

Deere & Company

US Satellite*

Recommended since 05.01.2022

22.08.2022



Country US	Market capitalization (bn) USD 113.8	Perf. since reco. (%)
Sector Industrial Goods & Services	Free float 92.7%	Deere & Company -0.6
Factset DE-US	Closing price USD 369.66	Sector -9.5
ISIN US2441991054	ESG Risk score* 16.6 Low risk	



Profile

Deere is a world leader in equipment for farming (c. 75%) and construction (c. 25%). The group, with over a century of history behind it, has around 76,000 employees and is supported by a global network of 3,700 distributors. Its brand – synonymous with quality, robustness and efficiency – enjoys high levels of awareness. Its offering runs the gamut of the agricultural cycle, from preparing the ground to sowing and planting, applying crop protection products and harvesting. Over the past 20 years, Deere has gone to great lengths to make its equipment more efficient by building in elements of digitalisation, geolocation and precision farming technologies.

Strengths/opportunities

- A promising cycle for investment in farming equipment
- Expected US infrastructure spend
- Distribution and maintenance network; brand
- High-quality credit rating

Weaknesses/threats

- Cyclical end markets partly dependent on China's policy on imports of agricultural products
- Providing finance to customers and distributors requires a strong balance sheet
- In the short term, global supply chain constraints and rising costs, including wages

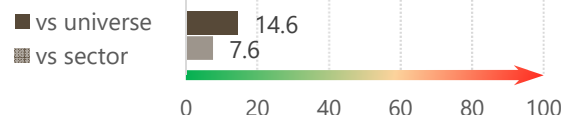
Investment case

- High agricultural commodity prices and rising farm incomes should trigger more buoyant investments than in recent years, which have been marked by uncertainty. This is reflected in the group's recent quarterly results and the 12 months fwd perspectives provided at Q3-2022 release. US infrastructure spend should also be of incidental benefit to Deere. Sales growth is thus expected to reach c. 10% a year for the next few years.
- Despite supply difficulties and pay negotiations in 2021, the group managed to generate a robust operating margin. All in all, earnings are expected to grow at c. 14% a year over 2022-2024, with a fwd P/E below 15x and a high free cash flow of around \$6bn p.a. in average or 12% of sales: a constant for the group, which on average has returned 55% of its free cash flow to shareholders in the form of dividends and share buybacks since 2004.
- In the medium term, with R&D spend equating to 5-6% of sales, and a renewed strategy in that field, Deere should confirm its status as a key player in the transformation of agriculture by digitalising its equipment and services, with optimisation of the total cost of ownership and precision farming technologies helping drive down the use of crop protection products and water and lowering emissions per unit of area: the reason this US recommendation carries the b-Transition label.

Valuation

At < 15x 12 months fwd earnings, the share is trading below its 15-year average, with c. 14% a year expected earnings growth, i.e. at a two-year PEG of less than 1.1x, with a return on equity in excess of 30%.

ESG risk vs. universe & sector (percentile)*



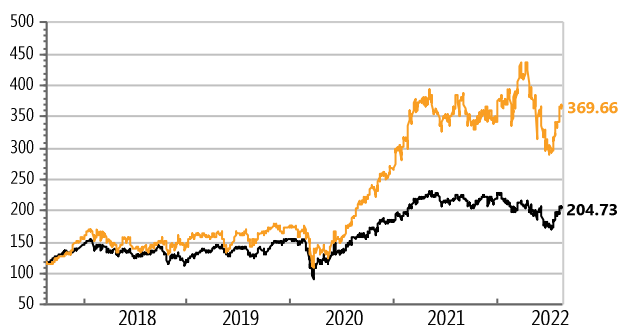
USD	10/2021	2022e	2023e
Sales revenue (mio)	43'970	47'290	51'444
Sales growth	23.7%	7.6%	8.8%
EBIT adjusted (mio)	8'954	8'780	10'191
% of sales	20.4%	18.6%	19.8%
Net income (mio)	5'963	7'080	7'877
Net income growth	116.8%	18.7%	11.2%
FCF/Sales	11.7%	8.8%	13.2%
Net debt/Ebitda	3.6x	0.3x	1.5x
Dividend yield	1.2%	1.2%	1.3%
PE	18.0x	16.1x	14.2x
P/BV	5.7x	6.2x	5.0x

Factset estimates

ESG - risks and key points

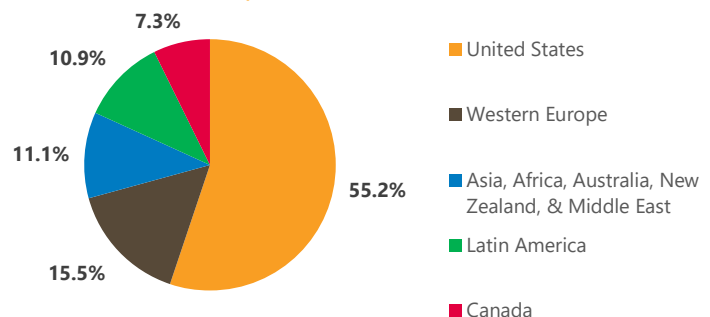
- Deere is considered low risk for environmental, social and governance issues.
- Identified risks include product safety, with product recalls and legal proceedings a possibility.
- The ongoing process of digitalising its products and services also means the group has to hire and retain employees with the required level of expertise in these areas.

5-year performance vs sector



Source: FactSet

Sales breakdown - 10/2021



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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