John Deere (DE) – 22.8% return over next twelve months and 67.2% return over next five years

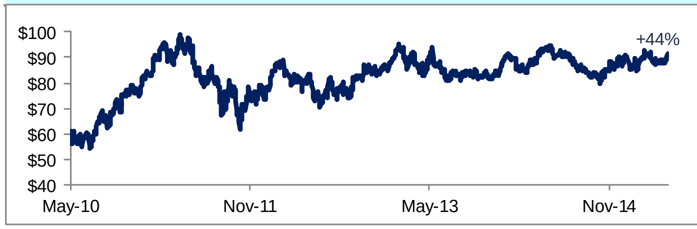
4/26/2015 *High Quality Franchise with Significant Margin of Safety* Patrick Enriquez Fischer

Market Statistics - US$ MM (1)	
Price (4/26/15) (US$)	$88.39
Shares Outstanding (MM)	340
Market Cap	30,008
Debt	5,701
Cash	2,944
Net Debt	2,757
Enterprise Value	32,765
P / E LTM	11.0x
P / E NTM	16.7x
EV / NTM EBITDA	7.5x

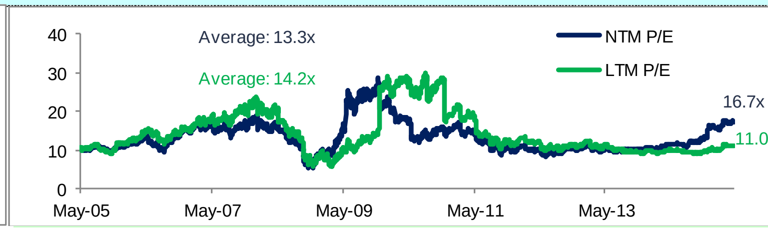
Key Stats	
52 Week High / Low	94.89/78.88
Discount / Premium	*-6.9%/12.1%*
52 Week Low	$26.11
Dividend Yield	2.7%
Net Debt / EBITDA	0.6x
3 Month ADTV (US$MM)	212.0
12 Month Target Price	108.6
Upside	22.8%
5 Year Target Price	147.8
Upside	67.2%

Base Case Summary Financials (1)	2011A	2012A	2013A	2014A	2015E	2016E	2017E	2018E	11-14 CAGR	14-18CAGR
Revenues	29,467	33,501	34,998	32,961	26,789	28,367	32,209	36,539	3.8%	2.6%
Growth	*25.0%*	*13.7%*	*4.5%*	*(5.8%)*	*(18.7%)*	*5.9%*	*13.5%*	*13.4%*		
vs Consensus					*(2.4%)*	*4.4%*	*14.8%*	*33.8%*		
EBITDA	5,710	6,306	7,370	6,441	4,356	5,039	5,915	7,063	4.1%	2.3%
Margin	*19.4%*	*18.8%*	*21.1%*	*19.5%*	*16.3%*	*17.8%*	*18.4%*	*19.3%*		
EPS	6.63	7.72	9.20	8.63	5.30	7.07	8.95	11.36	9.2%	7.1%
vs Consensus					*(0.4%)*	*34.1%*	*55.3%*	*NA*		
Avg. Shrs Out	422.6	401.5	389.5	366.3	339.7	333.0	325.0	315.0	(4.7%)	(3.7%)
FCF / Share						4.63	6.45	8.66		

Last Five Year Share Price Performance



Last Ten Years LTM + NTM P / E



Note: Figures for accounting method that takes into account financial services arm using equity method

Investment Thesis Summary

- Buy DE, the global market leader of agricultural and turf equipment with a 55% market share and the #2 player of construction equipment in North America with strong international presence. The Company currently trades at an attractive 11.0x LTM P/E and 17.0x through earnings multiple and has generated over 20% ROICs in the last ten years. The 12 months target price of $108.6 represents a 23% upside to the current price and my five year target price of $147.8 represents a 67.2% return by 2019. The target prices are based on the EPV methodology and have been cross checked using SOTP valuation. In addition, an analysis of the reproduction value of the company serves as floor valuation and provides significant margin of safety
- The Company is trading at such an attractive valuation as the market fails to recognize that DE is currently operating at cyclical through and is facing transitory FX issues. Sell side research is extrapolating the current weakness over a multi-year period despite the strong and durable moat of the business as well as the secular tailwinds that will benefit its agricultural as well as construction and forestry businesses (increasing protein consumption, farmer consolidation, EM mechanization, construction recovery)
- Deere's moat relies on its unique ability to manufacture highly reliable mission critical products and to distribute them through an irreplaceable and dense distribution network of over 1,500 exclusive dealers in North America. These products represent only 4% of farmers' expenses but can have a huge impact in crop productivity if they malfunction. Through a best-in-class R&D program as well as its distribution network that provides proximity to clients, DE has positioned itself as a highly reliable player that has strong customer captivity with multi-generational relationships with farmers. The Company continues to gain market share in a highly stable and consolidated industry with the top four players representing more than 80% of the total market (Deere = 55%)
- In addition, due to the consolidated nature of the industry and a price-insensitive customer that is much more focused on reliability, innovation and re-sale value, Deere has strong pricing power and has historically raised prices at approx. ~3% per year (5%. Excl. mix shifts) and prices at a premium to its competitors. Its strong moat and pricing power allow it to benefit from above average profitability with EBIT margins at 13% vs. its closest peers at 7% and an average ROIC on equipment assets above 25% in the last ten years vs. peers at less than 10%. In addition, the Company's focus on working capital control and CapEx improvements allow it to benefit from strong FCF conversion
- The Company's management has a long track-record of focusing on shareholder value creation. Over the past 10 years the Company has bought back 40% of its TSO through ~$14Bn share repurchases during through levels ($2.7Bn in 2014) and has consistently increased its dividend doubling it in the past five years. Finally, management compensation is based on ROE and ROIC and management has minimum stock requirements which has allowed the Company to focus on value creation through organic growth with a solid balance sheet rather than empire building

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Business Description

- Founded in 1837, John Deere is the global manufacturer of agricultural & turf equipment and construction machinery. The company also provides financial services solutions for its retail as well as wholesale customers
- The Deere brand is the agricultural industry most recognized brand. The Company has a strong moat through an irreplaceable distribution network with more than 1,500 exclusive dealers and distributors in the US. The relationship that these dealers have with customers spam over several generations due to the quality of Deere's products
- Deere operates under three different business segments including: agriculture and turf, construction and forestry, and financial services
    - **Agriculture & Turf (83% of revenues)**: split into five different segments including crop harvesting, turf and utility, hay and forage, crop care and tractors. The brands in this segment include John Deere, Frontier, Kemper, Green Systems and SABO (in Europe). The Company recently announced the sale of its turf division (10% of ag & turf)
    - **Construction Machinery (17% of revenues):** sells equipment for construction, earthmoving, material handling and forestry. The products are sold under John Deer and Waratah brand names and are the #2 brand after Caterpillar. The Company has recently expanded this segment internationally. 85% of the revenue in this segment is construction related with most of the revenue still generated in North America. The company's main products include backhoe loaders; crawler dozers and loaders; four-wheel-drive loaders; excavators; motor graders and articulated dump trucks
    - **Financial Services (equity contribution)**: finances the sale and lease of new and used products. Across the customer base, Deere on average loans at 70% loan-to-value and loans amortize over 5 years. It also provides wholesale financing to dealers of the foregoing equipment, provides operating loans, finances retail revolving charge accounts, offers certain crop risk mitigation products, and invests in wind energy generation
- Approximately 60% of the agricultural business concentrates on large and sophisticated farms as smaller farms typically buy used equipment (revenue is generated by dealer). Most of new purchases are generated through trade-ins of used equipment. 62% of the agricultural business sales are generated in the US and Canada while most of the construction segment sales are generated in North America
- Most recently, the Company announced weak guidance with agricultural industry outlook down between 25%-30%, which caused several bulge-bracket firms to downgrade Deere. In addition, the Company expects a 5% growth in the construction and forestry business. Over the long-term, however, Deere expects to achieve mid-cycle sales of $50Bn by 2018, which would imply a 10% CAGR vs 2014 and a 22% CAGR vs. 2015

Variant View vs. Street

- After the recent outlook provided by the Company at the end of 2014, the market is extrapolating the current cyclical through into a multi-year decline in agricultural equipment revenue as well as weakness in the construction sector, which lead most top bulge bracket firms to downgrade DE into a sell with some target prices significantly below the current price. However, primary research and a better understanding of the Company's peak-to-through cycles show the potential for recovery in demand for agricultural equipment is big. Since 1980 the Company has never faced a 3 year decline in sales and declines typically followed periods of strong recovery. Despite that, analysts severely penalized the recovery with three years of weakness and a very slow recovery into the future. In addition, the Company lowered guidance in October and fully acknowledged the weakness in the market. The 25% decline in Ag sales is already extremely conservative and even if it is not, this is fully backed in the stock. However, the fundamentals remain intact and this cyclical downturn will not change the long-term secular trends that will benefit the Company. A value investor with a significant long term perspective will benefit from a high quality company hated by the market as it recovers, remains profitable and continues allocating cash to shareholders

Peak-to-Through in the Agricultural Segment (y-o-y growth)

1983	1984	1985	1986	1987	1988	1989	1990
(17.8)%	5.8%	(11.0)%	(15.1)%	21.7%	30.4%	17.2%	10.3%
1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998R**
(11.0)%	(3.7)%	10.2%	17.4%	15.5%	11.0%	14.2%	9.4%
1999R	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
(19.3)%	14.3%	(1.2)%	7.4%	12.4%	26.7%	5.3%	(0.5)%
2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
16.6%	27.5%	(13.6)%	9.6%	21.3%	12.6%	7.4%	(9.4)%

Analysts Estimates (y-o-y growth)

	2015	2016	2017	2018
MS	(25.7)%	(6.5)%	5.0%	5.0%
GS	(27.7)%	(5.1)%	1.4%	
Citi	(22.8)%	(6.4)%	7.4%	
JPM	(20.1)%	(6.2)%		

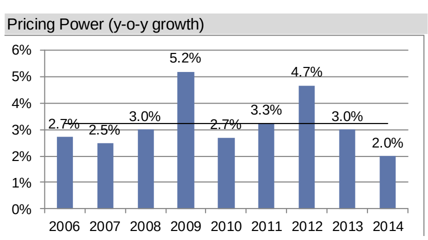
Analyst Price Targets

MS	GS	Citi	JPM
82	69	105	90

- Valuation by research analysts is mostly based on consolidated non-midcycle multiples. My valuation is based on three different methodologies that in my opinion better support the Company's fundamentals. First, I have used EPV for the Company supported by reproduction value. In addition, I have used a SOTP valuation as a cross check to value DE three different divisions that are subject to different trends and fundamentals and should therefore be valued separately. Finally, several analysts fail to recognize the right capital structure and valuation for DE due to the fact that it has a financial arm embedded (some are accounting for deposits as debt and other crazy points that I find unreasonable and which is why my sales for next year are below consensus)

Key Thesis Points

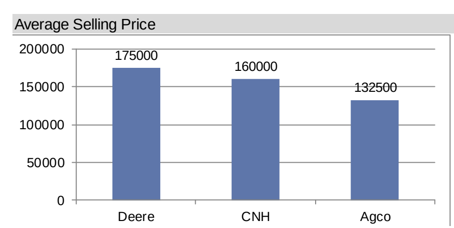
- **Strong Franchise with Impressive Brand Recognition, Distribution Network and Long Term Customer Relationships**
  - Deere's wide moat relies on its unique ability to manufacture highly reliable products and to distribute them through an irreplaceable and dense distribution network of over 1,500 exclusive dealers in North America. In contrast to its competitors' dealers, Deere's dealers can exclusively sell Deere's products and provide large barriers to entry for other players as it continues to expand the market exclusively for itself and expands its economies of density. As a result, the Company is today the clear #1 player in the agricultural segment with a 40% market share globally and a 55% market share in North America
  - Deere is 1.5x larger than its nearest competitor and enjoys a unique reputation on the high quality and reliability of its products, which allowed it to gain approximately 500bps of market share in the last ten years in a market characterized by very stable market shares dominated by only four players. In addition, calls with different farmers demonstrate the impressive customer captivity of Deere. The Company has established multi-generational relationships with farmer families that have relied on the quality of the products for over 100 years and allow the Company to defend its market share. According to these farmers, reliability and quick turnaround in the aftermarket business are key since a malfunction can significantly affect crop yields. The proximity and density of DE plays to its advantage on this front
  - The barriers to entry can be best exemplified by Caterpillar's attempt in the 1990s to enter the agricultural equipment business with its well-known Challenger brand. The Company tried to utilize its own and well established distribution network but dealers' were not trained and did not understand the urgency requirements in the agricultural segment. In addition, Caterpillar's equipment was much less advanced according to a farmer in Kentucky. The latter, led Caterpillar to sell this division to Agco in 2002
- **Consolidated Market with Price Insensitive Customers Provide Strong Pricing Power**
  - Deere operates in an industry that has consolidated from several hundreds of manufacturers into top four players that control over 80% of total sales and benefit from large economies of scale in a largely fix cost structure. As in any oligopolistic industry, these players benefit from pricing power vs. smaller competitors
  - In addition, farmers are highly price insensitive once that they have made the decision to replace their machinery (which relies on commodity prices and cash receipts). Tractor purchases only account between ~3%-5% of the total costs of a farmer each year and can last up to 10 years. After making a purchasing decision the farmers' main focus will be on replacement value (horsepower, productivity), reliability (incl. closeness to dealer and aftermarket support) and the re-sale value of the machine that is much higher for a Deere equipment. Finally, Deere in contrast to other smaller players is able to maintain pricing power by providing financial solutions with very low probability of default and strong collateral behind it. Farmers are so focused on the high quality and reliability of the machines as they know that they only have limited time to plan the seed season and if something goes wrong with these tractors it could cause significant damages on their crop, which makes them continue investing rather than trying to save in this small part of their cost stack
  - All these two factors allowed Deer to raise prices by an average of 3% annually with no price declines in any year regardless of cyclical through or peak (with 2% price increase this year despite 25% decline in volumes). In addition, conversations with former employees and management earnings calls confirm that the pricing increases would be approx. 4.5% keeping the mix stable. Finally due to the higher quality of its products and brand awareness DE is able to price its products at a premium to peers



Source: Company and USDA data

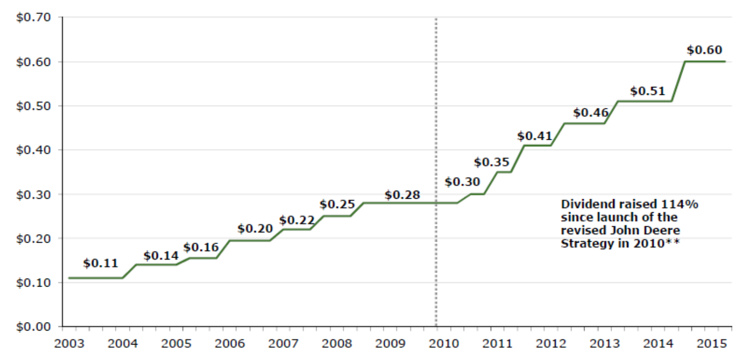
Farm Production Expenditures by Percent of Total – United States: 2009-2013
[For definitions of terms used in this table, see Terms and Definitions. Excluding Alaska and Hawaii]

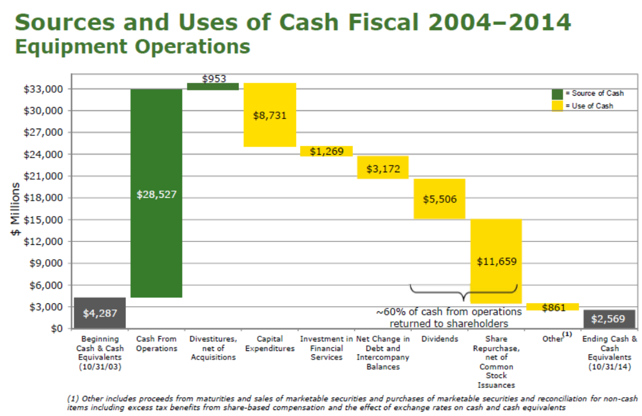
Expenditure	2009	2010	2011	2012	2013
	(percent)	(percent)	(percent)	(percent)	(percent)
Livestock, poultry and related expenses	9.0	8.4	9.0	9.3	9.3
Feed	15.7	15.7	17.1	16.8	17.0
Farm services	12.7	12.4	11.6	11.4	10.6
Rent	7.9	9.0	8.3	8.2	8.5
Agricultural chemicals	4.0	3.7	3.7	3.9	4.0
Fertilizer, lime and soil conditioners	7.0	7.3	7.9	8.0	7.7
Interest	3.8	3.5	3.1	2.3	2.4
Taxes	3.6	3.7	3.5	3.2	3.2
Labor	10.0	9.4	8.4	8.8	8.7
Fuel	4.3	4.5	4.8	4.3	4.5
Farm supplies and repairs	5.4	5.5	5.1	5.1	5.1
Farm improvements and construction	4.9	4.4	4.5	4.3	4.5
Tractors and self-propelled farm machinery	3.2	3.8	3.9	4.7	4.7
Other farm machinery	1.6	1.7	2.0	2.2	2.4
Seeds and plants	5.4	5.6	5.6	5.8	6.0
Trucks and autos	1.4	1.3	1.4	1.4	1.4
Miscellaneous capital expenses	0.1	0.1	0.1	0.1	0.1
Total farm production expenditures	100.0	100.0	100.0	100.0	100.0



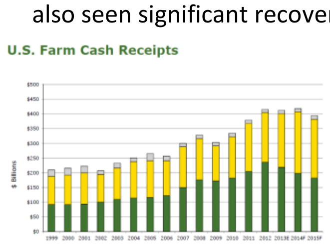
- **Pricing Power, R&D Program and Franchise Value Lead to Long-Term Superior Profitability**
  - The iconic green and yellow logo that can appear in huts, children toys and is recognized across the world is not only the result of strong organic growth and a dense distribution network but also the Company's focus on innovation. While Deere's competitors have grown through acquisitions and manage multiple brands, Deere spends 4% of its revenue each year on R&D, which is almost 2.0x as much that of CNH. This R&D has not only been used into building larger and higher priced products but also into significantly improving the productivity of the machines. According to an investor in the Company who had lunch with a farmer, he could tell where his combine was harvesting and even the moisture content through the software Deere developed
  - Its strong moat and pricing power allow it to benefit from above average profitability with EBIT margins at 13% vs. its closest peers at 7% and an average ROIC on equipment assets above 25% in the last ten years vs. peers at less than 10%
  - In addition, the Company's focus on working capital control and CapEx improvements allow it to benefit from a ~100% FCF conversion (based on maintenance capex)

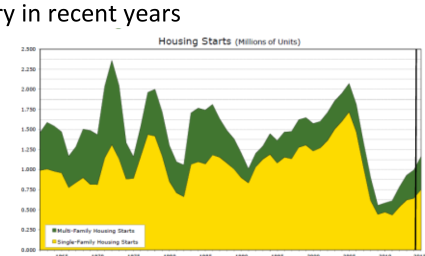
- **Disciplined Management Team Focused on Generating Stronger Profitability and Returning Cash to Shareholders**
  - Deere has a top class management team with extensive value creation track record. The CEO Sam Allen has been at the Company since 1982 and has been a senior executive since 2001. This is the period where DE shift its capital allocation focus into a more shareholder focused strategy with a very savvy capital allocation. Over the past 10 years the Company has bought back 40% of the Company's TSO through ~$14Bn share repurchases during through levels ($2.7Bn in 2014). The Company currently has an $8.0Bn share buy back program (26% of market cap) in place with $5.6Bn still to be deployed over the next years. At the same time management has consistently increased its quarterly dividend six-fold since 2003 with a very aggressive policy since 2010 that saw the dividend double from 0.3 to the current 0.6 that represents an annualized yield of 2.7%
  - In addition, the Company has a rock-solid balance sheet with less than 1.0x net debt to EBITDA and has been able to maintain that leverage across the different cycles. The high quality of its balance sheet can also be understood by the yields of its bonds that are extremely close to the 10y treasury
  - Finally, management compensation is based on ROE and ROIC and shareholder value and management has minimum stock requirements which has allowed the Company to focus on value creation through organic growth with a solid balance sheet rather than empire building. This focus on ROIC has caused the Company to significantly reduce working capital requirements that have been halved from 50% of sales to 25% of sales in the past 10 years (see appendix)

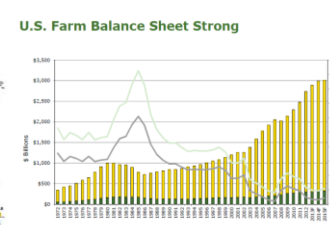




- **Secular Tailwinds Across DE End-Markets will Drive Volume Demand**
  - According to USDA, Worldwide agricultural output needs to grow by 100% by 2050 to support GDP and population growth. In addition, rising income in emerging markets is causing much more demand for protein and these markets have and will continue to represent the bulk of the growth in farm equipment. Emerging markets will continue the mechanization of its equipment (mainly in China, Brazil and Russia) which will significantly benefit Deere with its impressive equipment. This is also reflected in the CAGR in emerging market regions that has seen better growth than other regions as they continue to have a huge gap vs. US farmers in this regard. Finally, North America will continue to benefit from demand in ethanol that requires corn and will continue drive volume demand for this product
  - On a farmer level, cash receipts continue to be strong and interest rates continue to be low which will drive farmers to replace their equipment that according to the USDA has reached levels of approx. 10 years (Especially in mid farmers) and is ready to be replaced. U.S. farmer balance sheets continue to be strong as demonstrated by the graph below. Farmers have also started consolidating as prices have declined in recent years and some mid-market farmers had to sell their land to larger farmers that replace their truck in a much more constant basis and are also larger customers of Deere
  - Lower steel prices: will drive cost reductions that will help partially offset cyclical through and construction and housings starts have also seen significant recovery in recent years







- **Attractive Valuation for a High Quality Business with Strong Margin of Safety**
  - Valuation is based on three different methodologies. EPV and Reproduction value are used as the main methodologies as they take into account the certainty of the current operational results by focusing on current earnings and assets. In addition, a SOTP valuation

has been used as cross check of these two methodologies. Finally, since it has been clearly demonstrated that the Company is a strong franchise with significant secular tailwinds, despite the current cyclical through, a final methodology based on EPV takes into account the Company's growth potential until 2019 based on management estimates and normalized operating margins.

EPV Calculation

	2014	LTM	2015	Man. LT Guid Disc. 5
Core Operations Revenue(1)	32,961	31,617	26,789	45,000
Normalized EBIT Margin	13%	13%	13%	13%
EBIT	4,285	4,110	3,483	5,850
Interest Expense	(289.4)	(289.4)	(289.4)	(289.4)
EBT	3,995	3,821	3,193	5,561
Taxes @ 35%	(1,398)	(1,337)	(1,118)	(1,946)
Core Operations NI	2,597	2,484	2,076	3,614
After Tax Financial Segment NI(2)	650	650	650	650
Total Net Income	3,247	3,134	2,726	4,264
Cost of Capital	8.5%	8.5%	8.5%	8.5%
EPV per Share	112.5	108.6	94.4	147.8
Return	**27.3%**	**22.8%**	**6.9%**	**67.2%**
Dividend per Share	2.4	2.4	2.4	12.0
Total Return	**30.0%**	**25.6%**	**9.6%**	**80.8%**

Reproduction Value Calculation

	BV	Adj	Reproductio
Cash	2,944	(494)	2,450
Receivables	4,013	230	4,243
Inventory	4,527		4,527
PP&E	5,523	2,135	7,658
Brand (5Y R&D)	0	9,070	9,070
Farmer Relationships		8,864	8,864
Financial Segment BV	4,997		4,997
Other LT Assets	4,937		4,937
Total Assets	**26,941**	**19,805**	**46,746**
Accounts Payable	6,265		6,265
Total Debt	5,701		5,701
Pension Liability + DTL	6,417		6,417
Reproduction Value of Assets			**28,363**
Strong buy at reproduction value			83.5
Discount to Current			(5.5%)

Return Sensitivity (5 Year Target Price

Normalized EBIT Margin

2019 Sales	67.2%	11%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%	14.5%	15.0%
	35,000	16.2%	20.7%	25.1%	29.6%	34.1%	38.5%	43.0%	47.4%	51.9%
	37,500	23.2%	28.0%	32.8%	37.6%	42.3%	47.1%	51.9%	56.7%	61.5%
	40,000	30.2%	35.3%	40.4%	45.5%	50.6%	55.7%	60.8%	65.9%	71.0%
	42,500	37.2%	42.7%	48.1%	53.5%	58.9%	64.3%	69.7%	75.1%	80.6%
	45,000	44.2%	50.0%	55.7%	61.5%	67.2%	72.9%	78.7%	84.4%	90.1%
	47,500	51.3%	57.3%	63.4%	69.4%	75.5%	81.5%	87.6%	93.6%	99.7%
	50,000	58.3%	64.6%	71.0%	77.4%	83.7%	90.1%	96.5%	102.9%	109.2%
	52,500	65.3%	72.0%	78.7%	85.3%	92.0%	98.7%	105.4%	112.1%	118.8%
	55,000	72.3%	79.3%	86.3%	93.3%	100.3%	107.3%	114.3%	121.3%	128.3%
	57,500	79.3%	86.6%	93.9%	101.3%	108.6%	115.9%	123.2%	130.6%	137.9%
	60,000	86.3%	93.9%	101.6%	109.2%	116.9%	124.5%	132.2%	139.8%	147.5%
	62,500	93.3%	101.3%	109.2%	117.2%	125.2%	133.1%	141.1%	149.0%	157.0%
	65,000	100.3%	108.6%	116.9%	125.2%	133.4%	141.7%	150.0%	158.3%	166.6%

Note: management guidance discounted 5% and assumes that $50Bn in sales is reached by 2019 and not 2018

- The first two methodologies demonstrate the attractiveness of the investment as I see a 5% downside based on reproduction value vs. 20% upside based on LTM EPV or a 4-1 risk reward over the next twelve months. In addition, based on this limited downside (5%) which is based on very conservative estimates on the reproduction value (see appendix for more details on the adjustments) such as only including 3 years SG&A for multi-generational relationships. A less conservative investor could include more than 5 years and could argue that at $31Bn reproduction value he is getting any potential growth/recovery for free
- To analyze the growth that the Company could achieve by 2019, I have been extremely conservative and used management estimates for 2018 and give them credit to achieve this in 2019 rather than 2018 with a 5% discount considering the guidance they provided for this year. These results in $45Bn in sales by 2019 (approx. 15% CAGR from through). I have performed sensitivities around this number as well as the normalized margin to reach different 5Y target prices under which my base case provides a 5% discount to this number price is based on the earnings power value of the company. However, if management is able to beat guidance as it has in the past it could be a double
- The earnings power value of the Company takes into account a 13% normalized margin which is slightly higher than Company's provided guidance as the Company has mentioned that it is looking to hold <u>at least 12% margins</u> and did not set 12% as its target. In addition, the Company operated almost 13% margins during the last normal cycle and this was despite the fact that it had start-up costs that affected margins temporarily.
- Finally, I have used cost of equity for the Company to be conservative at 8.5%. This does not take into account the cost of debt since given the high quality of the Company the after-tax cost of debt is only 1.75% and would lower the total WACC. This has been done for conservative measures

Sum of the Parts Valuation

NTM

	EBIT	EV / EBIT	Total Value
Agricultural Segment	3,154	8.5x	26,805.6
Forestry Segment	700	9.5x	6,650.0
Enterprise Value			33,455.6
Net Debt			2,757
Equity Value			30,698.8
Book Value of Equity			4,997
Total Equity Value			35,696
Shares			340
Share Price			105
Return			19.0%

Key Investment Risks

- Material decline in grain prices will reduce farmers profitability and cash receipts which will cause the cycle to extend
- Unfavorable foreign government intervention. Several foreign governments require a certain percentage of agricultural machines sold in the country to be locally sourced and manufactured
- Developing countries slowdown such as what is happening in Brazil, China and Russia (key markets for Deere)
- Downward revision of cash receipts regardless of prices of corn
- Used equipment oversupply
- Write-offs at the financial arm

Appendix 1: Financial Model Outputs

	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Segment Sales									
Agriculture & Turf	**$19,867.5**	**$24,094.7**	**$27,123.0**	**$29,131.0**	**$26,379.7**	**$19,972.3**	**$20,935.0**	**$24,405.8**	**$28,501.2**
% total	84%	82%	81%	83%	80%	75%	74%	76%	78%
% Chg YOY	9.6%	21.3%	12.6%	7.4%	(9.4)%	(24.3)%	4.8%	16.6%	16.8%
Construction & Forestry Equipment	**$3,706.0**	**$5,372.1**	**$6,378.0**	**$5,867.0**	**$6,581.0**	**$6,817.0**	**$7,431.7**	**$7,803.3**	**$8,037.4**
% total	16%	18%	19%	17%	20%	25%	26%	24%	22%
% Chg YOY	40.7%	45.0%	18.7%	(8.0)%	12.2%	3.6%	9.0%	5.0%	3.0%
Total Sales	**$23,573.5**	**$29,466.7**	**$33,501.0**	**$34,998.0**	**$32,960.7**	**$26,789.3**	**$28,366.8**	**$32,209.1**	**$36,538.7**
% Chg YOY	13.6%	25.0%	13.7%	4.5%	(5.8)%	(18.7)%	5.9%	13.5%	13.4%
Segment Operating Income									
Agriculture & Turf	**$2,790.0**	**$3,448.0**	**$3,955.4**	**$4,782.0**	**$3,682.6**	**$1,494.3**	**$1,876.4**	**$2,599.0**	**$3,467.7**
% margin	14.0%	14.3%	14.6%	16.4%	14.0%	7.5%	9.0%	10.6%	12.2%
% Incremental YOY	55%	16%	17%	41%	40%	34%	40%	21%	21%
% total	96%	90%	89%	93%	85%	67%	66%	71%	76%
Construction & Forestry Equipment	**$119.0**	**$390.0**	**$476.0**	**$377.0**	**$648.0**	**$734.7**	**$948.7**	**$1,052.1**	**$1,105.8**
% margin	3.2%	7.3%	7.5%	6.4%	9.8%	10.8%	12.8%	13.5%	13.8%
% Incremental YOY	19%	16%	9%	19%	38%	37%	35%	28%	23%
% total	4%	10%	11%	7%	15%	33%	34%	29%	24%
Other	**33.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Add-back: Interest comp to finco	**$186.3**	**$178.5**	**$203.7**	**$202.8**	**$212.2**	**$196.7**	**$180.3**	**$199.6**	**$226.5**
Eliminations, Corporate & other	**-$297.5**	**-$220.3**	**-$217.1**	**-$276.6**	**-$239.9**	**-$155.6**	**-$170.2**	**-$193.3**	**-$219.2**
% of sales	1.3%	0.7%	0.6%	0.8%	0.7%	0.6%	0.6%	0.6%	0.6%
Total Operating Income	**$2,830.8**	**$3,796.2**	**$4,418.0**	**$5,085.2**	**$4,302.9**	**$2,270.0**	**$2,835.2**	**$3,657.4**	**$4,580.7**
% margin	12.0%	12.9%	13.2%	14.5%	13.1%	8.5%	10.0%	11.4%	12.5%
Incremental operating Margin (%) YOY	37%	16%	15%	45%	38%	33%	36%	21%	21%
Cost Of Goods Sold	**$17,194.6**	**$21,920.7**	**$24,660.6**	**$25,668.9**	**$24,778.0**	**$21,037.4**	**$21,946.6**	**$24,797.0**	**$28,023.5**
Material cost (inflation)	$135	($665)	($390)	$165	($11)	$389	$59	($156)	($161)
Pension expense	$627	$603	$511	$581	$432	$517	$517	$517	$517
Gross Profit	**$6,379**	**$7,546**	**$8,840**	**$9,329**	**$8,183**	**$5,752**	**$6,420**	**$7,412**	**$8,515**
Gross Margin %	27.1%	25.6%	26.4%	26.7%	24.8%	21.5%	22.6%	23.0%	23.3%
Selling, general and administrative	$2,496	$2,787	$2,989	$3,144	$2,732	$2,435	$2,505	$2,675	$2,854
S G & A (%)	10.6%	9.5%	8.9%	9.0%	8.3%	9.1%	8.8%	8.3%	7.8%
% chg yoy	10.3%	11.7%	7.3%	5.2%	(13.1)%	(10.9)%	2.9%	6.8%	6.7%
Research & Development	$1,052	$1,226	$1,434	$1,477	$1,452	$1,428	$1,428	$1,428	$1,428
R & D (%)	4.5%	4.2%	4.3%	4.2%	4.4%	5.3%	5.0%	4.4%	3.9%
% chg yoy	8%	17%	17%	3.0%	(2)%	(2)%	0%	0%	0%
Other income	$386	$456	$493	$549	$623	$632	$632	$632	$632
Revenues from services									
Other									
Other operating expenses	($180)	($192)	($145)	($172)	($319)	($252)	($284)	($284)	($284)
% of other income	47%	42%	29%	31%	51%	40%	45%	45%	45%
Operating Income/(Loss)	**2,830.8**	**3,796.2**	**4,418.0**	**5,085.2**	**4,302.9**	**2,270.0**	**2,835.2**	**3,657.4**	**4,580.7**
Operating margin (%)	12.0%	12.9%	13.2%	14.5%	13.1%	8.5%	10.0%	11.4%	12.5%
					11.7%				
Finance & Interest Income	$65	$73	$74	$81	$77	$54	$43	$41	$41
Interest Expense	($184)	($191)	($231)	($297)	($289)	($295)	($298)	($298)	($298)
Interest Compensation to Financial Services	($186)	($179)	($204)	($203)	($212)	($197)	($180)	($200)	($226)
trade receivables	2,979.7	2,807.2	3,333.3	3,555.9	3,554.4	2,888.9	3,059.0	3,473.4	3,940.3
interest rate	5.9%	5.4%	5.6%	5.0%	4.8%	5.0%	5.0%	5.0%	5.0%
Impact on segment margins	-0.8%	-0.6%	-0.6%	-0.6%	-0.6%	-0.7%	-0.6%	-0.6%	-0.6%
Net Pretax Income	**$2,525**	**$3,500**	**$4,057**	**$4,666**	**$3,878**	**$1,833**	**$2,400**	**$3,201**	**$4,097**
Pretax margin (%)	10.7%	11.9%	12.1%	13.3%	11.8%	6.8%	8.5%	9.9%	11.2%
Taxes	($905)	($1,170)	($1,408)	($1,648)	($1,330)	($619)	($816)	($1,088)	($1,417)
Tax rate (%)	(35.9)%	(33.4)%	(34.7)%	(35.3)%	(34.3)%	(33.7)%	(34.0)%	(34.0)%	(34.6)%
Net Income--Operations	**$1,619.9**	**$2,329.8**	**$2,649.4**	**$3,018.7**	**$2,548.3**	**$1,214.4**	**$1,583.9**	**$2,112.7**	**$2,680.6**
Pre-tax Income--Financial Services	**$497.8**	**$723.7**	**$710.7**	**$868.7**	**$919.5**	**$907.8**	**$982.7**	**$941.2**	**$1,058.4**
Net Income--Financial Services	**$371.5**	**$469.9**	**$458.9**	**$563.5**	**$622.5**	**$608.8**	**$788.0**	**$818.3**	**$926.2**
Net Income- Recurring	**1,996.3**	**2,799.9**	**3,098.2**	**3,582.0**	**3,161.7**	**1,812.9**	**2,371.9**	**2,931.0**	**3,606.8**

	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E
ASSETS									
Cash & Short Term Investments	$3,348	$3,690	$5,009	$4,231	$3,270	$2,939	$2,732	$3,056	$3,997
Cash deposited w ith uncons. subs.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade Receivables	$1,000	$1,094	$1,280	$1,062	$706	$574	$608	$690	$783
Trade receivables % of sales	4%	4%	4%	3%	2%	2%	2%	2%	2%
Finance sub trade receivables	$2,980	$2,807	$3,333	$3,556	$3,554	$2,889	$3,059	$3,473	$3,940
Finance trade receivables % of sales	12.6%	9.5%	9.9%	10.2%	10.8%	10.8%	10.8%	10.8%	10.8%
Total trade receivables, including off b	**$3,980**	**$3,901**	**$4,613**	**$4,618**	**$4,260**	**$3,463**	**$3,667**	**$4,163**	**$4,723**
Trade receivables % of sales	16.9%	13.2%	13.8%	13.2%	12.9%	12.9%	12.9%	12.9%	12.9%
% Chg. YOY	27.5%	-2.0%	18.2%	0.1%	-7.7%	-18.7%	5.9%	13.5%	13.4%
Credit Receivables	$899	$980	$1,104	$1,000	$867	$873	$873	$873	$873
Accts Receivable From Subsidiaries	$1,713	$1,713	$1,579	$3,502	$3,664	$2,593	$2,593	$2,593	$2,593
Total Receivables	**$3,611**	**$3,787**	**$3,963**	**$5,563**	**$5,236**	**$4,039**	**$4,073**	**$4,155**	**$4,248**
Inventories	$3,063	$4,371	$5,170	$4,935	$4,210	$3,422	$3,623	$4,114	$4,667
Inventories % of sales	13.0%	14.8%	15.4%	14.1%	12.8%	12.8%	12.8%	12.8%	12.8%
% Chg. YOY	28%	43%	18%	-5%	-15%	-19%	6%	14%	13%
Prepaid Expenses/Other	$0	$0	$0	$0	$0	$0	$0	$0	$0
Current Assets	**$10,022.6**	**$11,847.6**	**$14,142.0**	**$14,728.6**	**$12,715.7**	**$10,399.5**	**$10,427.9**	**$11,325.6**	**$12,911.9**
Property, Plant, & Equipment	$3,722	$4,288	$4,951	$5,409	$5,523	$5,524	$5,756	$6,020	$6,319
Investments	$3,420	$3,474	$4,102	$4,569	$5,107	$5,314	$5,590	$5,765	$5,953
Goodw ill/Other Intangible Assets - net	$1,112	$1,123	$1,022	$918	$856	$804	$804	$804	$804
Prepaid Pension Costs	$146	$30	$15	$518	$264	$284	$284	$284	$284
Deferred Income Taxes	$2,737	$3,053	$3,497	$2,575	$2,982	$2,923	$2,923	$2,923	$2,923
Other/Deferred Charges	$381	$469	$583	$1,159	$851	$927	$927	$927	$927
Total Assets	**$21,541**	**$24,283**	**$28,312**	**$29,876**	**$28,297**	**$26,174**	**$26,712**	**$28,048**	**$30,121**
LIABILITIES									
Accounts Payable & Accrued Exp.	$5,757	$6,869	$7,679	$7,991	$7,518	$5,208	$5,514	$6,261	$7,103
Accrued Taxes/Other	$205	$118	$135	$227	$101	$119	$119	$119	$119
Current Liabilities	**$5,962.3**	**$6,987.0**	**$7,814.2**	**$8,218.2**	**$7,619.4**	**$5,326.9**	**$5,633.6**	**$6,380.5**	**$7,222.1**
Current Liabilities % of sales	25%	24%	23%	23%	23%	20%	20%	20%	20%
Total Debt	$3,414	$3,696	$5,870	$5,951	$5,077	$5,701	$5,701	$5,701	$5,701
Deferred Taxes	$92	$99	$93	$92	$87	$80	$80	$80	$80
Pension Accrual/Other	$5,772	$6,687	$7,673	$5,347	$6,448	$6,417	$6,417	$6,417	$6,417
STOCKHOLDERS EQUITY									
Total Stockholders' Equity	$6,301	$6,815	$6,862	$10,268	$9,066	$8,649	$8,880	$9,469	$10,701
Total Liab. & Stockhlds' Equity	**$21,541**	**$24,283**	**$28,312**	**$29,876**	**$28,297**	**$26,174**	**$26,712**	**$28,048**	**$30,121**

	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E
CASH FLOWS FROM OPERATIONS									
Net income	$1,874.4	$2,807.8	$3,071.6	$3,537.6	$3,163.3	$1,813.0	$1,979.0	$2,362.2	$3,018.5
Unconsolidated Sub. Undistrib. Income	(156.7)	(118.8)	(413.7)	(369.0)	(463.4)	(311.4)	(276.6)	(174.7)	(187.9)
Depreciation & Amortization	548.7	587.0	676.5	835.0	795.7	671.0	703.6	799.1	906.6
Deferred Taxes	74.8	(278.3)	(115.7)	(204.6)	(236.4)	55.8	0.0	0.0	0.0
Pension contribution	(140.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	255.1	(163.5)	76.5	116.8	72.9	108.1	0.0	0.0	0.0
Total	$2,456.2	$2,834.2	$3,295.2	$3,915.8	$3,332.1	$2,336.5	$2,406.1	$2,986.7	$3,737.2
Changes in Working Capital	88.7	164.2	(347.1)	752.8	1,200.1	(1,442.2)	71.4	173.9	195.9
Receivables	(333.0)	(109.5)	(255.0)	26.1	231.5	82.9	(33.8)	(82.3)	(92.7)
Inventories	(647.7)	(1,281.8)	(947.6)	(69.6)	496.2	597.5	(201.5)	(490.7)	(553.0)
Payables	1,062.9	1,027.0	887.0	470.5	(277.0)	(2,020.7)	306.6	746.9	841.6
Other	6.5	528.5	(31.5)	325.8	749.4	(101.9)	0.0	0.0	0.0
Net Cash from Operations	**$2,544.9**	**$2,998.4**	**$2,948.1**	**$4,668.6**	**$4,532.2**	**$894.3**	**$2,477.4**	**$3,160.6**	**$3,933.2**
CASH FLOWS FROM INVESTING ACTIVITIES									
Maintenance capex	($400.0)	($825.0)	($400.0)	($400.0)	($400.0)	($400.0)	($400.0)	($400.0)	($400.0)
Expansionary capex	($335.5)	($229.3)	($916.2)	($755.2)	($645.2)	($475.0)	($536.1)	($662.9)	($805.8)
Capital Expenditures	($735.5)	($1,054.3)	($1,316.2)	($1,155.2)	($1,045.2)	($875.0)	($936.1)	($1,062.9)	($1,205.8)
% of sales	3.1%	3.6%	3.9%	3.3%	3.2%	3.3%	3.3%	3.3%	3.3%
Cost of Operating Leases Acquired									
Acquisitions	(37.2)	(60.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of business	34.9	911.1	30.2	22.0	345.8	0.0	0.0	0.0	0.0
Proceeds from Sales of Equipment on Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment in Financial services	0.0	(69.0)	(264.1)	(121.6)	(66.8)	0.0	0.0	0.0	0.0
Other	(76.7)	(79.7)	(95.6)	(208.8)	397.4	(23.1)	0.0	0.0	0.0
Net Cash from Investing	**($814.5)**	**($352.7)**	**($1,645.7)**	**($1,463.6)**	**($368.8)**	**($898.1)**	**($936.1)**	**($1,062.9)**	**($1,205.8)**
CASH FLOWS FROM FINANCING ACTIVITIES									
Change In Debt	(1,364.3)	(264.3)	2,310.5	127.9	(824.2)	692.5	0.0	0.0	0.0
Proceeds from Issuance of Common Stock	129.1	170.0	61.0	174.5	149.5	194.7	200.0	200.0	200.0
Repurchases of Common Stock	(358.8)	(1,667.0)	(1,587.7)	(1,531.4)	(2,731.1)	(1,141.1)	(1,110.9)	(1,156.0)	(1,194.9)
Dividend	(483.5)	(593.1)	(697.9)	(752.9)	(786.0)	(849.2)	(837.3)	(817.1)	(791.8)
Dividend per share	**$ 1.14**	**$ 1.43**	**$ 1.77**	**$ 2.01**	**$ 2.19**	**$ 2.53**	**$ 2.53**	**$ 2.53**	**$ 2.53**
% chg yoy	2%	25%	24%	14%	9%	15%	0%	0%	0%
Divident payout ratio	24%	22%	23%	22%	25%	48%	36%	28%	22%
Other	22.8	52.8	(2.6)	(1,996.6)	(364.4)	863.3	0.0	0.0	0.0

Appendix 2: Valuation Summary

Reproduction Value Explanation

Reproduction Value Calculation

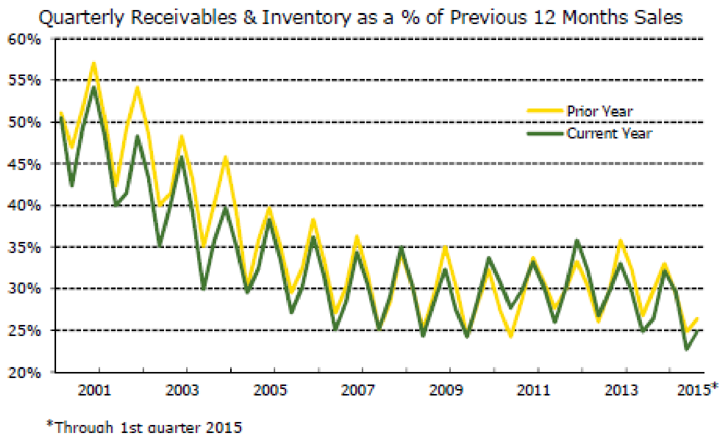
	BV	Adj	Reproductio	Comments
Cash	2,944	(494)	2,450	1.5% of sales ~1 year of estimated maintenance capex
Receivables	4,013	230	4,243	bad debt allowance includes financial services
Inventory	4,527		4,527	
PP&E	5,523	2,135	7,658	only adds back 3/8 of accumulated dep to account for land and buildings
Brand (5Y R&D)	0	9,070	9,070	5 years of R&D - conservative taking into account life cycle of truck of more than 10 years
Farmer Relationships		8,864	8,864	3 years of SG&A - conservative taking into account life cycle of truck and multi generation relationships
Financial Segment BV	4,997		4,997	Since we are using equity method
Other LT Assets	4,937		4,937	
Total Assets	**26,941**	**19,805**	**46,746**	
Accounts Payable	6,265		6,265	
Total Debt	5,701		5,701	
Pension Liability + DTL	6,417		6,417	
Reproduction Value of Assets			**28,363**	
Strong buy at reproduction value			83.5	
Discount to Current			(5.5%)	

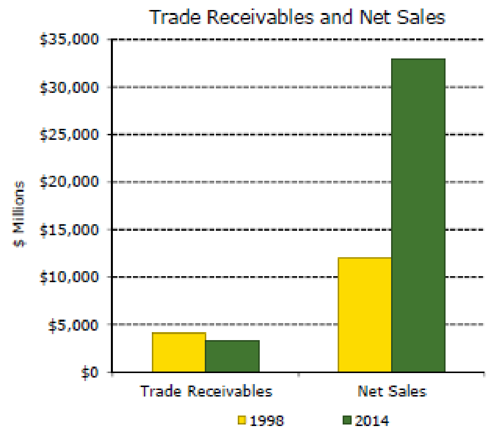
Comparable Companies Valuation

	Market Cap	Net Debt	Enterprise Value	EV / EBITDA			EV / EBIT			P / E			Profitability	
				LTM	NTM	2Y FWD	LTM	NTM	2Y FWD	LTM	NTM	2YFWD	EBIT Margin	ROIC
AGCO	4,578	1,169	5,796	6.3x	8.5x	8.4x	9.0x	13.6x	13.5x	14.0x	17.3x	17.2x	6.5%	11.3%
CNH	11,945	21,827	33,816	11.2x	-	12.3x	14.8x	-	17.5x	15.1x	16.6x	16.9x	7.0%	nm
Titan	5,381	(14)	5,368	32.6x	23.9x	19.7x	34.8x	25.4x	20.9x	46.6x	33.7x	27.4x	9.0%	3.3%
Komatsu Ltd	19,129	4,008	23,715	8.2x	8.0x	7.5x	11.6x	11.2x	10.3x	15.1x	14.6x	13.2x	12.2%	8.7%
Mahindra	11,118	4,186	16,205	9.3x	11.1x	7.8x	11.2x	11.8x	9.3x	15.8x	15.5x	11.3x	11.4%	4.3%
Average				13.5x	12.9x	11.1x	16.3x	15.5x	14.3x	21.3x	19.6x	17.2x	9.2%	6.9%
Median				9.3x	9.8x	8.4x	11.6x	12.7x	13.5x	15.1x	16.6x	16.9x	9.0%	6.5%
Caterpillar	52,740	32,557	85,373	9.5x	13.5x	13.2x	14.7x	25.7x	22.5x	14.0x	20.6x	17.9x	10.6%	8.6%
Kubota Corp	19,627	5,414	25,719	12.5x	11.5x	14.4x	14.8x	12.8x	18.5x	17.3x	16.1x	21.9x	13.2%	8.2%
PACCAR	23,258	6,768	30,026	11.5x	12.2x	11.4x	13.9x	14.8x	14.5x	16.0x	14.3x	14.0x	11.1%	8.2%
Terex	2,932	1,522	4,487	7.9x	7.0x	7.0x	10.6x	9.0x	9.0x	13.9x	11.9x	11.0x	5.9%	7.3%
Hitachi	32,885	23,433	67,284	7.7x	7.3x	7.2x	13.8x	12.8x	11.1x	12.7x	11.6x	10.2x	5.8%	5.2%
Average				9.8x	10.3x	10.6x	13.6x	15.0x	15.1x	14.8x	14.9x	15.0x	9.3%	7.5%
Median				9.5x	11.5x	11.4x	13.9x	12.8x	14.5x	14.0x	14.3x	14.0x	10.6%	8.2%
Deere	30,008	2,757	32,765	5.1x	7.6x	7.1x	6.2x	9.1x	7.2x	11.0x	17.1x	15.1x	13.3%	16.9%

Sum of the Parts Valuation

Working Capital Improvements





Deere's Profitability and R&D