CNH Industrial N.V. (NYSE:CNH)

Industry: Industrials – Agriculture Equipment
Date: May 7th, 2025

Mario Stefanidis, CFA
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Long / PT: $20.14 / 14.2% IRR

	Historical			Forecast			
	2022A	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
Agriculture Revenue	17,969	18,148	14,007	12,234	13,802	15,334	17,085
Construction Revenue	3,572	3,932	3,053	2,748	3,197	3,345	3,531
Industrial Revenue	**21,541**	**22,080**	**17,060**	**14,982**	**16,999**	**18,679**	**20,616**
Financial Revenue	1,996	2,573	2,774	2,850	2,910	2,976	3,077
Other Revenue	14	34	2	-	-	-	-
Total Revenue	**23,551**	**24,687**	**19,836**	**17,832**	**19,909**	**21,655**	**23,693**
% growth		*4.8%*	*-19.7%*	*-10.1%*	*11.6%*	*8.8%*	*9.4%*
EBIT	2,801.0	2,670.0	1,595.0	1,206.7	1,738.8	2,079.5	2,717.0
% growth		*-4.7%*	*-40.3%*	*-24.3%*	*44.1%*	*19.6%*	*30.7%*
EBIT Margin	*11.9%*	*10.8%*	*8.0%*	*6.8%*	*8.7%*	*9.6%*	*11.5%*
EPS	**$1.50**	**$1.61**	**$0.99**	**$0.78**	**$1.17**	**$1.47**	**$2.01**
P/E	8.2x	7.6x	12.5x	15.8x	10.5x	8.4x	6.1x
Shares Outstanding	1,362	1,350	1,260	1,197	1,137	1,080	1,026
CapEx	(461)	(644)	(420)	(500)	(500)	(500)	(500)
% of Sales	*2.0%*	*2.6%*	*2.1%*	*2.8%*	*2.5%*	*2.3%*	*2.1%*
Industrial ROIC	**42.9%**	**30.4%**	**16.6%**	**12.8%**	**19.0%**	**24.0%**	**35.3%**

Current Stock Price:		**$12.31**
Target Price (10x 2028 EPS)	$	20.14
Target IRR		14.2%

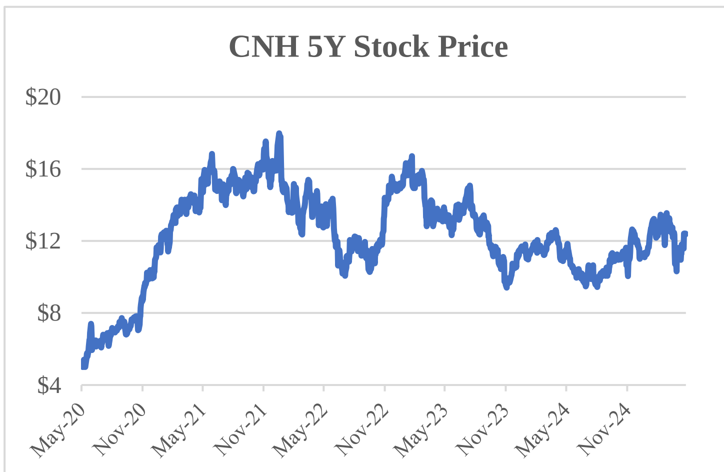
(USD in millions)		
Price	$	12.31
Shares (mm)		1,260
Market Cap	$	15,511
Plus: Debt (Industrial)		4,100
Less: Cash (Industrial)		2,400
Firm Value	$	17,211
EV/EBIT (2024E)		10.8x
TTM Dividend Yield		2.0%

Recommendation

Long CNH Industrial (NYSE: CNH) with a December 2028 price target of $20.14, representing 14.2% IRR and 63.6% upside from the current stock price of $12.31.

Investment Thesis

CNH presents a compelling long opportunity, offering sustainable margin expansion, underappreciated earnings power, and an attractive entry point mid-downcycle. While current sentiment reflects the agricultural equipment downturn, CNH should come out of this cyclical trough stronger than ever. Structural improvements under new CEO Gerrit Marx, including SG&A and COGS reductions, rapid dealer inventory normalization, a sharpened focus on core agriculture, and a renewed focus on R&D will allow the company to emerge more profitable than ever. CNH is a high-quality asset trading at a discount due to poor GAAP screening and a relisting from Euronext Milan to NYSE that caused the stock to lose much of its core investor base.



Variant View

The Street is overly focused on the near-term pain of the agricultural downcycle and fails to recognize CNH's improving structural profitability and positioning for the next upturn. Analysts forecast 2026 revenues in line with the worst of the downcycle in 2025, despite green shoots emerging and a high likelihood of 2H25 being better than the first half of the year. Furthermore, while 2027-2028 will be through-cycle earnings years, consensus believes revenue will only improve slightly, which is an unrealistic projection given growth in 2022 and 2023. The Street in general is too pessimistic on CNH's future due to a focus on 1Y price targets and valuations based on a multiple of trough earnings; CNH is deliberately suppressing near-term profitability to accelerate dealer inventory turnover and make room for newer, technologically advanced equipment.

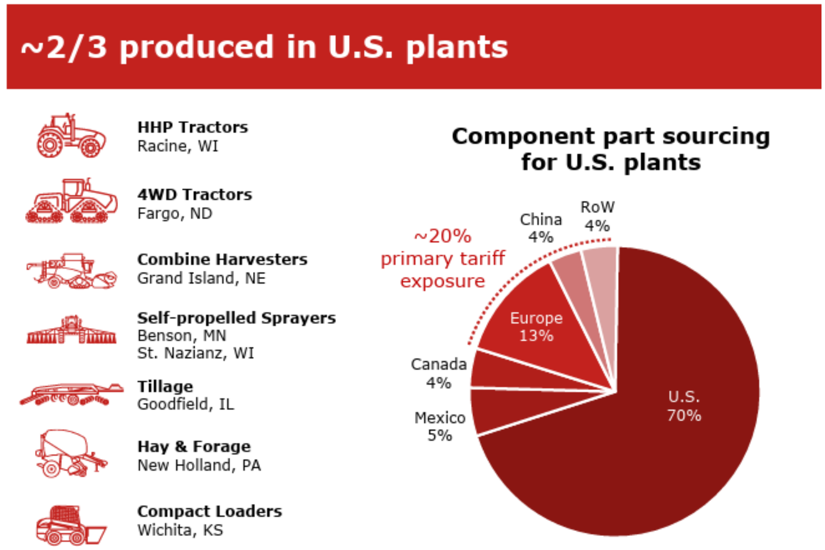
Company Overview

CNH is a global manufacturer of agricultural and construction equipment, with operations in over 160 countries and industrial and financial facilities in 32. Originally formed from the merger of Case and New Holland in 1999, CNH became a standalone entity in 2022 following the spin-off of its on-highway business, Iveco. This transformation created a pure-play in off-highway equipment and financial services, with a strategic focus on high-margin agriculture.

The company operates through three main business segments, though the finance services segment serves customers in agriculture and construction:

Agriculture (~71% of FY24 revenue): CNH manufactures and sells tractors, combines, balers, and precision ag technology under the Case IH, New Holland, and STEYR brands. The segment generates nearly all of of CNH's earnings, with ~11% EBIT margins in FY24. CNH's recent investment in autonomous and precision equipment, including the acquisition of Raven Industries, positions it well for long-term growth and differentiation from peers. It holds a solid second-place market share (behind DE) in North America, Europe, and Latin America, with broad geographic diversification and limited customer concentration.

Construction (~15% of FY24 revenue): This segment produces backhoes, skid steers, and other heavy construction equipment under the Case and New Holland brands. Construction has been structurally less profitable, with ~6% EBIT margins and intermittent losses historically. CNH exited China in 2022 to refocus on more profitable markets and is currently simplifying operations with the goal of stabilizing the segment or exploring strategic alternatives.



Financial Services (~14% of FY24 revenue): CNH Capital provides financing solutions to end-customers and dealers across both Agriculture and Construction. While revenue has historically been stable, earnings fluctuate with base rates and credit cycles. Delinquencies are mostly contained to Latin America and expected to decline as farm incomes normalize. The finance arm is structurally separate from the Industrial business and is primarily asset-backed, though its inclusion in consolidated financials skews CNH's perceived leverage and valuation.

CNH completed its transition to a single NYSE listing in January 2024, delisting from Milan and simplifying corporate governance. The company is majority-owned by Exor (the Agnelli family holding company), which hold ~30% of common stock and retain ~45% of the voting power.

Agriculture

The agriculture segment of CNH Industrial encompasses the design, manufacturing, and sale of a wide range of machinery and technologies used in farming. This segment is critical to CNH's operations and its largest revenue contributor. It represents the culmination of several legacy companies, dating back to the founding Case Corporation in 1842 and New Holland in 1895.

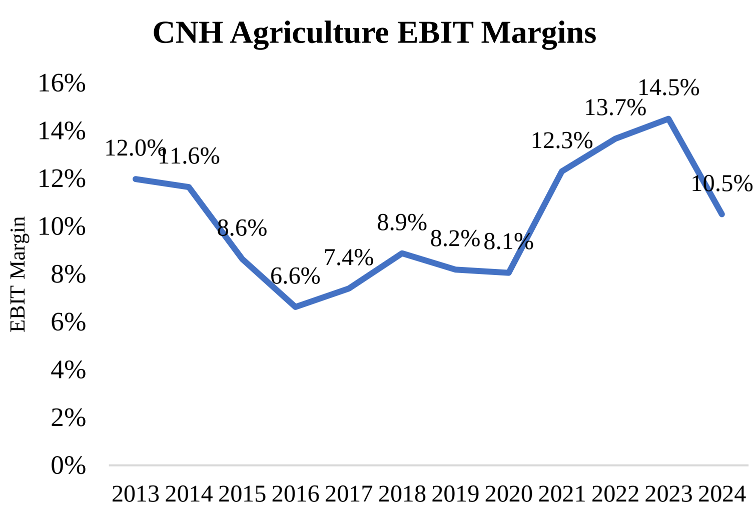
Both companies merged in 1999 to form CNH Global, consolidating the two brands and strengthening the company's global presence. Other than market leader John Deere, which was founded in 1837, no other American agriculture brand has such a rich legacy. Note that DE, AGCO, CNH, and Kubota have a collective market share exceeding 60% in the U.S. agriculture equipment market, indicating high industry concentration. Many farmers are fiercely loyal to their chosen tractor brand, engaging in debates over "red" (CNH) versus "green" (DE) on online forums. Generational equipment habits coupled with high CapEx requirements to enter this industry mean barriers to entry are vast.

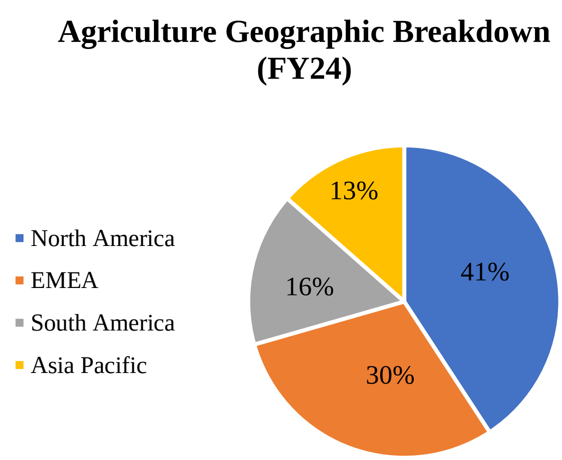
CNH was an early leader in precision agriculture, introducing GPS-guided equipment in the 2000s. This enabled precision planting, spraying, and harvesting, and introduced software systems for farm management to optimize inputs and outputs. Heavy investments in automation the 2010s led to the development of in-house autonomous tractors, and led to the acquisition of automated farm technology company Raven Industries in 2021.

North America comprises ~40% of Agriculture sales by geographic region, though there is a significant presence in EMEA and South America as well. Across geographies, the New Holland Agriculture brand dominates, providing versatile machinery suitable for diverse agricultural practices. The Case IH brand has a robust presence across the Americas, and is tailored to large-scale farming operations. The Austrian STEYR brand is primarily active in Central and Eastern Europe, which specializes in tractors tailored for the region's unique needs, across agricultural, forestry, and municipal applications.

CNH's geographic diversity insulates it from overreliance on any single cash crop or regional agricultural cycle. Each of the regions it serves has distinct climate conditions, planting seasons, and dominant crop types. North America is heavily focused on row crops like corn, soybeans, and wheat. South America also centers on soy and corn but operates on an opposite seasonal calendar. EMEA encompasses both advanced Western European markets (with a mix of arable and specialty crops) and emerging Eastern European and African regions, creating a blend of high-tech and mid-range machinery demand. Lastly, APAC includes diverse agricultural economies like India, China, and Southeast Asia, with smaller plot sizes and different crop mixes such as rice and sugarcane, requiring tailored, lower-horsepower, or specialty equipment.

In FY24, Agriculture generated $14.0 billion in revenue and $1.5 billion in EBIT, for EBIT margins of 10.5%. Note that in FY23, EBIT margins were 14.5% — the highest in CNH's history despite the emergence of the current downcycle in the second half of that year. Current margins are depressed as the cycle has worsened, and the company has reduced production hours by >30% to accelerate destocking efforts.





The company has implemented comprehensive cost-cutting measures aimed at enhancing through-cycle margins. These initiatives focus on optimizing manufacturing processes, reducing overhead, and improving supply chain management. According to one of my research contacts, a former CNH supply chain analyst who worked at a facility in the Midwest, in 2023 there was a project to revamp the entire warehouse and kitting operations. The flow of materials was optimized, lowering the retrieval time to bring in materials. Furthermore, CNH uses a just-in-time ordering system, whereas competitors order in advance. Through software called “Plan for Every Part,” CNH calculates order costs and number of parts needed. This allows managers to see which suppliers are overcharging and where negotiations can take place. It also reduces waste as the exact number of parts flows through to the factory.

The incorporation of precision agriculture technologies has enhanced the value proposition of CNH's products, allowing for premium pricing and increased customer demand. The acquisition of Raven Industries in 2021 significantly bolstered these capabilities. Paradoxically however, the higher costs for modern equipment has deterred farmers from refreshing their vehicles in the current weak macro. This has affected Deere more than CNH, where modern tractors run 20-30% higher than comparable New Holland or Case tractors.

Lastly but not least, by refining its product offerings, the company has concentrated on high-margin products and discontinued underperforming lines, leading to better resource utilization and improved profitability. In October 2023, CNH Industrial sold the Kongskilde brand to Italian manufacturer Seko Industries. This brand was lower margin than New Holland and the decision was part of CNH's strategy to streamline offerings.

Management

CNH Industrial is led by CEO Gerrit Marx, who assumed the role in July 2024 from Scott Wine. Marx also directly oversees the company’s core Agriculture segment, assuming the new title “Head of Agriculture.” This emphasizes operational accountability for CNH’s key segment and allows for execution across regions. His prior experience includes serving as CEO of Iveco Group (2022–2024), which he led through a successful post-spin transformation, and as President of Commercial and Specialty Vehicles at CNH from 2019 to 2022. Earlier in his career, he drove performance improvement initiatives in auto and aerospace at McKinsey and led portfolio transformations at Bain Capital. Marx’s background in operational restructuring and cost discipline makes him uniquely well-suited to guide CNH through its ongoing simplification and margin expansion initiatives.

In April 2025, CNH announced a Chief Financial Officer transition. Longtime CFO Oddone Incisa, a 28-year veteran of CNH and the broader Fiat ecosystem, will step down to pursue external opportunities. Incisa played a pivotal role in navigating CNH through the COVID-19 pandemic, the 2022 spin-off, and multiple capital markets events, including index inclusions. His departure is part of a planned succession.

He will be succeeded by Jim Nickolas, who brings over 30 years of experience in finance, M&A, and strategy, most recently as CFO and EVP at Martin Marietta. Nickolas also held senior roles at Caterpillar, including CFO of the Global Mining unit and head of Corporate Development. Based in Oak Brook, Illinois, Nickolas assumed full CFO responsibilities on May 6, 2025 and presented the financial roadmap at CNH’s Investor Day on May 8. His appointment reflects a deeper push into North America-focused execution, the company’s largest region.

Marx introduced a matrix structure, with segment heads reporting directly to the CEO and regional presidents holding full P&L responsibility for their areas. This structure has helped CNH sharpen its customer focus, particularly in the Agriculture segment, where local execution is critical.

Recent executive appointments include a) Humayun Chishti, President of Construction, promoted in August 2024 after two decades at CNH including senior roles in finance and operations and b) Douglas MacLeod, President of Financial Services, who brings 30+ years of global experience and has led CNH Capital’s expansion into high-return lending programs.

Executive compensation is tightly aligned with shareholder value creation, with PSU incentives tied to diluted EPS, ROIC, and relative TSR to the peer group. Notably, ~90% of Marx’s total compensation is variable, with targets requiring performance above baseline expectations. This structure reinforces management’s strategic focus on through-cycle profitability rather than top-line growth alone.

<table>
<tr><th>LTIP Measures(1)</th><th>Weight</th><th>Definition</th><th>Intended Impact</th></tr>
<tr><td>Cumulative Adjusted Diluted Earnings per Share (EPS)</td><td>50%</td><td>Net income (loss) excluding any nonrecurring items (after tax), divided by the weighted average outstanding number of common shares on a fully diluted basis, measured on a cumulative basis.</td><td>Deliver bottom line earnings.</td></tr>
<tr><td>Average Industrial Return on Invested Capital (RoIC)</td><td>50%</td><td>Adjusted EBIT (after-tax) divided by Average Industrial Invested Capital, calculated as a three-year average.</td><td>Efficient use of capital.</td></tr>
<tr><td>Cumulative Relative Total Shareholder Return (TSR)</td><td>Multiplier
<table>
<tr><th>Category</th><th>Position</th><th>Multiplier</th></tr>
<tr><td>Outstanding</td><td>≥75th Percentile</td><td>1.25</td></tr>
<tr><td>Target</td><td>50th Percentile</td><td>1.00</td></tr>
<tr><td>Threshold</td><td>≤25th Percentile</td><td>0.75</td></tr>
</table></td><td>Three-year TSR measured relative to peers.</td><td>Deliver superior market returns.</td></tr>
</table>

CNH's board is chaired by Suzanne Heywood, COO of Exor (the Agnelli family holding company). The board comprises eight members, six of whom are independent. Directors serve one-year terms and can be replaced by a 66.7% shareholder vote, though just 10% of shareholders can call a special meeting.

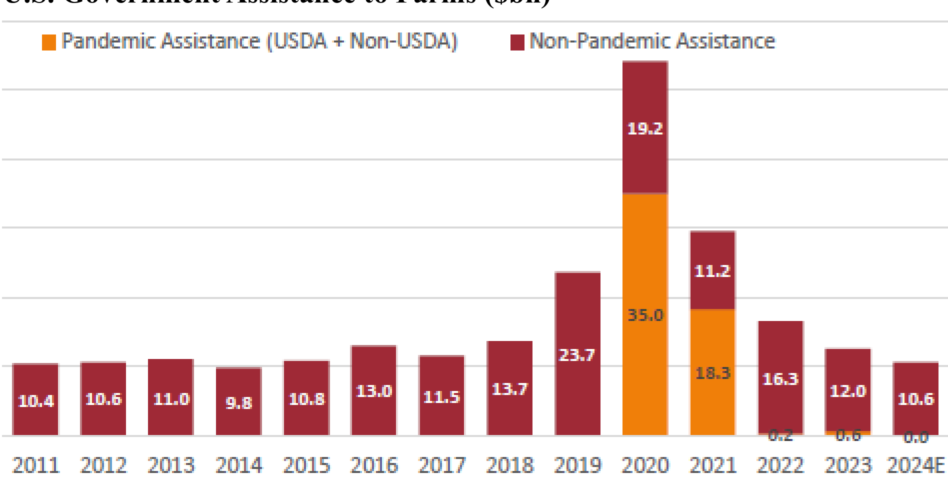
<u>Thesis 1: The Agriculture Cycle is Nearing a Bottom and CNH is Positioned to Exit Stronger Than It Entered</u>

CNH operates in a cyclical industry where agricultural equipment demand is driven primarily by farm incomes and interest rates. While sentiment is currently poor due to rising rates and dealer destocking, historical evidence suggests that the current downcycle is more advanced than investors appreciate—and likely to turn sooner than expected.

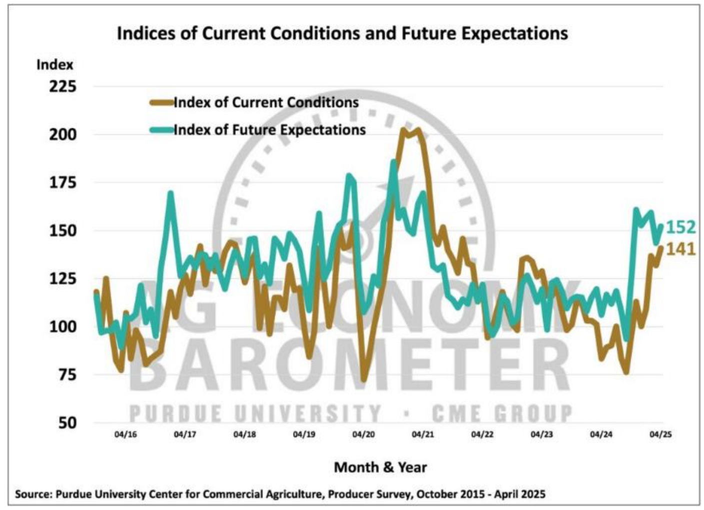
According to research from the Kansas City Fed, agriculture equipment cycles over the last century tend to last between three and five years. Given that the current cycle peaked in early 2023, the industry is already 2 years into a downturn. Going back 100 years, the KC Fed finds that farmer sentiment and interest rates are the two primary drivers of the ag cycle. The Federal Reserve has already cut rates by 100 bps from its peak and is signaling an additional ~100 bps of easing by year-end 2026. More than 70% of farmers finance their equipment purchases, and will benefit from a lower rate environment, though rates are very unlikely to return to 2020-2021 levels.

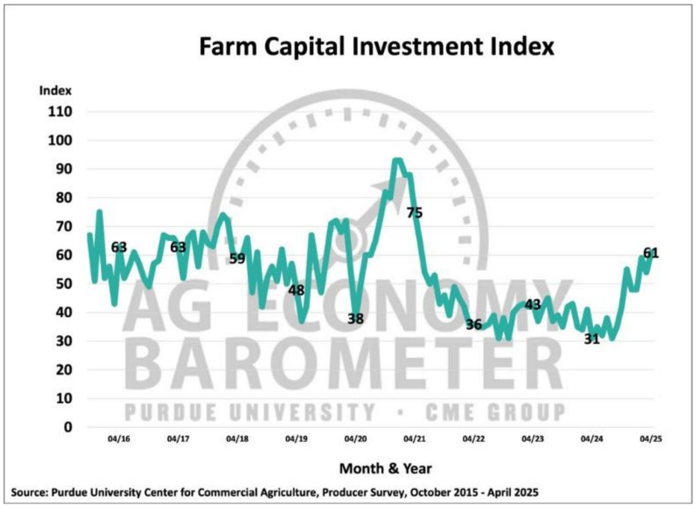
Meanwhile, the political backdrop is supportive—farmer sentiment surged following Trump's election victory, driven by expectations of favorable ag policy. His administration has historically provided significant direct aid to farmers during tariff episodes, with 2019 support levels more than double the long-term average. Note 2019 was not a downcycle year despite the ongoing U.S. – China trade spat. Furthermore, the tariffs led to China sourcing more of its crops, including soybeans, from Latin America, especially Brazil where CNH has a very strong presence.

U.S. Government Assistance to Farms ($bn)



The Purdue Producer Sentiment Index has rebounded to its highest level since 2021, historically a leading indicator of ag capex decisions. As financing conditions ease and farmer confidence recovers, orders for large equipment will eventually follow. The latest reading showed improvement in April, despite the "Liberation Day" announcement early in that month which resulted in high reciprocal tariffs and nervousness in public equities and bond markets. Both current conditions and future expectations have improved materially since the election, concrete evidence of farmer optimism.





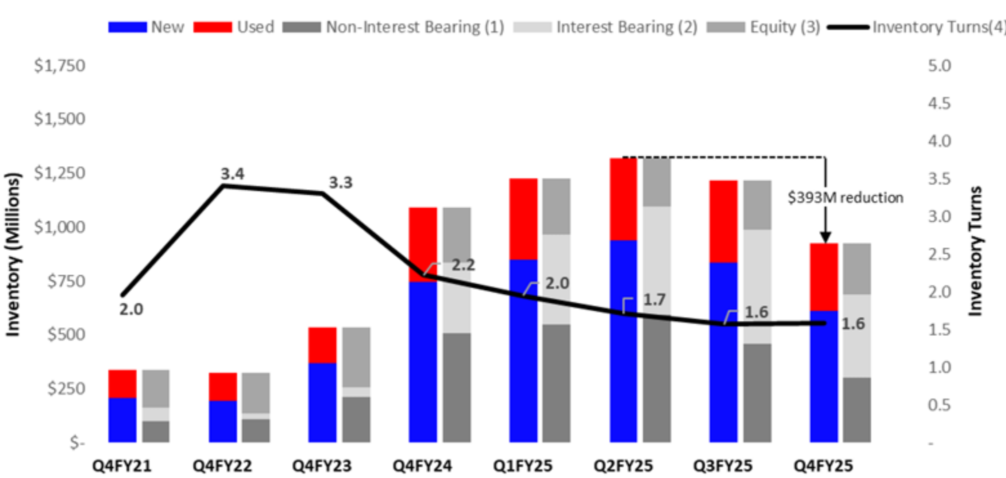
The farm capital investment index, a representation of farmers' willingness to make large investments in their farm, rose to 61, 7 points higher than in March and the highest since May 2021. While only 1 in 4 respondents said it was a good time to make large investments, this figure is twice the percentage of respondents who believed it was wise to do so from May to October 2024.

Thesis 2: Dealer Inventory Destocking Is Happening Faster Than the Market Appreciates

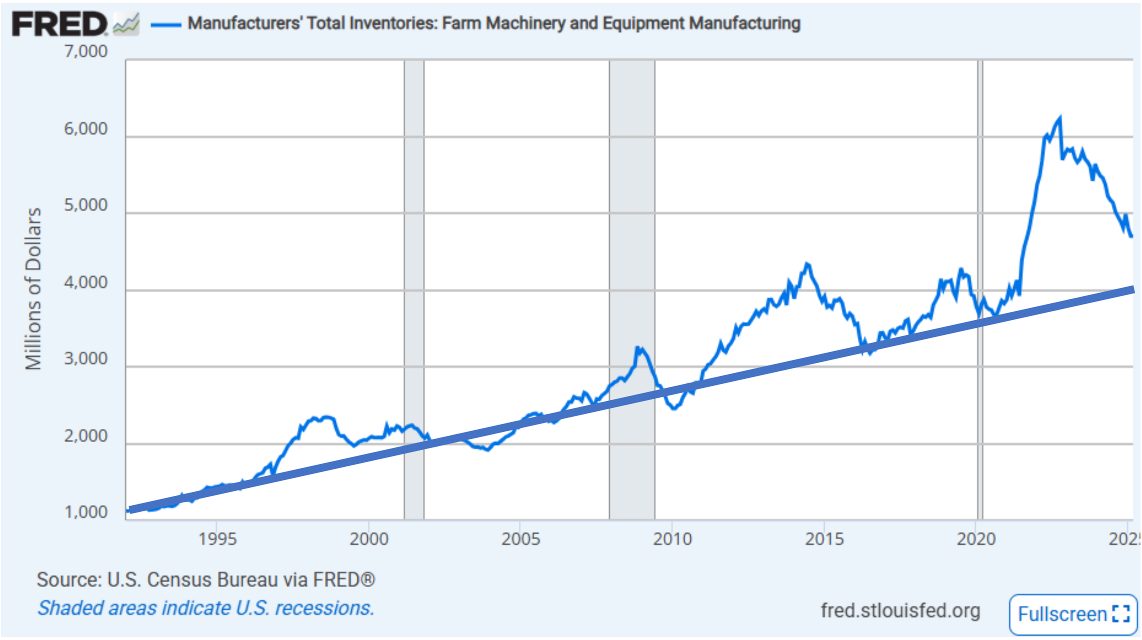
A major overhang on CNH's stock has been elevated dealer inventories, which ballooned coming out of the COVID-era boom and have weighed on new equipment demand. However, the Street is too focused on backward-looking inventory data and is missing the speed and intent behind the current destocking process, particularly CNH's deliberate underselling of the channel.

This is evident in Titan Machinery's recent FY25 earnings (1/31/24 – 1/31/25). For reference, Titan (TITN) is CNH's largest dealer partner; about 90% of its listed agriculture equipment are CNH products. Destocking began late last year and accelerated into its latest fiscal quarter. On the recent earnings call, CEO Bryan Knutson highlighted a significant $304 million inventory reduction, with additional reductions to continue. However, he also stated the dealer will now begin to optimize its inventory mix as well, rapidly clearing older, used equipment for CNH's newer, more advanced products that will eventually benefit CNH margins. This rapid destocking did not take place during the last ag downturn, which contributed to a prolonged 5-year downcycle.

TITN Equipment Inventory Level and Turns



Elevated dealer levels — and the rapid ongoing destocking — is also evident in the FRED Manufacturers' Total Inventories: Farm Machinery and Equipment Manufacturing series. The trendline below passes through historical inventory bottoms and is conservative. While it is evident that we are still significantly above trend, destocking has never been faster, and agriculture equipment manufacturers are on pace to fully normalize in the next 12-18 months. Sell-side estimates based on this dynamic lead to a misread on both the depth and duration of the downturn, underestimating how quickly volumes could rebound once the channel clears.



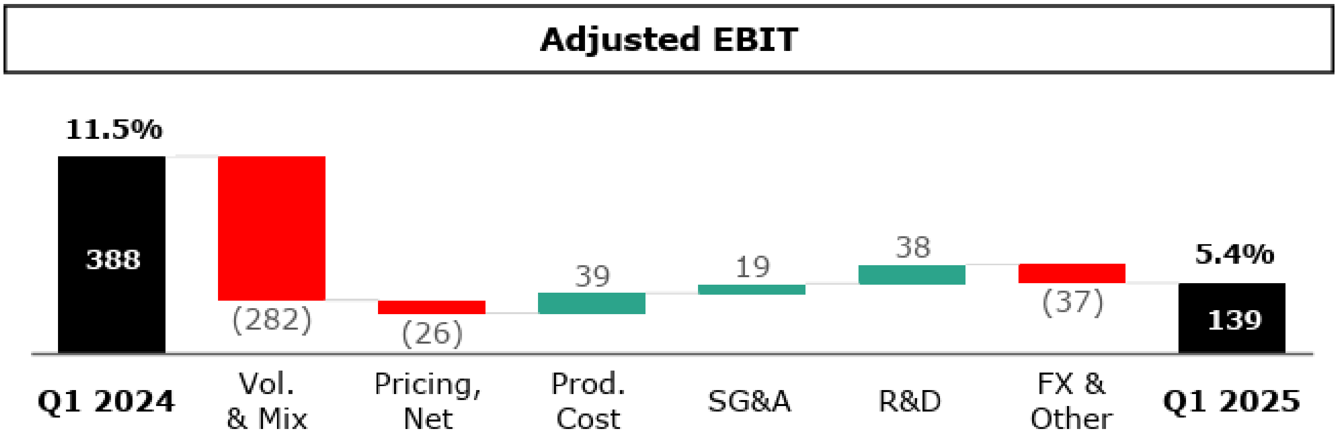
<u>Thesis 3: Structural Margin Expansion from Operational Improvements Under New Leadership</u>

CNH is undergoing a structural transformation in its cost base that will leave the company far more profitable when the cycle turns. Under CEO Gerrit Marx, CNH has implemented a disciplined set of operational improvements across both COGS and SG&A, that are already expanding margins and will accelerate as volume returns.

COGS savings have resulted from supply chain discipline and plant optimization. CNH has revamped warehouse operations, implemented supplier attribution programs, and introduced "Plan for Every Part" software to reduce waste and improve part sourcing. These efforts, paired with tighter controls on supplier negotiations and reduced retrieval times, contributed ~$300 million in COGS savings in FY24 alone.

SG&A rationalization is material and ongoing. A 5% headcount reduction announced in May 2023 and the closure of several low-margin construction plants have already contributed to ~$180 million in SG&A savings in FY24. Discretionary spending controls remain in place, with further efficiency gains expected through ongoing back-office consolidation and P&L ownership by region.

The company is on track for ~8% EBIT margins in agriculture and ~3% in construction in FY25. For agriculture, this is about 150 bps higher than the margin trough during the 2011-2016 downcycle. For construction, this is notable as the company will still be able to post segment profitability as a result of corporate-wide prudence. As ag volumes recover and fixed costs are leveraged, CNH's structurally lower cost base supports meaningful operating leverage, driven by normalized revenue and continued cost discipline.



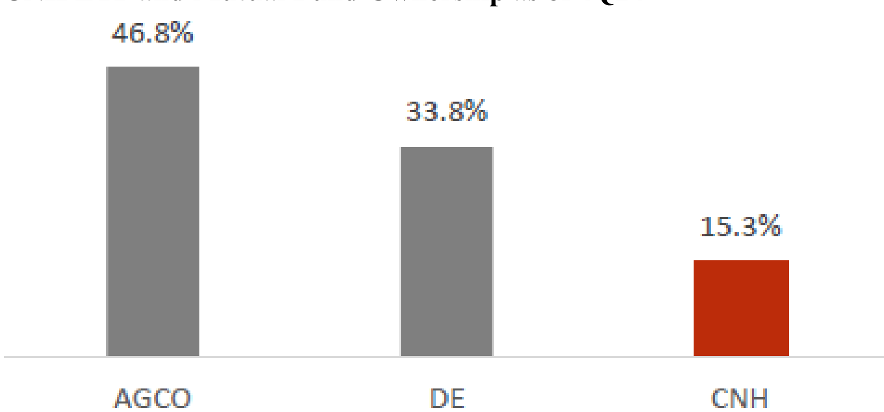
Thesis 4: Idiosyncratic Technical Factors Have Depressed CNH's Valuation and Are Set to Reverse

Beyond macro concerns and cyclicality, CNH's current valuation reflects several temporary, idiosyncratic dislocations unrelated to its fundamental performance. These structural "optical headwinds" have created a compelling opportunity for investors who recognize the gap between perception and reality.

CNH delisted from Euronext Milan in January 2024 to simplify reporting and consolidate liquidity on the NYSE. This triggered approximately $2 billion in forced selling by European institutional holders, who were mandate-constrained from owning U.S.-only equities. While the company executed a $1 billion buyback to absorb some of this pressure, the investor base remains in transition.

The rerating process is underway but incomplete. CNH was added to the S&P MidCap 400 in September 2024, but U.S. mutual funds and ETFs have only recently begun accumulating shares. As of Q4 2024, CNH had the lowest mutual fund ownership among its peer set (15.3% vs. 46.8% for AGCO and 33.8% for Deere). As fund flows normalize and visibility improves, ownership should broaden materially.

CNH ETF and Mutual Fund Ownership as of 4Q24



CNH appears optically expensive and overly levered on many common valuation screens (e.g., EV/EBIT, debt/EBITDA) due to the inclusion of its asset-backed finance division. This debt belongs in a separate box and should not be conflated with industrial leverage. Competitors like Deere has similar dynamics, but due to CNH's much smaller market cap (~10% of DE), CNH's EV is proportionally much more affected.

In November 2024, Greenlight Capital's David Einhorn publicly disclosed a long position in CNH, citing misperceptions around its balance sheet and the attractive entry point created by technical dislocation. This is the first notable institutional sponsorship of the company, and may precede a broader institutional re-rating.

Valuation

- I value CNH at 10x my estimate for FY28 EPS of $2.01, for a target price of $20.14 in ~3.5 years, or 14.2% IRR. This represents cumulative upside of 63.6%, or a margin of safety of 20% when discounted at CNH's WACC of 7.5%.
- Most sell-side analysts project out to FY27, where they estimate EPS will be $1.11 (range of $0.82 to $1.50). I believe FY27 EPS will be $1.47, which is 32% higher than consensus, before growing to $2.01 in FY28 as the ag through-cycle combines with years of operational improvements at the company.
- CNH launched a buyback program after delisting from Milan and continues to buy back ~5% of shares annually, supporting the stock.
- The company has only been public since 2013, which encompasses the post-COVID through-cycle. The company's multiple over this period averaged 9.8x, in-line with my target multiple despite an improved cost structure, upgraded leadership, and a honed focus on agriculture.
- Project industrial revenue of $20.6bn by FY28 to be slightly below FY23. Agriculture and construction growth to return in FY26, and to accelerate into the FY27 through-cycle.

CNH FY27 Sell Side EPS Estimates

EARNINGS PER SHARE ESTIMATE DETAILS

Estimates included in the Mean (8 Analyst(s))

Custom Calculated Mean ✓

	Contributor ▲	Analyst	Earnings Accuracy	Current Estimate
✓	EVERCORE ISI	Raso, David M	★★★★★	1.12
✓	NORTHLAND SECURITIES	Jackson, Ted R	★★★★★	▼ 0.82
✓	TRUIST SECURITIES	Cook, Jamie	★★★★★	▼ 1.50
✓	UBS EQUITIES	Fisher, Steven	★★★★★	Undisclosed
✓	Undisclosed	Undisclosed	★★★★★	▲ 1.04
✓	Undisclosed	Undisclosed	★★★★★	▲ 1.05
✓	Undisclosed	Undisclosed	★★★★★	▼ 1.00
✓	Undisclosed	Undisclosed	★★★★★	▲ 1.14
	SmartEstimate®			1.10
	Mean			1.11

All figures in ($ millions)	Historical			Forecast			
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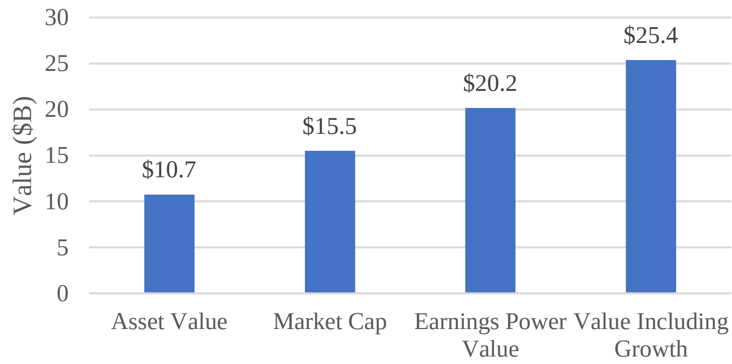
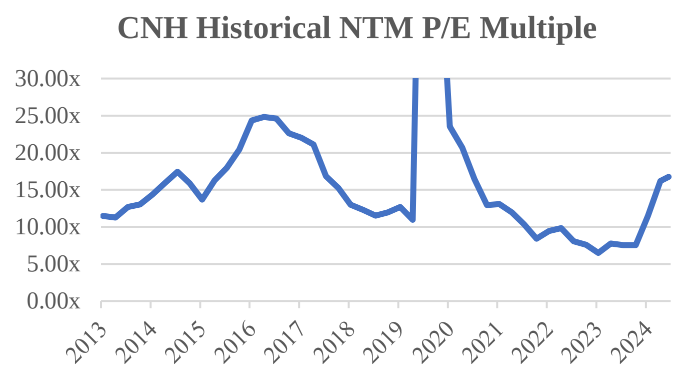
% growth		*4.8%*	*-19.7%*	*-8.6%*	*9.8%*	*8.8%*	*9.4%*
Industrial Activities COGS	(16,797)	(16,838)	(13,350)	(12,461)	(13,640)	(14,884)	(16,163)
Gross Profit	6,754	7,849	6,486	5,670	6,269	6,771	7,530
% growth		*16.2%*	*-17.4%*	*-12.6%*	*10.6%*	*19.4%*	*20.1%*
% margin	*31.4%*	*35.5%*	*38.0%*	*37.1%*	*36.9%*	*36.2%*	*36.5%*
SG&A	(1,752)	(1,863)	(1,712)	(1,510)	(1,537)	(1,601)	(1,635)
R&D	(866)	(1,041)	(924)	(813)	(822)	(885)	(920)
Financial Services Int. Exp.	(615)	(1,269)	(1,459)	(1,482)	(1,513)	(1,548)	(1,600)
Restructuring Charges	(31)	(67)	(118)	-	-	-	-
Other Expenses	(689)	(830)	(664)	(658)	(658)	(658)	(658)
EBIT	**2,801**	**2,779**	**1,609**	**1,207**	**1,739**	**2,079**	**2,717**
% growth		*-0.8%*	*-42.1%*	*-25.0%*	*44.1%*	*72.3%*	*56.3%*
% margin	*11.9%*	*11.3%*	*8.1%*	*6.7%*	*8.7%*	*9.6%*	*11.5%*
Interest Expense, Net	(119)	(76)	(152)	(161)	(161)	(161)	(161)
EBT	**2,682**	**2,703**	**1,457**	**1,046**	**1,578**	**1,918**	**2,556**
Income Tax Expense	(747)	(594)	(336)	(261)	(394)	(480)	(639)
% effective tax rate	*27.9%*	*22.0%*	*23.1%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
Equity in Unconsolidated Affiliates	104	178	138	150	150	150	150
Net Income	**2,039**	**2,287**	**1,259**	**934**	**1,333**	**1,589**	**2,067**
Shares Outstanding	*1,362.0*	*1,350.0*	*1,260.0*	*1,197.0*	*1,137.2*	*1,080.3*	*1,026.3*
EPS	**$1.50**	**$1.69**	**$1.00**	**$0.78**	**$1.17**	**$1.47**	**$2.01**

Asset Value and EPV

- I also calculate CNH's net reproduction value, earnings power value, and compare it to the growth value I calculated using 10x FY28 EPS.
- For EPV, I use a sustainable revenue figure of $18 billion, sustainable EBIT margins of 10%, and a normalized tax rate of 25%, noting the business is highly cyclical and metrics are reflective of a complete cycle, net of improvements under new management. I adjust for unconsolidated sub earnings which I estimate normalize at ~$150 million.
- EPV nearly twice CNH's asset value clearly demonstrates the company's competitive advantage in the agriculture business and supports medium-term valuation if estimates for growth do not materialize.
- 23% discount to EPV implies the market is pricing in excessive pessimism or cyclicality.
- CNH offers free optionality on growth, with the current price justified by a mix of tangible assets and conservative EBIT, aligning with Ben Graham's triptych -> the stock trades above liquidation value, below intrinsic earnings power, and far below full strategic value.





Risks and Mitigants

1. **Prolonged Agriculture Downcycle:** Farm equipment cycles are historically volatile and can last longer than expected, suppressing earnings and delaying recovery.

   We are already well into the current cycle. Historical data (Kansas City Fed) shows ag downcycles last 3–5 years; this one began in early 2023, making it 18+ months old. CNH management is deliberately accelerating the downturn by undersupplying the channel. Titan Machinery is already reporting sequential inventory drawdowns, and sentiment indicators like the Purdue Ag Barometer are at post-2021 highs. These signs suggest a recovery by FY26 is more likely than a drawn-out trough.

2. **Dealer Inventory Overhang May Prove Sticky**: Excess field inventory could extend weak wholesale shipments, especially if demand is slower to rebound.

   CNH is actively driving inventory normalization. The company is underselling dealers far more than end-market demand implies front-loaded correction contrasts with the 2011–2016 cycle, when OEMs continued oversupplying the channel. As the largest North American dealer reduces inventory QoQ, the risk of lingering stock is materially lower than prior cycles.

3. **Construction Segment Drag on Profitability**: CNH's construction division has historically been low-margin and volatile, dragging down consolidated EBIT.

   Construction is now structurally separated and being managed as non-core. CEO Gerrit Marx has split P&Ls by segment and region, focusing executive incentives on agriculture, which comprises ~80% of earnings. CNH exited unprofitable markets like China in 2022 and is gradually rationalizing plant footprint. Construction EBIT is projected to rise modestly, but its impact is shrinking as the mix improves.

4. **Execution Risk on Margin Expansion**: The thesis depends on management's ability to structurally improve EBIT margins through cost savings and plant efficiencies.

   CNH's cost actions are already delivering results. ~$480 million in COGS and SG&A savings were achieved in FY24 alone through plant closures, headcount reduction, and supplier optimization. Despite a ~23% revenue decline in FY24, EBIT margins only fell to 8%, suggesting substantial fixed-cost absorption. With volumes expected to rebound, operating leverage will amplify these gains.