Initiating Coverage:

Deere & Co.

Nothing Runs Like a Deere; a Green Light for Investors?

Key Takeaway: With net sales and revenues down 30% YoY in Q1 2025, net sales down 35%, net income down 50%, and diluted earnings per share down 49%, Deere had a very difficult start to 2025. Although this was somewhat expected given the general market difficulties, Deere experienced greater deficits in tractor and combine retail sales in January 2025 (rolling 3 months) than its industry competitors. High interest rates, macro uncertainty, and somewhat lower expectations point to another challenging year for businesses like Deere in the construction and agricultural sectors, even though the company's cash continues to be robust in a volatile global market.

Inventory Optimization: Deere's decision to incur financial "hits" in Q1 2025 by optimizing inventory in order to better position themselves for Q2 and Q3 2025 was a significant feature of the company's most recent earnings call. Furthermore, despite the previously mentioned 50% decline in net income, Deere continues to project a net income of $5.0-5.5 billion for the entire year. The goal was to reduce inventory levels while restoring regular production and shipment seasonality in anticipation of the expected industry downturn. Management is taking preemptive steps to navigate the slump and maintain longer-term profitability, given that they recognize the industry's cyclical nature.

Uplifting Financial Segment: In the first quarter of 2025, Deere's financial services division showed promise as its global net income rose 11% year over year to $230 million. The outlook remains optimistic for fiscal year 2025, with net income expected to rise to $750 million (+~8%).

Valuation: We initiate coverage with a $450 PT.

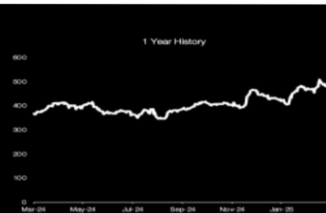
Consortium Equity Research
Industrials | Agriculture
February 26th, 2025

Stock Rating: Equal Weight

Price Target: $450

Price:	$478.52
Potential Downside:	-5.96%
Ticker:	$DE

Market Cap:	$130b
Shares Outstanding:	272mm
Free Float (%):	99.40%
Dividend Yield:	0.35%



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Peer Comparisons

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Caterpillar Inc. (NYSE:CAT)	$ 163,625	$ 196,474	18.6x	$ 64,809	$ 15,646
AGCO Corporation (NYSE:AGCO)	$ 7,302	$ 9,816	-23.1x	$ 11,662	$ 1,253
PACCAR Inc (NasdaqGS:PCAR)	$ 55,934	$ 62,293	15.0x	$ 33,664	$ 5,365
Cummins Inc. (NYSE:CMI)	$ 49,638	$ 56,098	14.4x	$ 34,102	$ 4,842
Deere & Company (NYSE:DE)	$ 132,796	$ 192,308	31.2x	$ 47,855	$ 10,081

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Caterpillar Inc. (NYSE:CAT)	12.6x	32.5%	24.1%	20.9%	(3.4%)
AGCO Corporation (NYSE:AGCO)	7.8x	24.9%	10.7%	7.9%	(19.1%)
PACCAR Inc (NasdaqGS:PCAR)	11.6x	17.6%	15.9%	14.8%	(4.2%)
Cummins Inc. (NYSE:CMI)	11.6x	25.1%	14.2%	11.1%	0.1%
Deere & Company (NYSE:DE)	19.1x	28.6%	21.1%	17.0%	(21.2%)

High	19.08x	32.5%	24.1%	20.9%	0.1%
75th Percentile	12.56x	28.6%	21.1%	17.0%	-3.4%
Average	12.53x	25.7%	17.2%	14.3%	-9.5%
Median	11.61x	25.1%	15.9%	14.8%	-4.2%
25th Percentile	11.59x	24.9%	14.2%	11.1%	-19.1%
Low	7.83x	17.6%	10.7%	7.9%	-21.2%

Deere & CoValuation	
Implied Enterprise Value (25th Percentile)	$ 116,795
Implied Enterprise Value (Median)	**$ 117,057**
Implied Enterprise Value (75th Percentile)	$ 126,592
Implied Share Price (25th Percentile)	$ 216.11
Implied Share Price (Median)	**$ 217.07**
Implied Share Price (75th Percentile)	$ 252.20

Source: S&P NetAdvantage

Company Overview

Company Description: Deere and Co. is a leading manufacturer and distributor of agriculture, forestry, and construction equipment. The company operates through four primary business segments: Production and Precision Agriculture (PPA), Small Agriculture and Turf (SAT), Construction and Forestry (CF), and Financial Services (FS). Known for its signature green and yellow equipment, Deere and Co. prides itself on its devoted employee base, innovation in automation, and vast, robust dealer network, allowing for efficient productivity and sustainability in a resource-intensive industry.

U.S. Manufacturing: Deere and Co. places a heavy emphasis on U.S. Manufacturing, and as a result, more than 75% of all products sold are assembled in the states. With greater than $2.5 billion invested in American factories since 2019 and over 30,000 people employed (over 1/3 of total global employees), Deere and Co places a heavy interest and investment into the U.S. and its people.

Environment-Oriented Innovation: With environmental protection and sustainability topics continually on the rise, Deere exemplifies significant measures, products, and research to support these healthy trends. Battery-powered machines with zero operating emissions, See & Spray™ technology designed to target-spray weeds and enhance yields, and fully autonomous tractors like the 8R are a few innovations Deere has designed to support sustainability. With the global population expected to hit 10 billion by 2050 and a

60-70% increase in agricultural production needed, Deere is a leading contributor to innovation and progress, assisting to combat current and future environmental and population issues.

Industry Overview

Tariffs: Trump and his new administration have wasted no time implementing and threatening tariffs throughout the globe. On February 1st, he announced a potential 25% tariff on imports from Canada and Mexico; he threatened a 10% tariff on the European Union, citing concerns over the U.S.'s trade deficit with them, and he imposed a 10% tariff on China, which retaliated with a 10% and 15% tariff on U.S. natural resources and machinery. These active and potential tariffs could start a trade war, raise costs, or create unemployment, but could also restructure U.S. Manufacturing and incentivize companies to make more products in America.

Ag End Markets: Companies in the agricultural markets are highly tied to farm profitability. This income is affected by numerous variables including input costs, the price of major commodities, and crop yields. For the third consecutive year, farmers have seen a decline in input costs, and $10 billion in U.S. support for farmers was an additional tailwind for the industry, which offset some of the margin declines farmers saw in 2024. While markets still remain under pressure, higher commodity prices coupled with the listed tailwinds have improved industry sentiment.

Robust Dollar: Since October 2024, the U.S. Dollar has been growing in strength compared to nearly all foreign currencies, particularly the Brazilian Real, the Canadian Dollar, and the Euro. This currency fluctuation has significant implications for companies, like Deere, that operate globally and transact in multiple currencies. While dominant companies and large, big-name brands have increased or maintained price realizations globally, currency translations have offset the vast majority of that upside.

Investment Theses

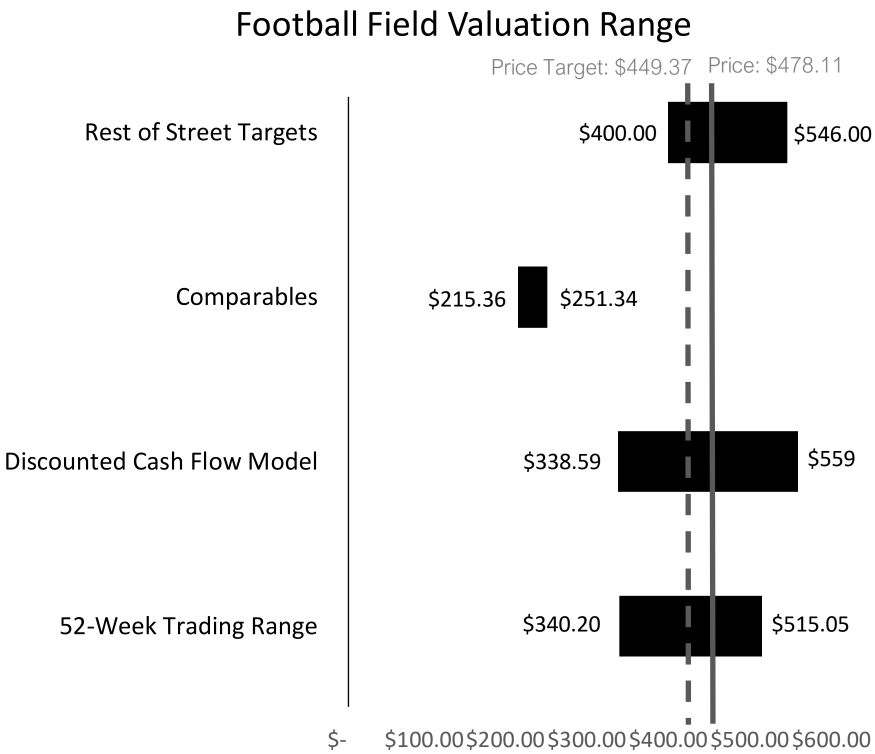
Ag Markets Troughing: Views of the agriculture market have been largely unchanged, and 2025 is still expected to be a rocky road with improvements anticipated in 2026. Deere did have major losses in key segments, but as stated prior, much of this was predicted, and the majority of deficits greater than competition were due to inventory optimization in preparation for the continued troughing/mid-cycle market. Positive notes like consistent price discipline, a lowered effective tax rate of 20-22% (previously 23-25%), and growing commodity prices have provided a tailwind for Deere, on top of the company's impressive reputation, longevity, and dependability. Given Deere's stock performance YTD and the current/future market conditions over the next year, we expect the price to go down in line with the industry, and an outperformance of broader machinery stocks later down the road.

Boosted Margins Through Tech: While Deere has typically been viewed as more of a conventional manufacturer, a shift towards automation and technology advancement has and will continue to provide consistent revenue and boost margins. Historically, Deere has relied heavily on equipment sales, aftermarket parts, and services; however these income streams are extremely cyclical and upfront. With these traditional sources of revenue still the backbone of Deere, a transition towards high-margin, subscription-based software and data services has created an additional recurring stream of revenue that persists even in a harsh market environment. Further, farmers are increasingly willing to pay for the automation and efficiency Deere's tech products provide, allowing the company to raise costs without losing demand. JDLink telematics, a data analysis, tracking, and predictive maintenance device is a perfect example of a tech service with minimal incremental costs and fee/subscription-oriented revenue.

Reducing earnings volatility during downturns is crucial for cyclical companies like Deere, and their objective for 2026-2030 is to continue to increase the attach rate of tech sales to its equipment. However, in the current, struggling agriculture and construction markets, Deere has yet to hit their integrative goals, not providing enough relief during the trough of the market cycle.

Price Target & Valuation

Our analysis gives $DE a price target of $450 and an equal weight rating.



Potential Downsides to Our Rating

Crop Prices (downside): While commodity prices have generally been rising YTD, a larger rise in overall prices could generate higher cash flows and profits for farmers and the agricultural market, to which Deere is heavily connected. Combined with lowering input prices, over the last three years, farmers could finally see the much needed respite inbound. However, if any of these factors revert (agricultural commodity prices falling, input prices rising), or volatility spikes (tariffs, high inflation, extreme weather), farmers' balance sheets will once again be pinched, harming discretionary spend towards Deere.

Significant Tech Implementation (upside): Since Deere has been in operation for nearly 200 years and a significant amount of its revenue still comes from the sale of equipment, advanced technical and data innovation are comparatively "new" to the company's business model. If Deere can implement more of its margin-accretive linked technologies, it may see a significant enou improvement in its margins in 2025, which might improve the comp market.

Our Price Target: $450

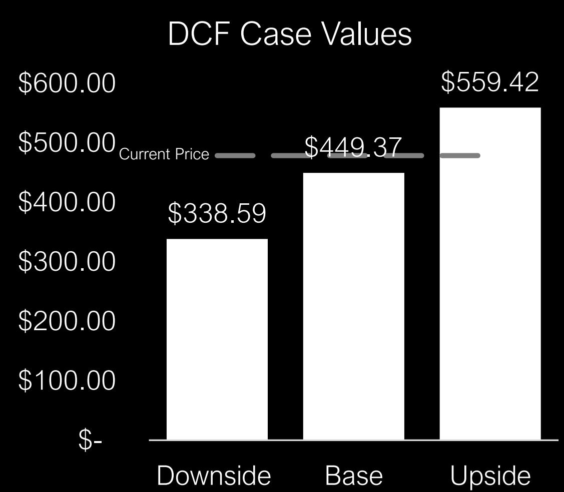
Our price target is based on the impact of a harsh, troughing agriculture and construction market, significant losses in primary company segments, yet positive margin control, inventory optimization, and a healthy and well-managed cash flow that supports Deere's wide moat, brand familiarity, and longevity through cyclicality.

Our Upside Case: $560

Our upside case is based on notably increased revenue and margins through recurring revenue streams like new tech, automation, and data solutions, a rally in U.S. Construction elevating demand in a critical business segment that took, and is expected to continue to take, heavy losses, and stronger-than-expected crop prices creating robust profits for farmers, in turn spurring agricultural markets.

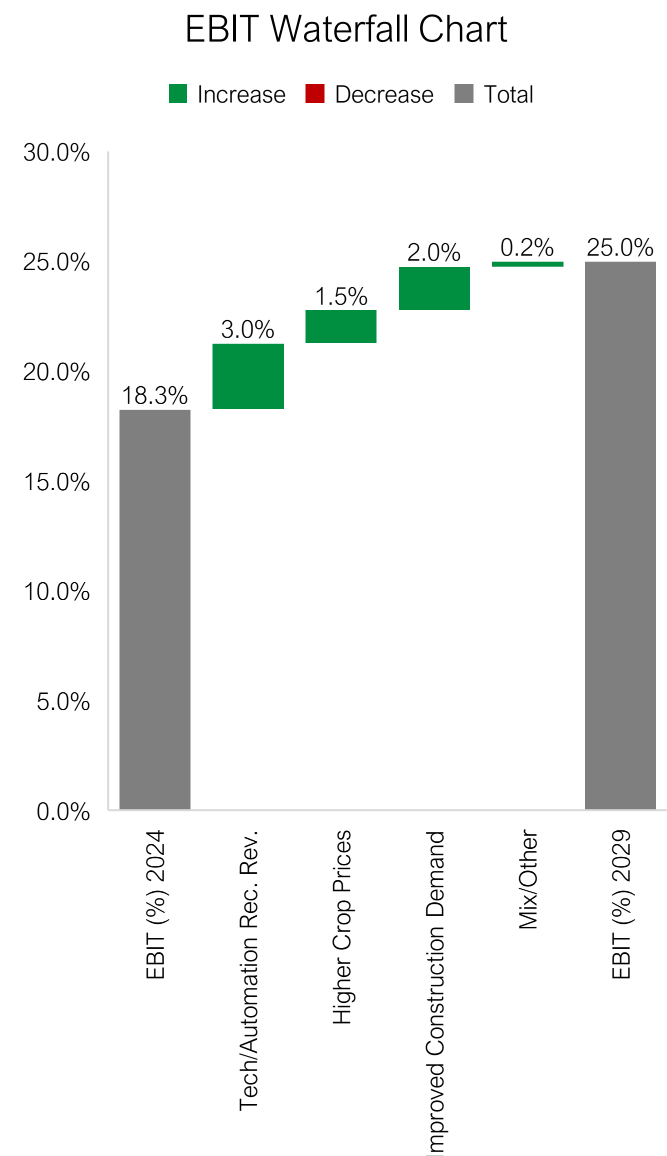
Our Downside Case: $340

Our downside case is based on a bottoming business cycle that extends past Deere and industry expectations, heavy competition in agricultural and construction markets that affect demand, pricing power and market share, and weak crop prices that reduce farmer profits.



Improved Ag and Construction Spending (upside): As stated, 2025 is predicted to be a difficult year for the industry with lower sales and thinner margins across the board. Q2 and Q3 2025 sales and revenues are expected to pick up due to regular seasonality, however any noticeable rise in sales for the company within the next year, outside of prior expectations, could bolster a positive effect on the stock price. Further, if Deere is able to use their market share or brand recognition to outperform competitors during this period, the effect could be even greater for the company.

Projections



Income Statement ($mm)	2023A	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	61,222	51,532	47,855	48,807	52,829	60,472	4.1%
EBITDA	15,254	11,349	10,081	12,245	13,771	16,354	9.6%
EBIT	13,394	9,411	8,114	10,250	11,622	13,909	10.3%
NOPAT	10,523	7,317	6,462	8,200	9,298	11,127	11.0%

Margin & Growth Data	2023A	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	24.9%	22.0%	21.1%	25.1%	26.1%	27.0%	24.3%
EBIT Margin	21.9%	18.3%	17.0%	21.0%	22.0%	23.0%	20.2%
Revenue Growth	16.5%	-15.8%	-7.1%	2.0%	8.2%	14.5%	0.3%
EBIT Growth	37.2%	-29.7%	-13.8%	26.3%	13.4%	19.7%	3.2%

Valuation Metrics	2023A	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	15.5x	21.3x	33.6x	23.6x	20.6x	17.0x	23.2x
EV/Sales	3.1x	3.6x	3.9x	3.9x	3.6x	3.1x	3.6x
EV/EBITDA	12.3x	16.6x	18.6x	15.3x	13.6x	11.5x	15.1x
FCF Yield	6.5%	4.7%	3.0%	4.2%	4.9%	5.9%	4.5%

About $DE

Deere & Company (NYSE: DE), founded in 1837 and headquartered in Moline, Illinois, is a global leader in manufacturing agricultural, construction, and forestry equipment. Operating across North America, Europe, South America, and Asia, the company serves a diverse customer base with its advanced machinery, precision technology, and financial services. Deere's business segments include Production &

Precision Agriculture, Small Agriculture & Turf, and Construction & Forestry, each contributing to its mission of driving efficiency and sustainability in resource-intensive industries. With a strong emphasis on automation, digital solutions, and electrification, Deere continues to innovate, positioning itself as a key player in the future of smart farming and infrastructure development.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

Appendix

Deere & Co

Discounted Cash Flow

Active Case:	**2 Base**
Current Share Price	$476.63

DCF Analysis ($mm)	FY2021	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/2021	**12/31/2021**	**12/31/2022**	**12/31/2023**	**12/31/2024**	**12/31/2025**	**12/31/2026**	**12/31/2027**	**12/31/2028**	**12/31/2029**	**12/31/2030**
Stub						0.16	1.16	2.16	3.16	4.16	5.16
Discount Period						0.42	1.34	2.34	3.34	4.34	5.34
Revenue	35,514.00	43,983.00	52,563.00	61,222.00	51,532.00	47,855.00	48,807.42	52,828.96	60,471.87	72,991.70	90,716.02
Revenue Growth	*0%*	*24%*	*20%*	*16%*	*-16%*	*-7%*	*2%*	*8%*	*14%*	*21%*	*24%*
Revenue Breakdown 1	31,272.00	39,737.00	47,917.00	55,565.00	44,759.00	41,082.00	41,722.88	45,144.16	51,843.55	62,979.54	78,724.43
Revenue Breakdown 2	3,707.00	3,648.00	4,193.00	5,182.00	6,217.00	6,309.00	6,662.30	7,275.24	8,206.47	9,552.33	11,462.79
Other Revenue	535.00	598.00	453.00	475.00	556.00	464.00	422.24	409.57	421.86	459.83	528.80
EBIT	4,548.00	7,926.00	9,763.00	13,394.00	9,411.00	8,114.00	10,249.56	11,622.37	13,908.53	17,518.01	22,679.01
EBIT Margin	*13%*	*18%*	*19%*	*22%*	*18%*	*17%*	*21%*	*22%*	*23%*	*24%*	*25%*
Tax Expense	1,082.00	1,658.00	2,007.00	2,871.00	2,094.00	1,652.00	2,049.91	2,324.47	2,781.71	3,503.60	4,535.80
Effective Tax Rate	*24%*	*21%*	*21%*	*21%*	*22%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*
NOPAT	3,466.00	6,268.00	7,756.00	10,523.00	7,317.00	6,462.00	8,199.65	9,297.90	11,126.82	14,014.41	18,143.20
D&A	1,985.00	1,929.00	1,778.00	1,860.00	1,938.00	1,967.00	1,995.38	2,148.13	2,445.56	2,935.77	3,628.64
Capex	2,656.00	2,580.00	3,788.00	4,468.00	4,802.00	4,500.00	4,403.76	4,565.50	4,995.80	5,752.24	6,803.70
Changes in NWC	(128.00)	3,244.00	4,539.00	2,335.00	3,578.00	71.00	301.97	575.32	942.97	1,481.49	2,267.90
UFCF	682.00	6,932.00	8,507.00	8,390.00	6,093.00	3,858.00	5,489.30	6,305.21	7,633.62	9,716.44	12,700.24
PV of FCF						3,726.86	4,915.45	5,198.96	5,795.86	6,793.05	8,175.98

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	6.43%
Beta	1.02
Risk Free Rate	4.18%
Cost of Equity	7.14%
Weighted Average Cost of Debt	5.43%
Tax Rate	20.00%
Cost of Debt	5.19%
Total Equity	$128,979
Total Debt	$58,140
Equity/Total Capitalization	66.33%
Debt/Total Capitalization	33.67%
WACC	8.60%

Terminal Value Perpetuity Growth Method	
FY2030 FCF	$12,700
Growth	3.00%
Terminal Value	$226,808
PV of Terminal Value	$146,143
PV of Projection Period	$34,628
PV of Terminal Value	$146,143
Implied TEV	$180,772
(-) Debt	$65,460
(+) Cash	$7,320
Implied Equity Value	$122,632
Basic Shares Outstanding	271
Implied Share Price	$452
Upside/Downside	-4.7%
Implied BF EV/EBIT	10.0x

Terminal Value Exit Multiple Method	
2029 EBIT	$22,679
N/A Exit Multiple	10.0x
Terminal Value	$226,790
PV of Terminal Value	$146,132
PV of Projection Period	$34,628
PV of Terminal Value	$146,132
Implied TEV	$180,760
(-) Debt	$65,460
(+) Cash	$7,320
Implied Equity Value	$122,620
Diluted Shares Outstanding	271
Implied Share Price	$452
Upside/Downside	-4.7%
Implied PGR	3.00%

Blended Share Price	
Perpetutity Growth Method	100%
Exit Multiple Method	0%
Blended Share Price	$451.83
Upside/Downside	-4.66%