

Mossberg's Investor Digest

Best Idea Profile:

Deere and Company (NYSE: DE)

DESCRIPTION:

Deere and Company has an integrated portfolio of businesses. Its core growth businesses include agricultural and construction equipment. Its complementary businesses include turf and forestry equipment. Supporting businesses include financial services, power systems, parts, and technology solutions. Under the John Deere name, the Company manufactures and distributes a full line of agricultural and turf equipment, such as combines, harvesters, shredders, scrapers, and turf mowers, as well as the related service parts. John Deere construction, earthmoving, material handling and forestry equipment includes backhoe loaders, dozers, loaders, excavators, articulated dump trucks, logging machinery, and a variety of attachments. The financial services segment primarily finances sales and leases by John Deere dealers of new and used equipment. Deere's integrated wireless technology optimizes machines, logistics and decision making. Deere was founded in 1837, incorporated in 1958, and is headquartered in Moline, Illinois.

KEY INVESTMENT CONSIDERATIONS:

Beneficiary of Global Growth – Looking long term, Deere expects 50% of its anticipated \$50 billion in sales volume to be from outside of the U.S. and Canada in 2018, compared with 39% this past year and 29% five years earlier. Deere is a **great long-term play on the growing need to feed and shelter the world**. The world population is continuing to grow, particularly in Asia and Africa. The world's agricultural output will need to double by 2050, meaning the rate of growth over the next ten years will be greater than the past ten years. And the massive urbanization demands huge infrastructure growth.

Crop Economics Remain Positive – Deere is the largest maker of agricultural equipment. Despite the drought in the Midwest, the prospects for U.S./Canadian demand for agricultural equipment remain positive. Deere's worldwide sales of agriculture and turf equipment are forecast to increase by 15% for 2012.

Construction and Forestry Growth – Deere holds a strong second place to its primary competitor in this arena, Caterpillar (NYSE:CAT). Deere expects this segment (which was 17% of fiscal 2011 sales) will grow 20% with improving fundamentals and market-share advances in emerging countries this year. Revenue is also benefiting from growth in sales to independent rental companies, which are upgrading and replenishing their fleets.

Dividend Yield – Deere pays a dividend of \$0.46 per share—a yield of 2.3%.

Strong Financial Condition – The second quarter represented eight consecutive quarters of record earnings and the company has a history of outperforming analysts' profit expectations. Return on equity could exceed 40% this year and cash flow is very strong, exceeding capital expenditures and dividends by a wide margin.

Risk – The primary risk for Deere is the impact of fluctuating commodity prices on the demand for machinery. Global expansion and diversification in the agricultural and construction markets helps to mitigate this risk. Deere's increase in foreign sales may soften the blow of the current U.S. drought as foreign farmers respond to higher global commodity prices by planting more crops and ordering more agricultural equipment.

VALUATION:

While fairly valued when compared with peer stocks in its industry group, there is room for price appreciation, assuming continued fundamental strength. Price momentum is strong and the stock has stayed in line with the S&P 500.

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Investment Data (as of 8/13/12)

Recent Price	\$79.76
52-Week Range	\$59.92 - \$89.70
Fiscal Year End	Oct 31
Dividend	\$0.46
Yield	2.3%
Shares Outstanding	398 M
Average Trading Volume (3 mos)	3.9 M
Market Capitalization	\$32 B
Cash	\$2.7 B
Long-term Debt	30 B
Enterprise Value (EV)	\$59 B
Book Value	\$18.55
TTM Revenue	\$33.8 B
P/ Revenue	0.9x
TTM EPS	\$7.21
P/ EPS	11.1x
TTM EBITDA	\$5.6 B
EV/ EBITDA	10.5x

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