▷	MSFT	11.1
▷	BBBY	11.4
▷	ORCL	13.0
▷	PETM	13.3
▷	PEP	14.1
▷	NSRGY	14.7
▷	AAP	15.8
▷	AIG	16.1
▷	WBA	16.7
▷	KO	17.8
▷	MDT	18.2
▷	LO	18.4
▷	CHRW	21.3

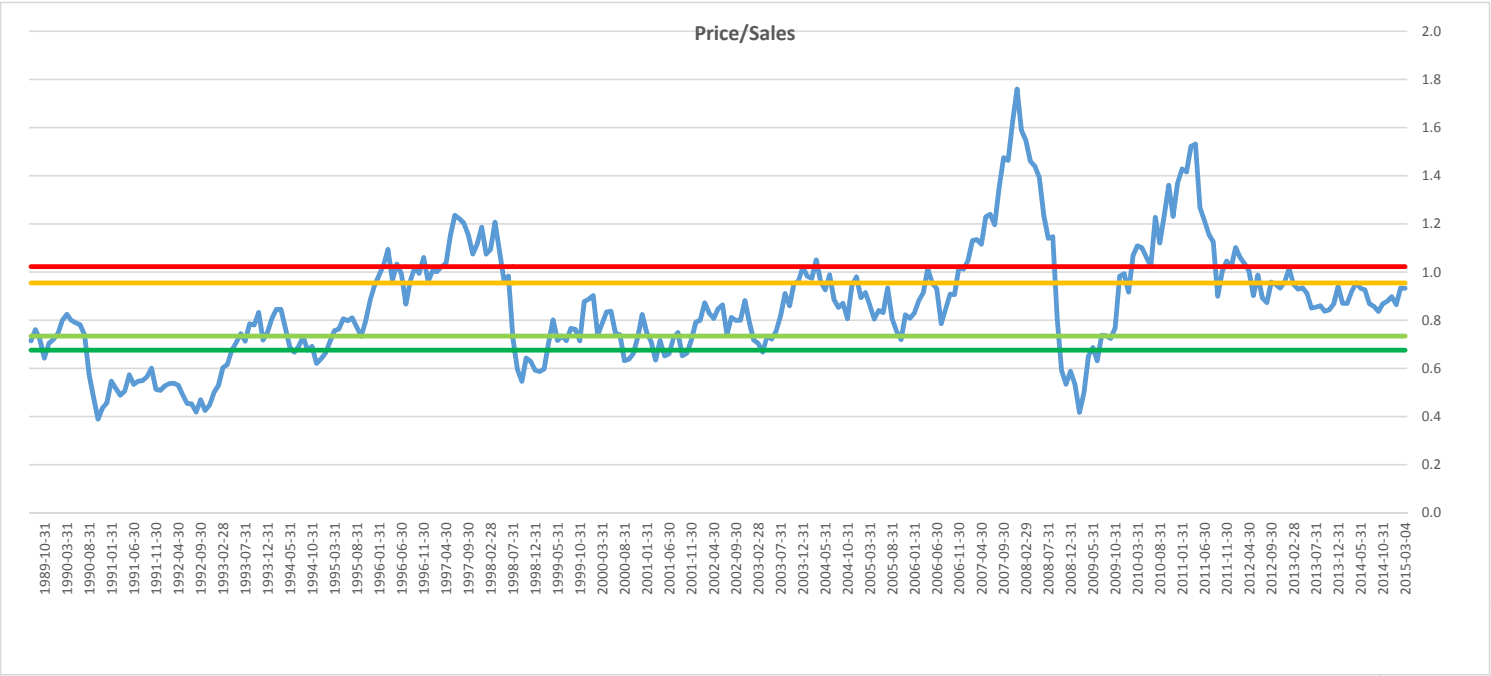
	Ticker	▲ 5-Year Price / Cash Flow Range
▷	AIG-WT	
▷	NSRGY	
▷	CHRW	18.5  50.1
▷	DE	6.5  63.5
▷	WRLD	2.8  5.6
▷	IBM	7.8  12.8
▷	ORCL	9.6  19.0
▷	BBBY	8.8  15.0
▷	PEP	11.1  15.9
▷	BRK.B	7.4  12.6
▷	MSFT	7.1  12.8
▷	LO	9.3  22.6
▷	KO	13.2  19.0
▷	WMT	7.2  11.7
▷	WBA	6.4  20.2
▷	AAP	5.3  19.9
▷	MDT	8.0  18.6
▷	AIG	0.2  -
▷	PETM	6.5  13.3



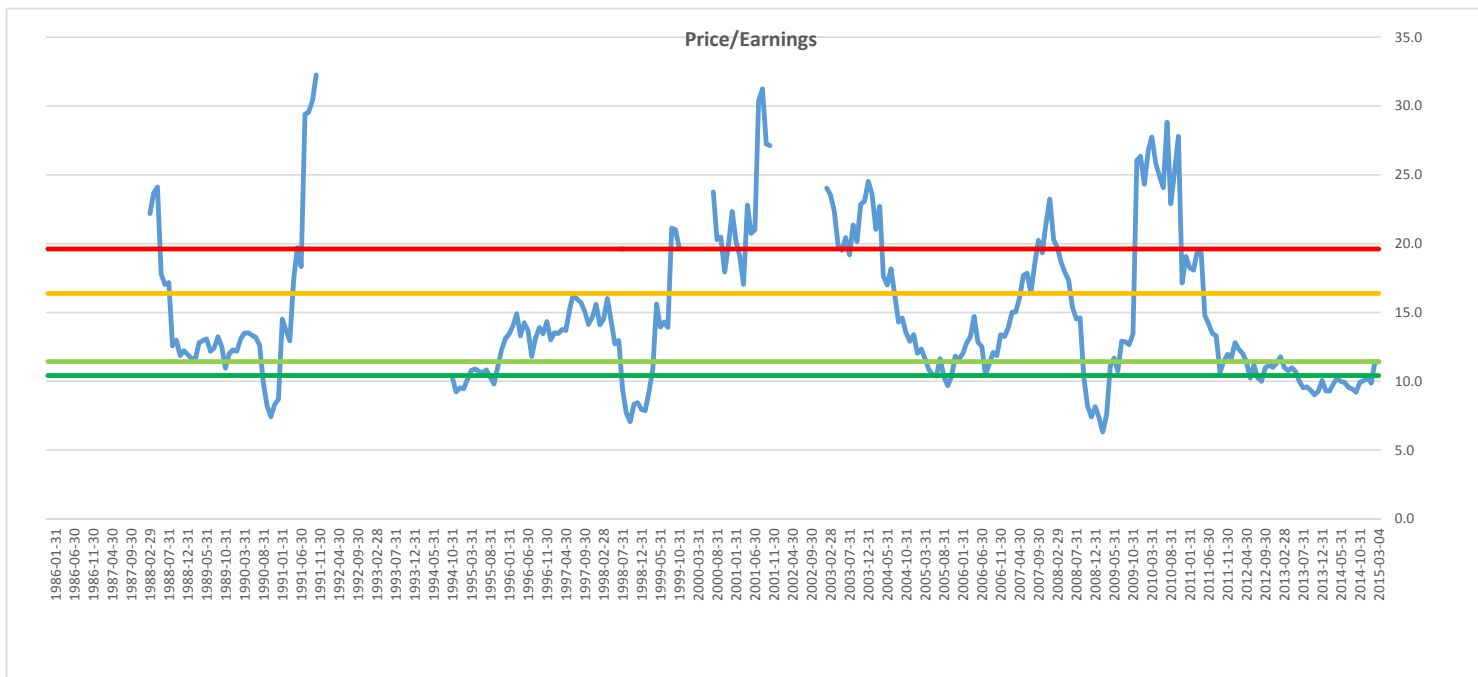
Van Den Berg Metrics



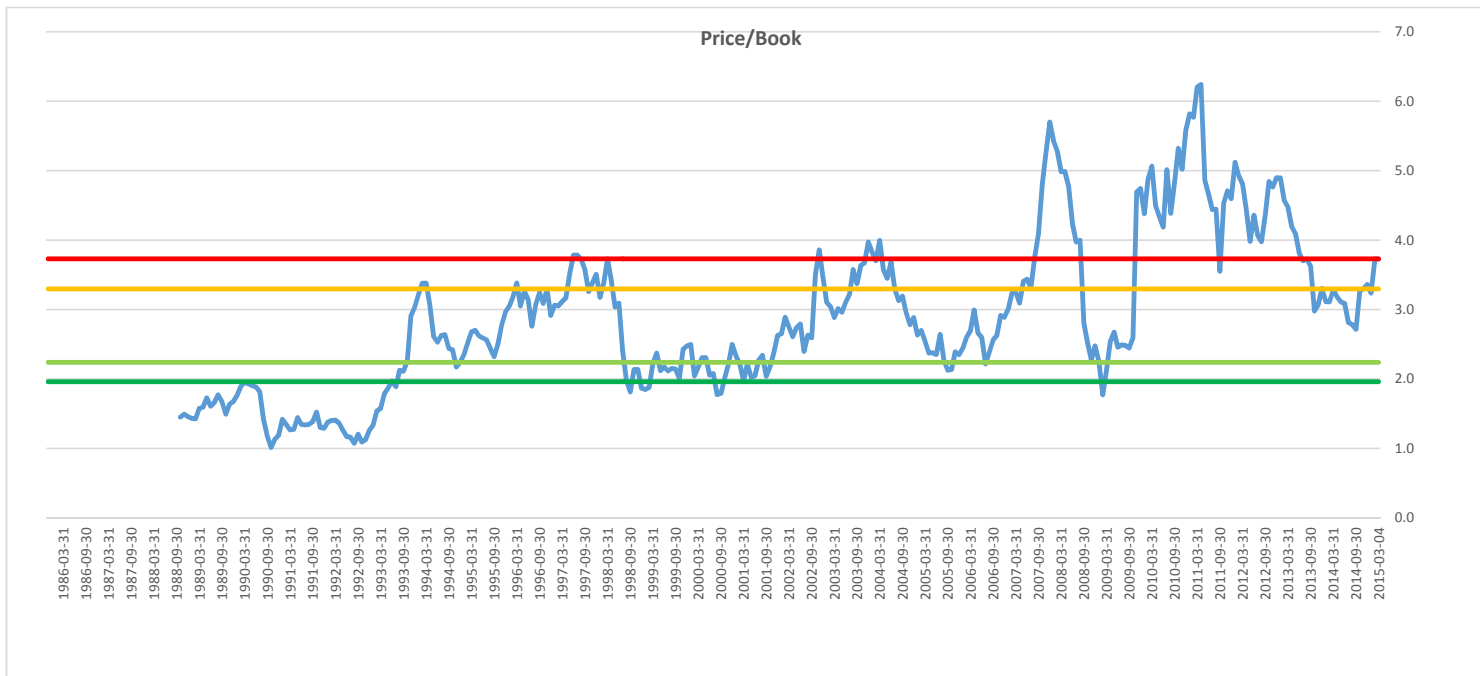
Price/Sales



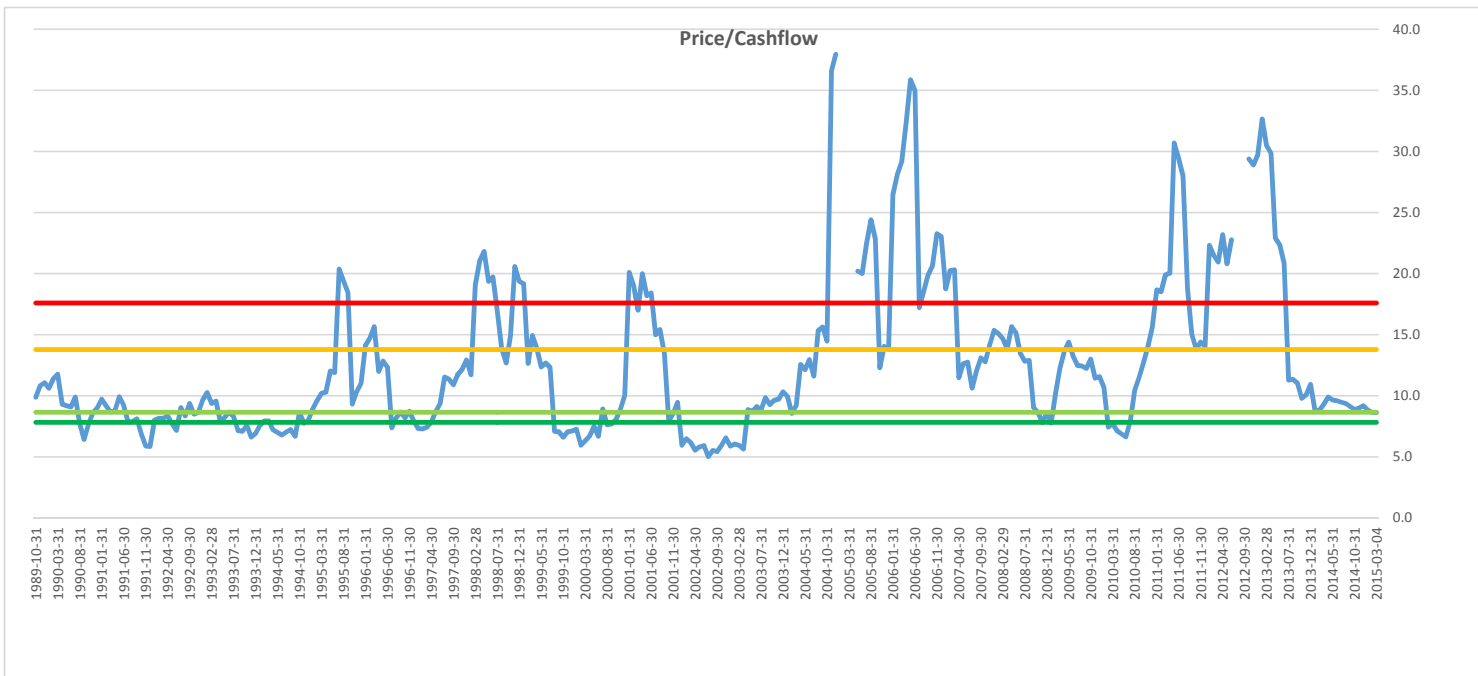
Price/Earnings



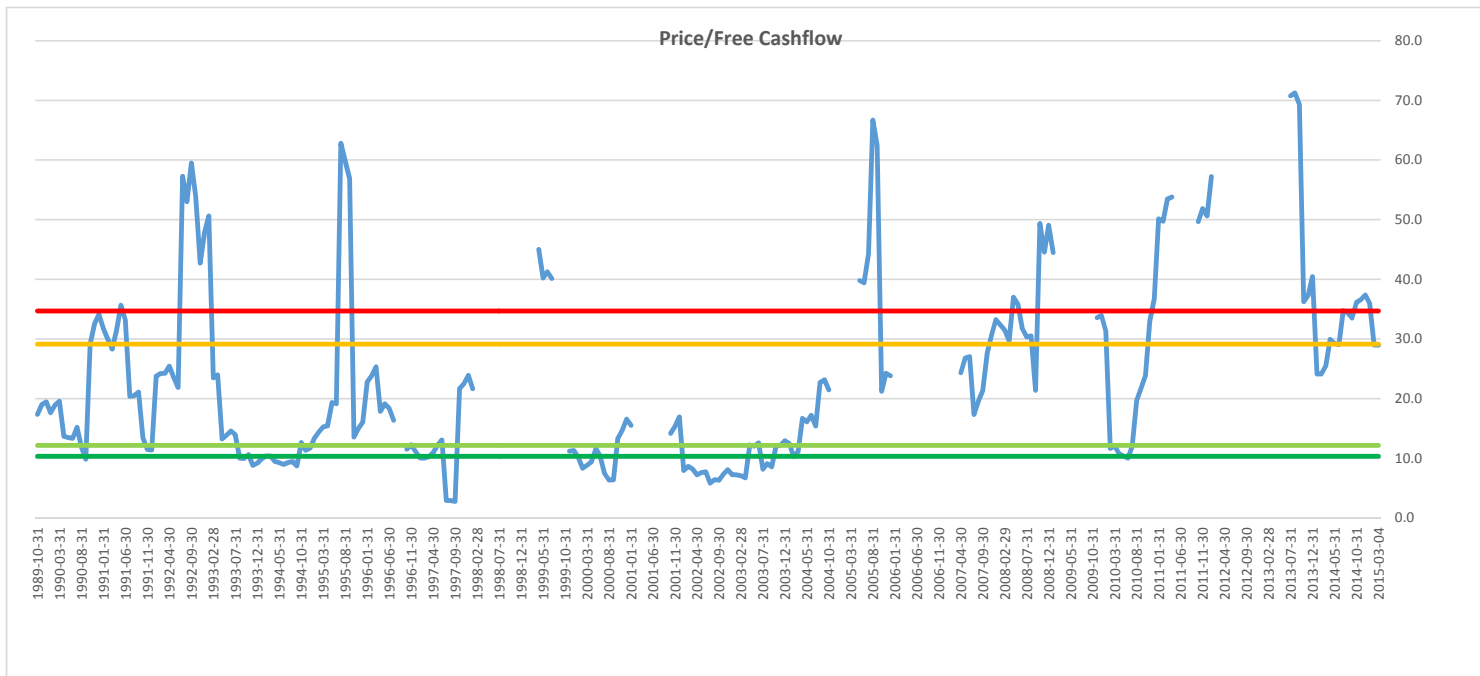
Price/Book



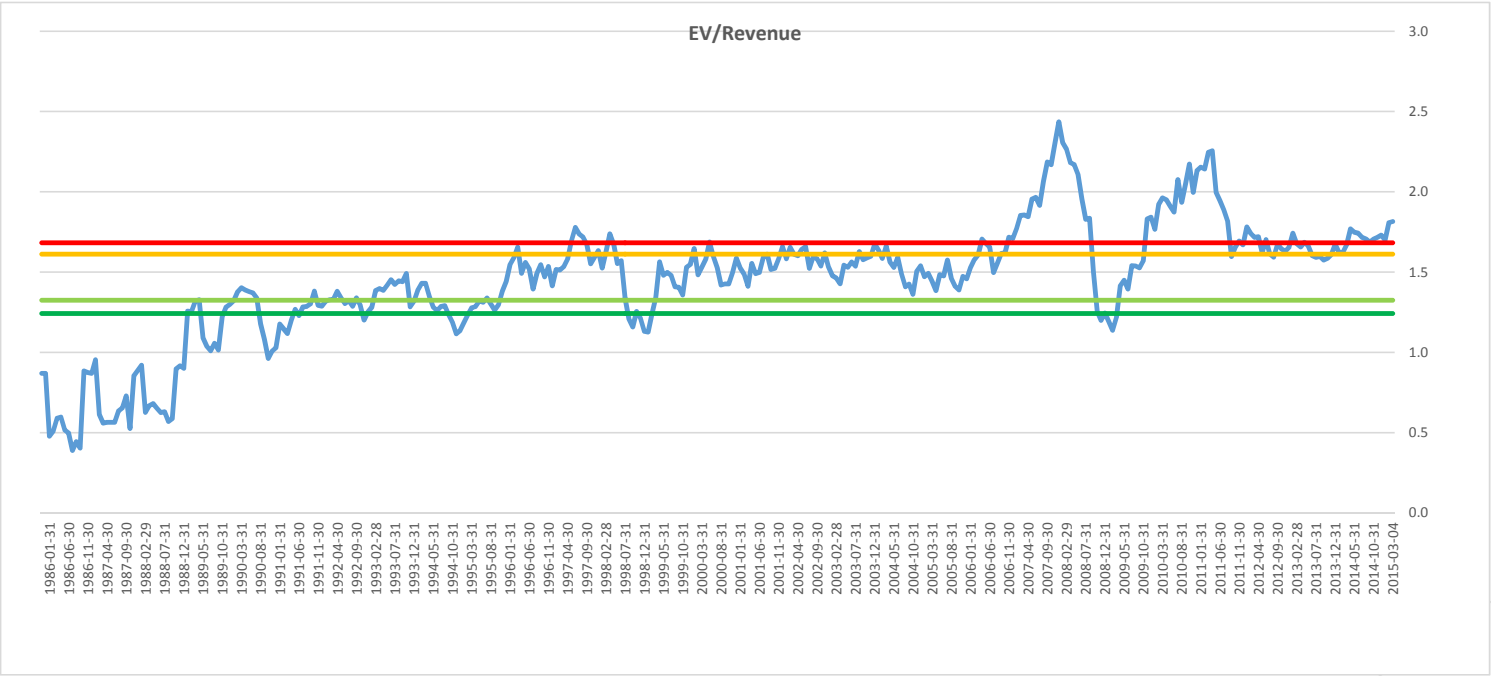
Price/Cashflow



Price/Free Cashflow



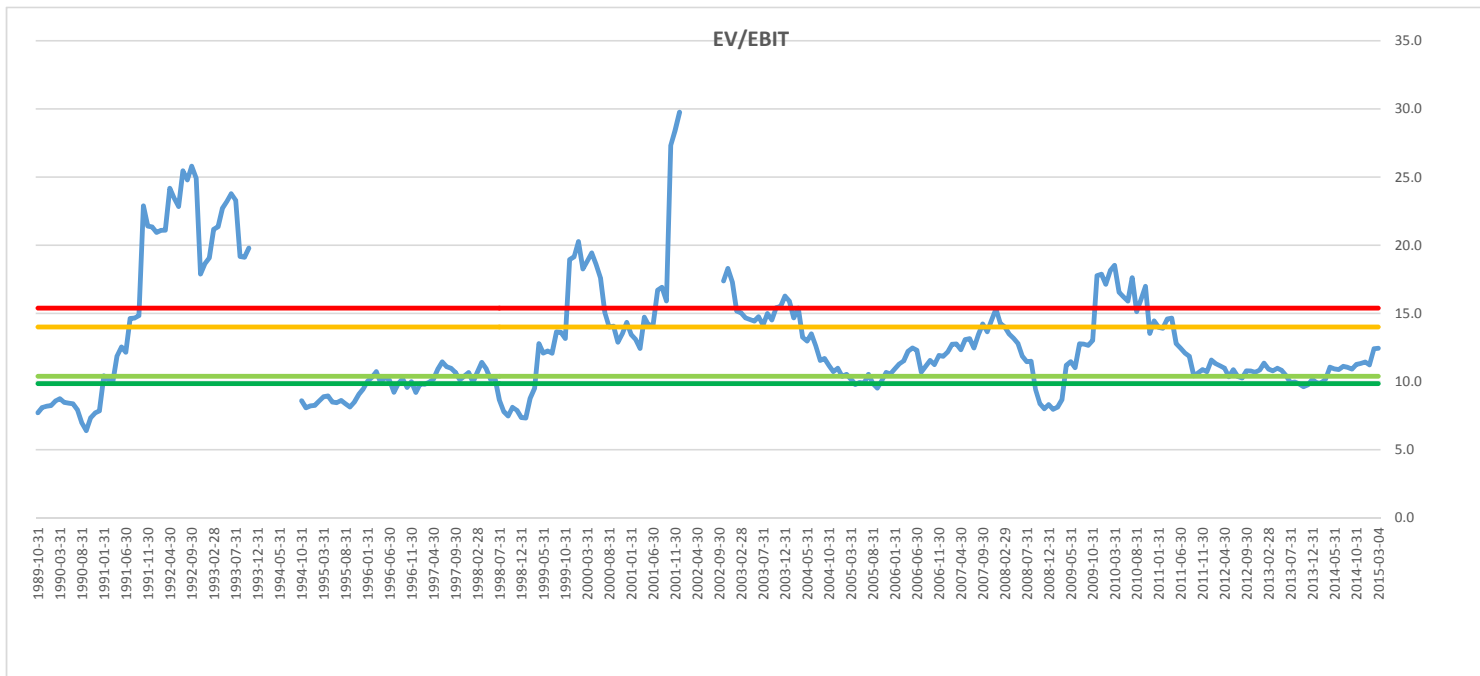
Price/Revenue



Price/Earnings Before Interest, Taxes, Depreciation, and Amortization



Price/Earnings Before Interest and Taxes



Valuation Summary



Conclusion

- ▶ Strong brand name
- ▶ Strong international presence
- ▶ Machinery innovation
- ▶ Strong commitment to shareholders
Consistently increasing dividends and share buybacks
- ▶ Valuations at historical average



Recommendation

