# 1Q 2017 Earnings Call

17 February 2017



# Safe Harbor Statement & Disclosures

The earnings call and accompanying material include forward-looking comments and information concerning the company's plans and projections for the future, including estimates and assumptions with respect to economic, political, technological, weather, market acceptance and other factors that impact our businesses and customers. They also may include financial measures that are not in conformance with accounting principles generally accepted in the United States of America (GAAP). Words such as "forecast," "projection," "outlook," "prospects," "expected," "estimated," "will," "plan," "anticipate," "intend," "believe," or other similar words or phrases often identify forward-looking statements. Actual results may differ materially from those projected in these forward-looking statements based on a number of factors and uncertainties. Additional information concerning factors that could cause actual results to differ materially is contained in the company's most recent Form 8-K and periodic report filed with the U.S. Securities and Exchange Commission, and is incorporated by reference herein. Investors should refer to and consider the incorporated information on risks and uncertainties in addition to the information presented here. Investors should consider non-GAAP financial measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP. The company, except as required by law, undertakes no obligation to update or revise its forward-looking statements whether as a result of new developments or otherwise. The call and accompanying materials are not an offer to sell or a solicitation of offers to buy any of the company's securities.

# 1Q 2017 Overview

| ($ millions except where noted) | 1Q 2017 | 1Q 2017 vs. 1Q 2016 |
|---|---|---|
| **Net Sales & Revenues** | $5,625 | ↑ 2% |
| **Net Sales** (equipment operations) | $4,698 | ↓ 1% |
| **Net Income** (attributable to Deere & Company) | $194 | ↓ 24% |
| **Diluted EPS** ($ per share) | $0.61 | ↓ 24% |

# 1Q 2017 Overview

## Equipment Operations

| | 1Q 2017 vs. 1Q 2016 | |
|---|---|---|
| **Net Sales** | ↓ | **1%** |
| Price realization | ↑ | 2 points |
| Currency translation | ↑ | 1 point |

# Worldwide Agriculture & Turf

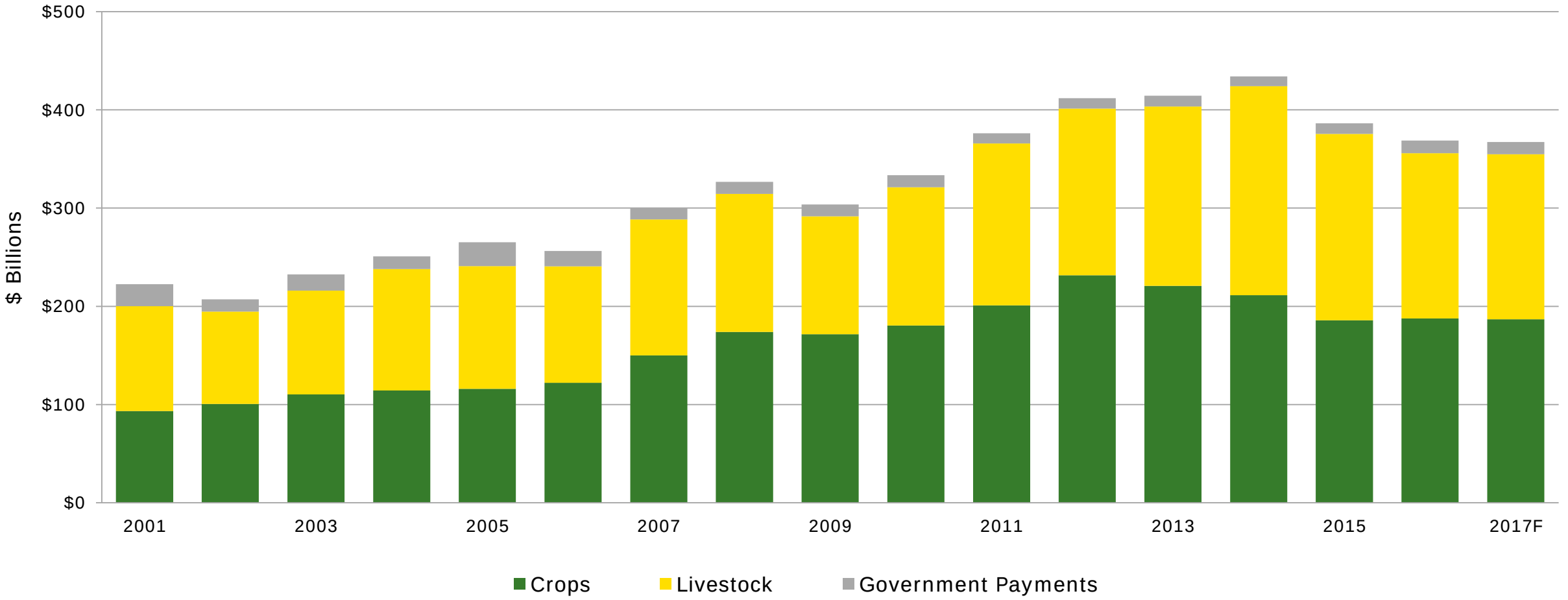
## 1Q 2017 Overview

| ($ millions) | 1Q 2017 | 1Q 2017 vs. 1Q 2016 |
|---|---|---|
| **Net Sales** | **$3,598** | **Flat** |
| **Operating Profit*** | **$213** | **48%** |

*1Q 2017 operating profit impacted by:

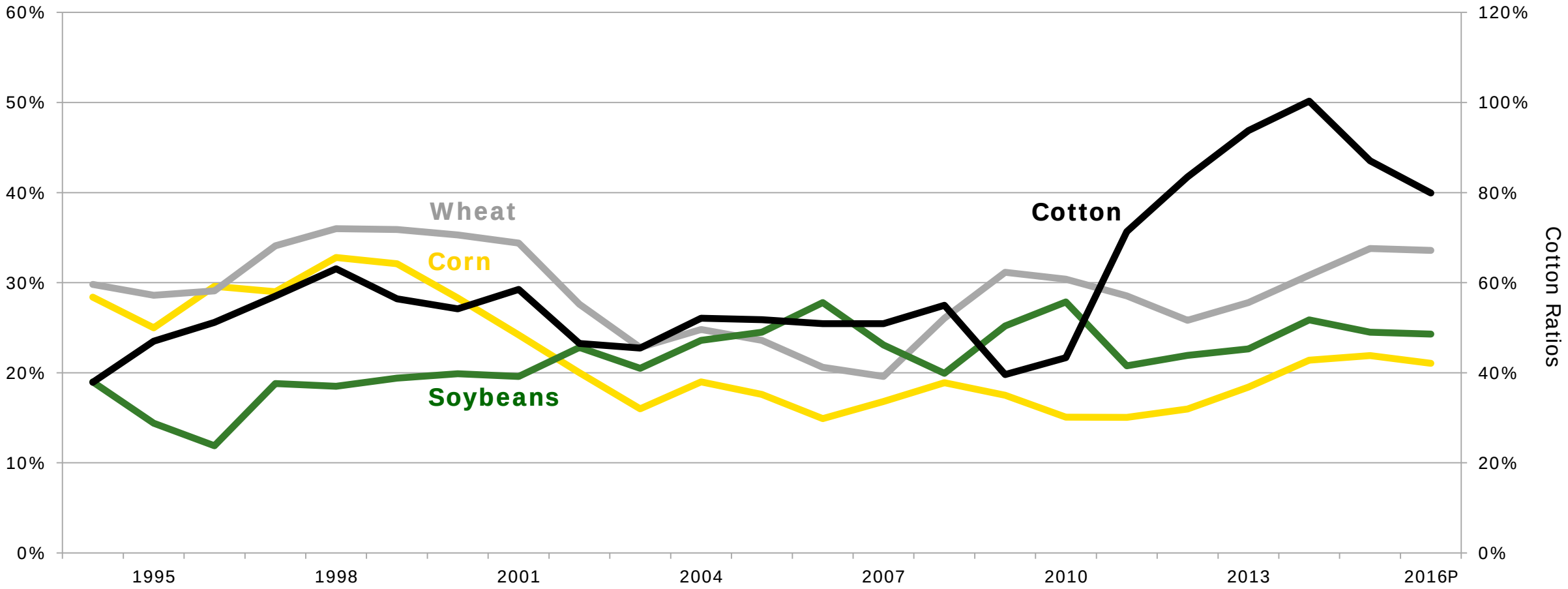
+ Gain on sale of partial interest in SiteOne Landscape Supply, Inc.
+ Price realization
– Voluntary employee-separation program expenses
– Warranty costs
– Foreign-currency exchange

# U.S. Farm Cash Receipts




*Source: 2001–2015: USDA, 7 February 2017*
*2016F–2017F: Deere & Company forecast as of 17 February 2017*

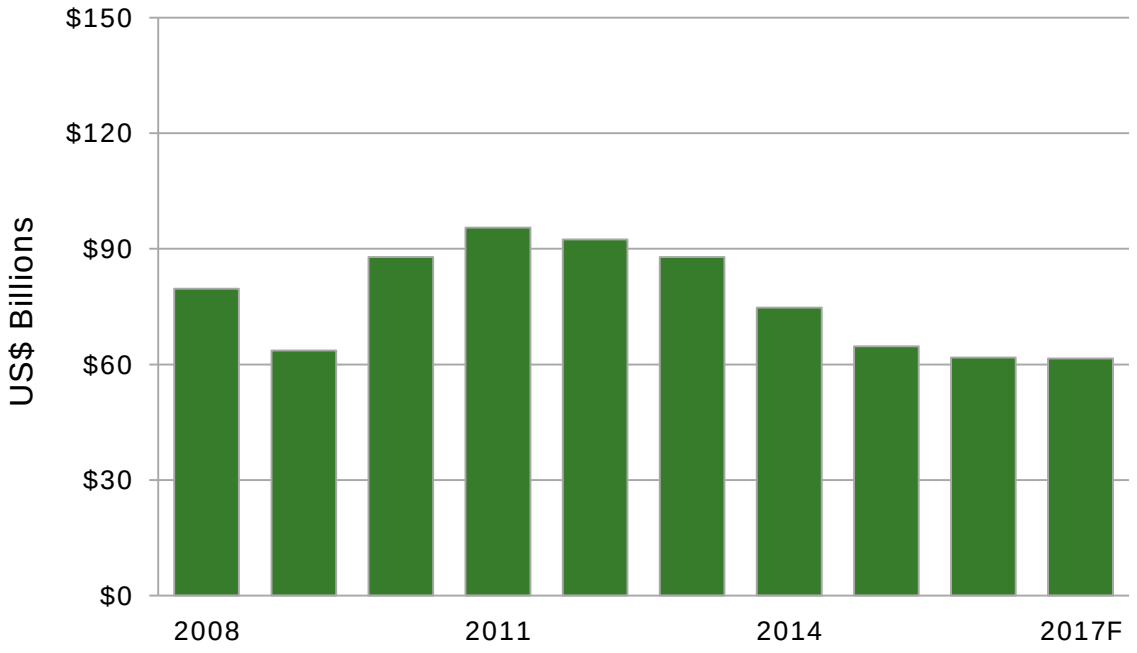
# Global Stocks-to-Use Ratios




*Source: USDA, 9 February 2017*

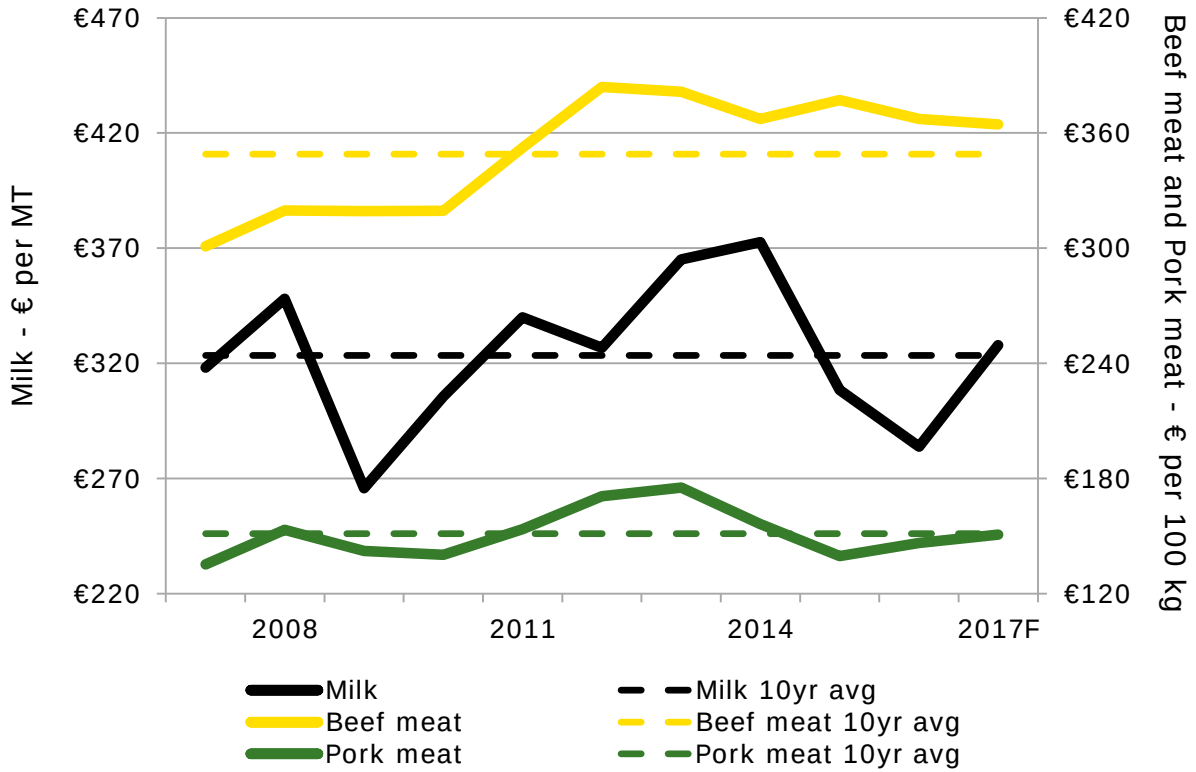
# Economic Update
## EU 28

### Crop Value of Production*




** Includes wheat, barley, corn, sunflower seed, rapeseed, soybean, sugar beet, cotton, rice*
*Source: IHS Global Insight, February 2017*

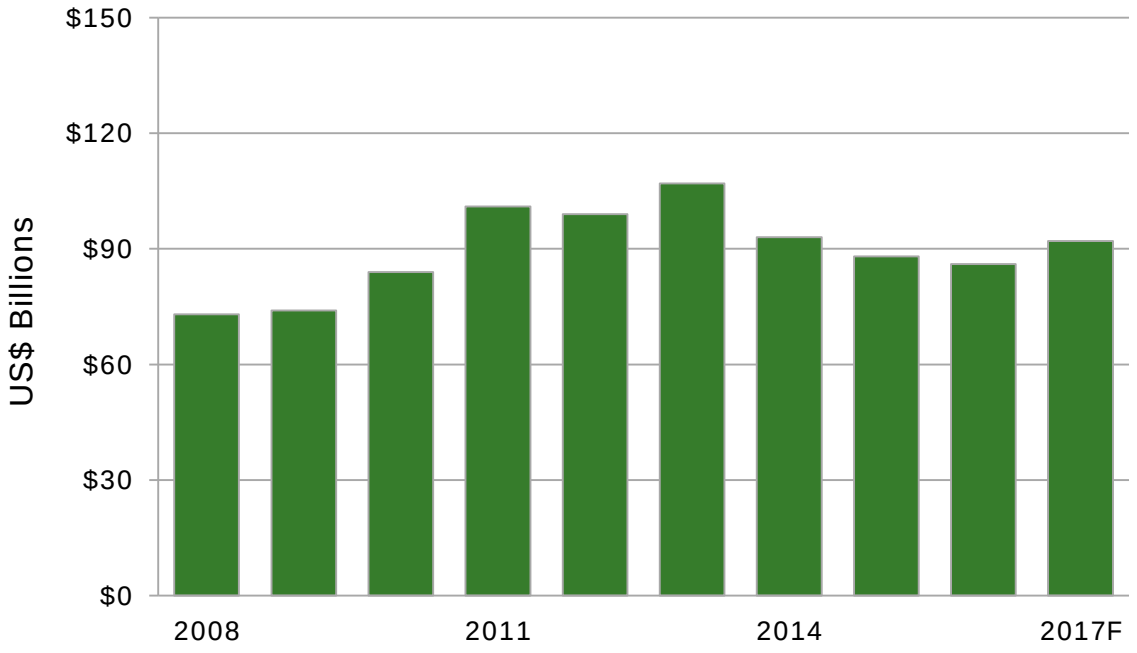
### Dairy, Beef and Pork Prices




*Source: EU Com, LTO, IFCN, January 2017*
*Deere & Company forecast as of 17 February 2017*

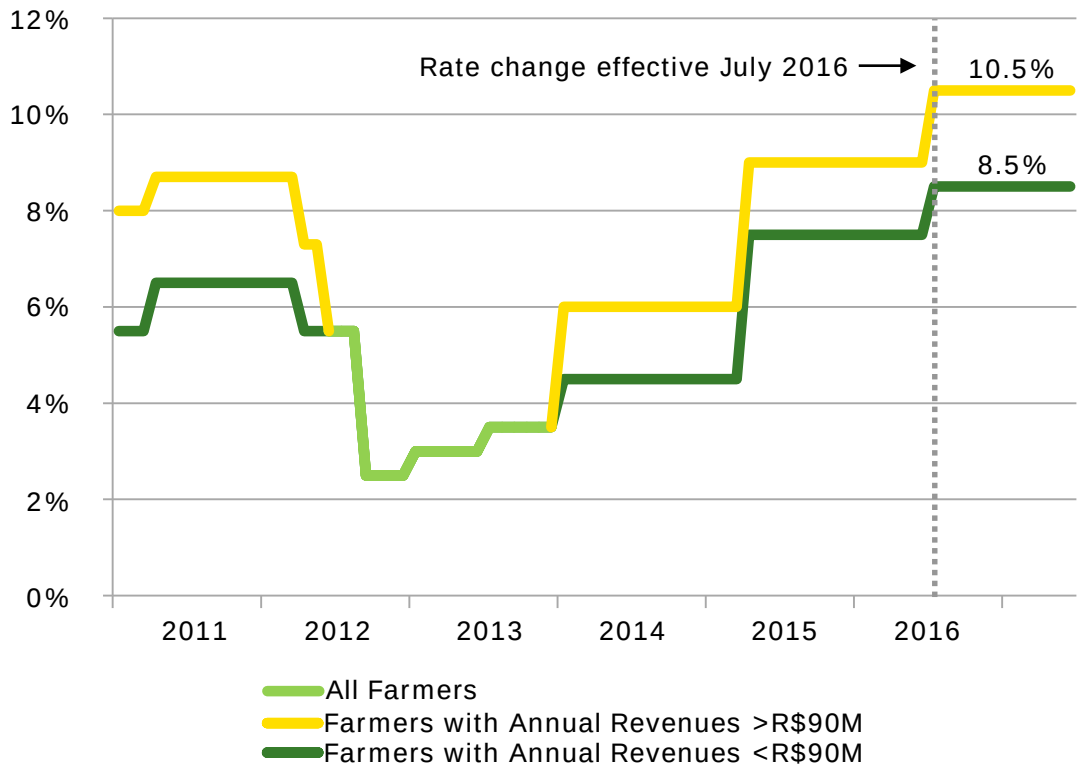
# Economic Update
## Brazil

### Crop Value of Production*




** Includes key grains, ethanol, sugar*
*Source: IHS Global Insight, February 2017*

### Eligible Finance Rates for Agriculture Equipment




*Note: PSI-FINAME was key credit line for machinery acquisition 2011–2014; Moderfrota is currently the most attractive credit line*
*Source: ABIMAQ (Brazilian Association of Machinery & Equipment) and BNDES*

# Agriculture & Turf Retail Sales

## Industry Outlook

| | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|
| **U.S. and Canada Ag** | **5-10%** | 5-10% |
| **EU 28 Ag** | **~ 5%** | ~ 5% |
| **South America Ag** (tractors and combines) | **15-20%** | ~ 15% |
| **Asia Ag** | **Flat to up slightly** | Flat to up slightly |
| **U.S. and Canada Turf and Utility** | **~ Flat** | ~ Flat |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Worldwide Agriculture & Turf

## Deere & Company Outlook

| | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|
| **Net Sales** | **~ 3%** | ~ 1% |
| Currency translation | ~ Flat | ~ 1 point |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Worldwide Construction & Forestry

## 1Q 2017 Overview

| ($ millions) | 1Q 2017 | 1Q 2017 vs. 1Q 2016 |
|---|---|---|
| **Net Sales** | **$1,100** | ↓ **6%** |
| **Operating Profit*** | **$34** | ↓ **51%** |

*1Q 2017 operating profit impacted by:

- Sales-incentive expenses
- Voluntary employee-separation program expenses

# Worldwide Construction & Forestry

## U.S. Economic Indicators

| (annual percentage rate* except where noted) | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|
| **GDP Growth** | **2.2%** | 2.0% |
| **Housing Starts** (thousands) | **1,220** | 1,197 |
| **Total Construction Investment** | **2.5%** | 1.9% |
| **Government Construction Investment** | **1.4%** | 2.6% |

** Change from prior year in real dollars*
*Source: IHS Global Insight, Calendar Year Estimates – January 2017 (previous forecast as of October 2016)*

# Worldwide Construction & Forestry

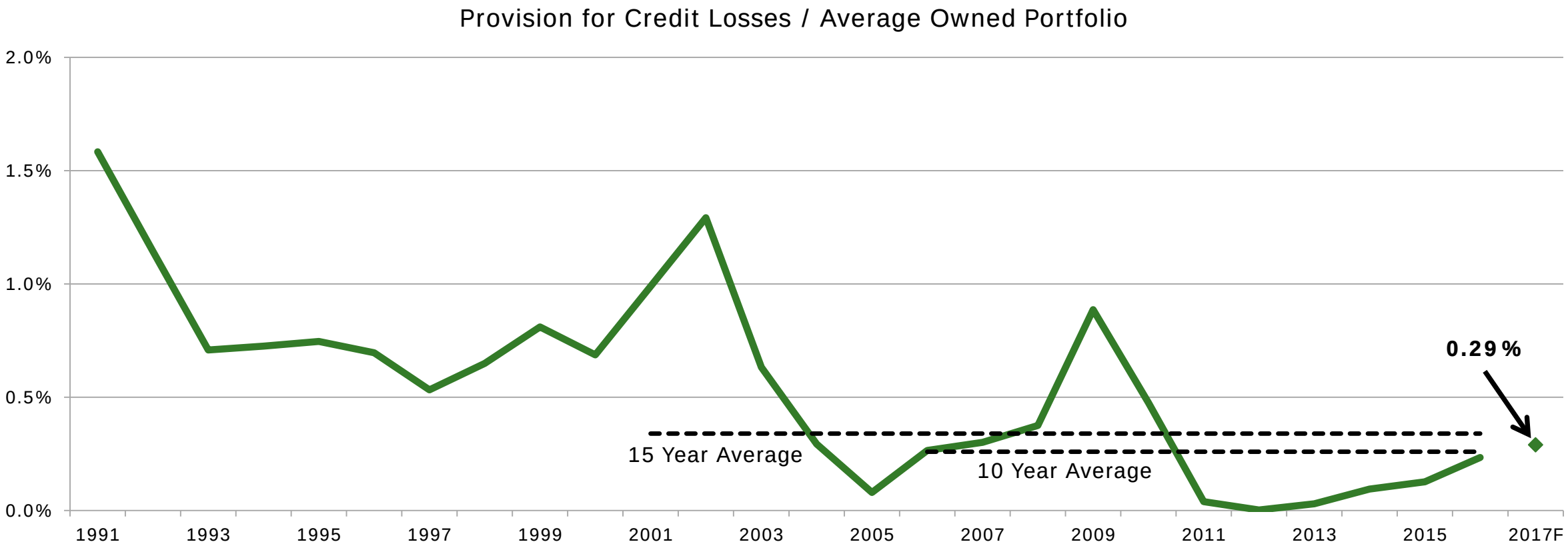
## Deere & Company Outlook

| | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|
| **Net Sales** | **~ 7%** | ~ 1% |
| Currency translation | ~ Flat | ~ 1 point |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Worldwide Financial Services

## Credit Loss History




*Source: Deere & Company forecast as of 17 February 2017*

# Worldwide Financial Services

| ($ millions) | 1Q 2017 | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|---|
| **Net Income** (attributable to Deere & Company) | **$114** | **~ $480** | ~ $480 |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Consolidated Trade Receivables & Inventory

| ($ millions) | 1Q 2017* | Fiscal 2017 Forecast** | Previous Forecast** |
|---|---|---|---|
| **Agriculture & Turf** | ↓ **$307** | ↓ **~ $125** | ↓ ~ $125 |
| **Construction & Forestry** | ↓ **$154** | ↓ **~ $75** | ↓ ~ $125 |
| **Total** (as reported) | ↓ **$461** | ↓ **~ $200** | ↓ ~ $250 |
| **Total** (constant exchange) | ↓ **$567** | ↓ **~ $200** | ↓ ~ $300 |

** Change at 29 January 2017 vs. 31 January 2016*
*** Forecasted change at 29 October 2017 vs. 30 October 2016*
*Note: Before the sale of receivables to John Deere Financial*
*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Cost of Sales
## Equipment Operations

| | 1Q 2017 | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|---|
| **COS** (percent of Net Sales) | **80.8%** | **~ 78%** | ~ 78% |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Research & Development Expense

## Equipment Operations

| | 1Q 2017 vs. 1Q 2016 | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|---|
| **R&D Expense** | ↓ **3%** | ↓ **~ 2%** | ↓ ~ 3% |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Selling, Administrative & General Expense
## Equipment Operations

| | 1Q 2017 vs. 1Q 2016 | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|---|
| **SA&G Expense** | **12%** | **~ 5%** | ~ 1% |
| Voluntary separation program | 9 points | ~ 2 points | ~ 2 points |
| Commissions paid to dealers | 2 points | ~ 1 point | ~ Flat |
| Currency translation | 1 point | ~ Flat | ~ 1 point |
| Pension/OPEB | 1 point | ~ Flat | ~ Flat |
| Incentive compensation | 1 point | ~ Flat | ~ 1 point |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Income Taxes
## Equipment Operations

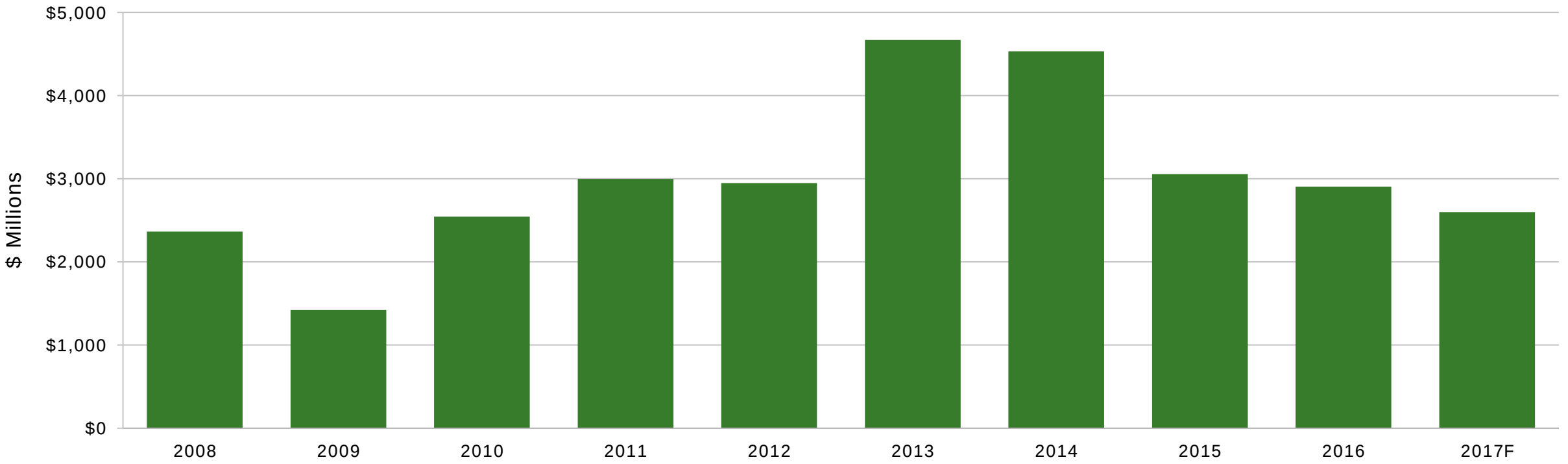
| | 1Q 2017 | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|---|
| **Effective Tax Rate** | **50%** | **33-35%** | 33-35% |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Net Operating Cash Flows

## Equipment Operations

**Fiscal 2017 Forecast* ~ $2.6 billion**




** Previous forecast ~ $2.5 billion*
*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Deere & Company Outlook

## Fiscal 2017 Forecast

| ($ billions except where noted) | 2Q 2017 Forecast | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|---|
| **Net Sales** (equipment operations) | **~ 1%** | **~ 4%** | ~ 1% |
| Price realization | ~ 2 points | ~ 1 point | ~ 1 point |
| Currency translation | ~ Flat | ~ Flat | ~ 1 point |
| **Net Income** (attributable to Deere & Company) | | **~ $1.5** | ~ $1.4 |

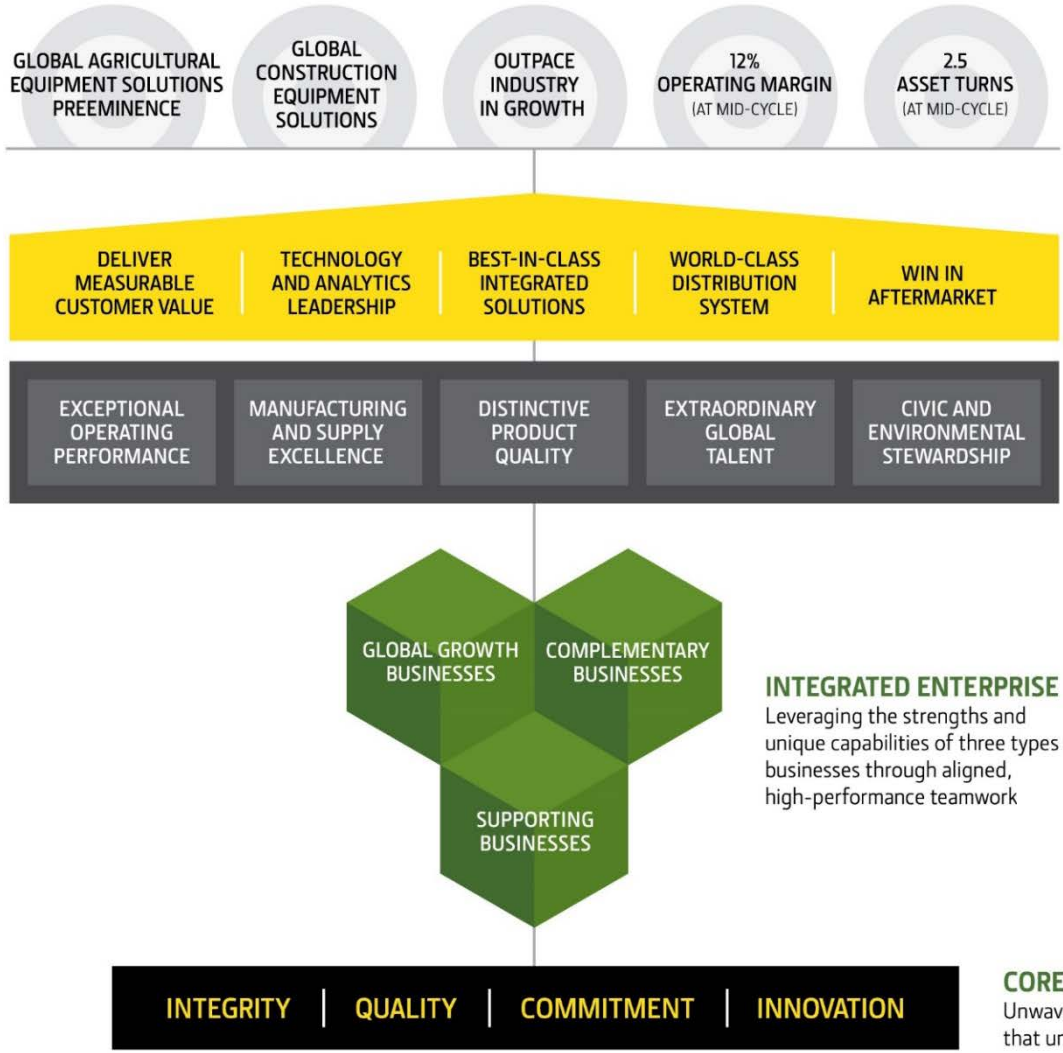
*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Appendix



# THE JOHN DEERE STRATEGY

**OUR PURPOSE** Committed to those linked to the land




## OUR ASPIRATIONS

Realizing sustainable SVA growth through innovation and disciplined expansion

## CRITICAL SUCCESS FACTORS

Further developing the capabilities essential to reaching our goals

## FOUNDATIONAL SUCCESS FACTORS

Investing in the core strengths that have guided our success

## INTEGRATED ENTERPRISE

Leveraging the strengths and unique capabilities of three types of businesses through aligned, high-performance teamwork

## CORE VALUES

Unwavering adherence to the values that unite and differentiate us

# Deere Use-of-Cash Priorities

**Cash from Operations**

**Committed to "A" Rating**

- Manage the balance sheet, including liquidity, to support a rating that provides access to low-cost and readily available short- and long-term funding mechanisms
  - Reflects the strategic nature of our financial services operation

**Fund Operating and Growth Needs**

- Fund value-creating investments in our businesses

**Common Stock Dividend**

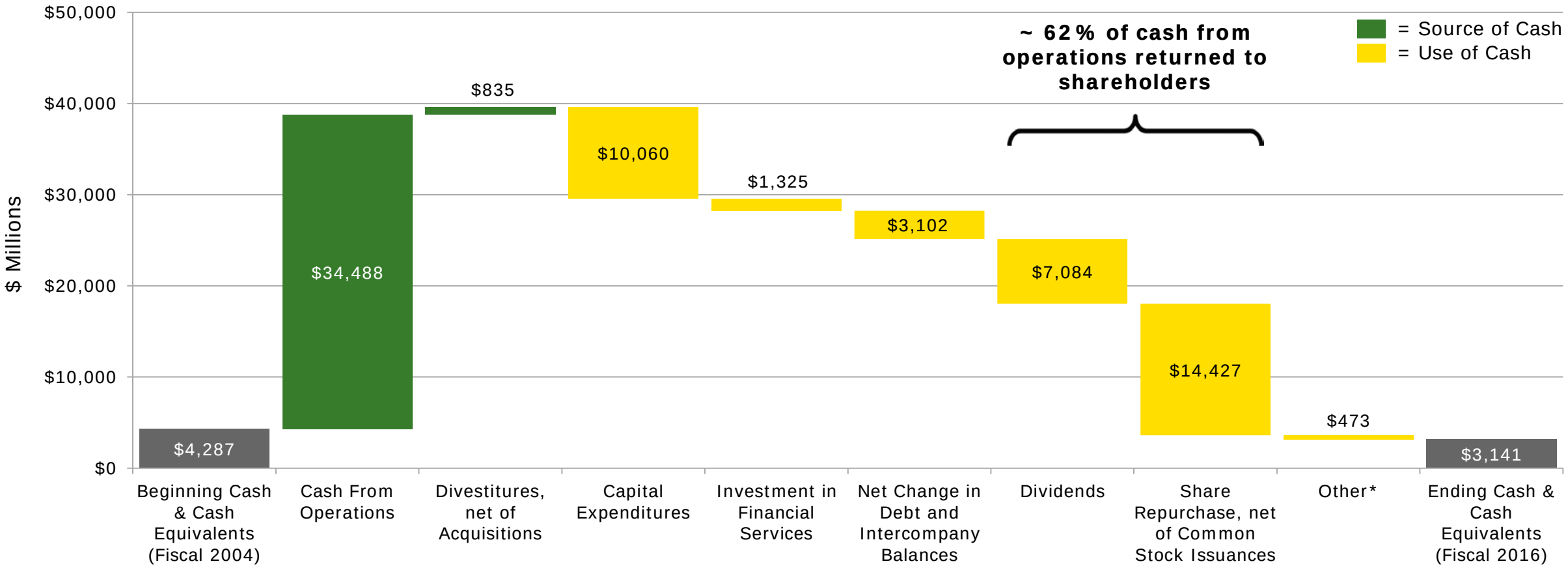
- Consistently and moderately raise dividend targeting a 25%-35% payout ratio of mid-cycle earnings

**Share Repurchase**

- Consider share repurchase as a means to deploy excess cash to shareholders, once above requirements are met and repurchase is viewed as value-enhancing

# Sources and Uses of Cash Fiscal 2004-2016

## Equipment Operations



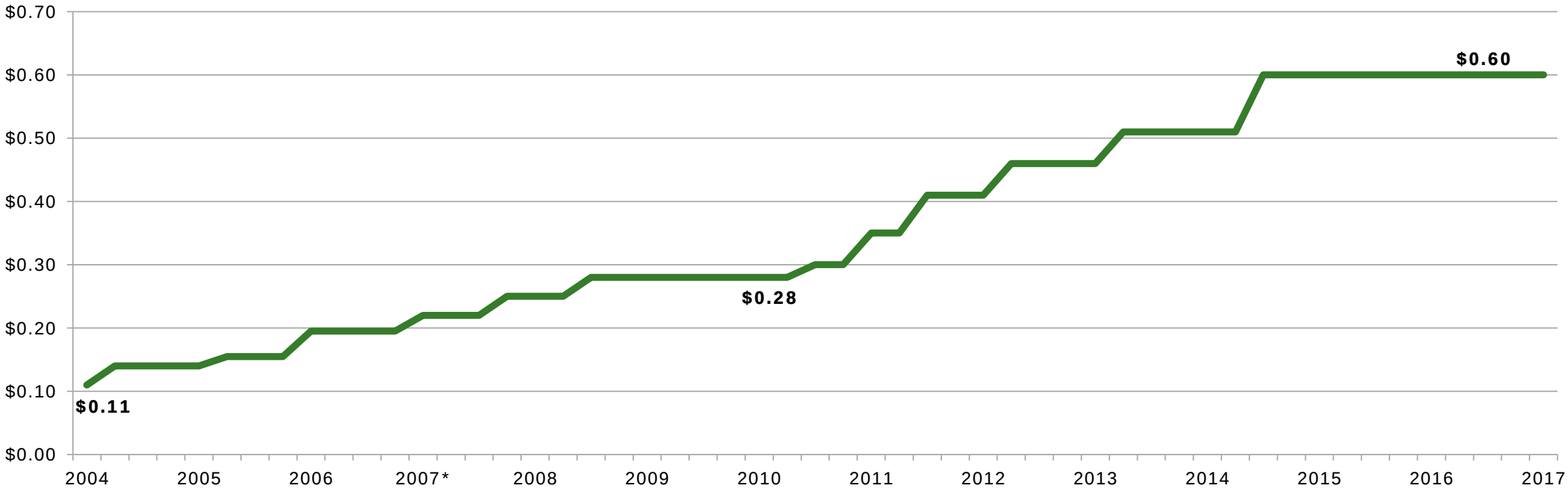

** Other includes proceeds from maturities and sales of marketable securities and purchases of marketable securities and reconciliation for non-cash items including excess tax benefits from share-based compensation and the effect of exchange rates on cash and cash equivalents*

*Source: Deere & Company SEC filings*

# Deere Quarterly Dividends Declared

## 1Q 2004 – 1Q 2017

**Dividend raised 114% since 2010**



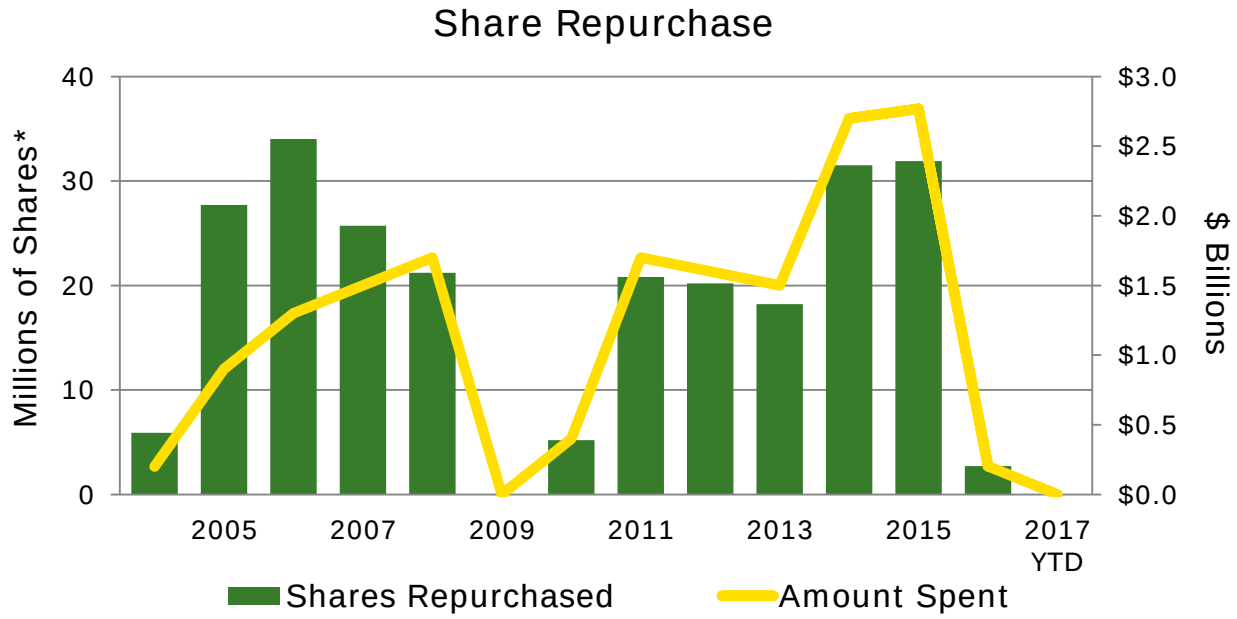

** Adjusted for 2 for 1 stock split on 26 November 2007*

# Share Repurchase

## As Part of Publicly Announced Plans

**36% net share reduction since 2004**

| | |
|---|---|
| 2004–1Q 2017: | |
| Cumulative cost of repurchases | $16.4 billion |
| Shares repurchased | 245.0 million |
| Average repurchase price | $66.96 |
| December 2013 authorization of $8 billion: | |
| Amount remaining | $3.3 billion |
| 29 January 2017 period ended basic shares | 318.3 million |
| 1Q 2017 average diluted shares | 319.8 million |




** All shares adjusted for two-for-one stock split effective 26 November 2007*

# Pension and OPEB Expense

| ($ millions) | 1Q 2017 | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|---|
| **Pension and OPEB Expense** | **$2** | **~ $35** | ~ $30 |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

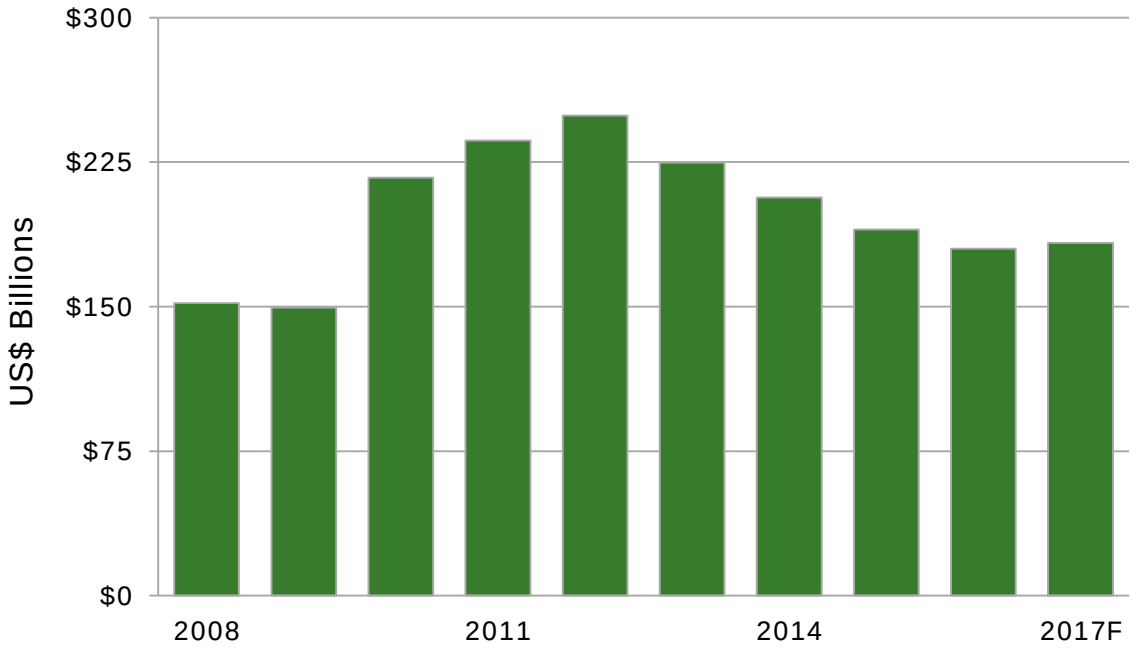
# Other Information
## Equipment Operations

| ($ millions) | Fiscal 2017 Forecast | Previous Forecast |
|---|---|---|
| **Capital Expenditures** | **~ $600** | ~ $600 |
| **Depreciation and Amortization** | **~ $850** | ~ $850 |
| **Pension / OPEB Contributions** | **~ $100** | ~ $100 |

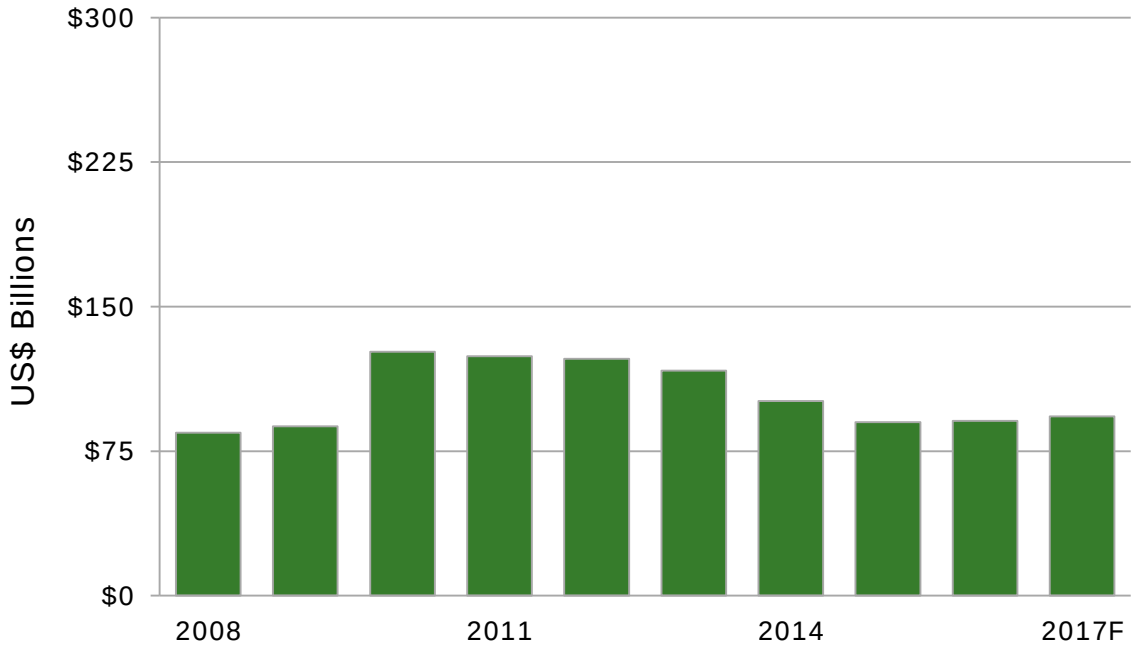
*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# Economic Update
## Other Selected Markets

China - Crop Value of Production*




India - Crop Value of Production*



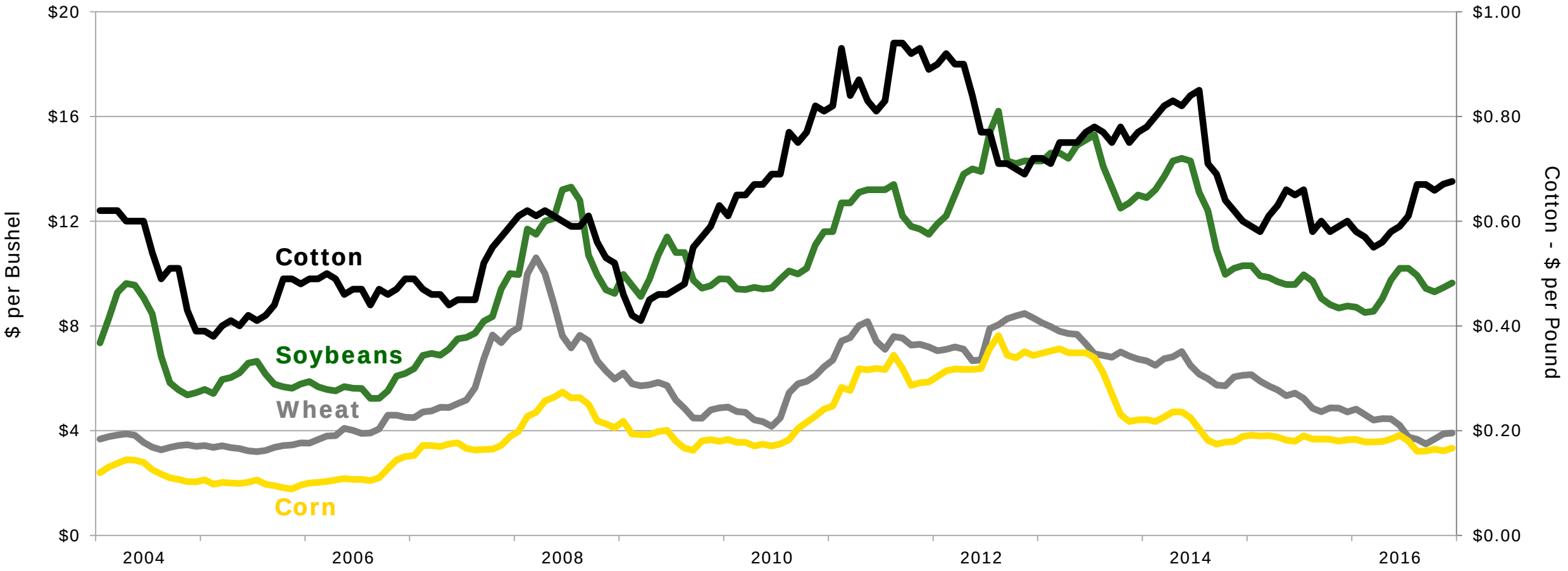

** Includes corn, wheat, rice, barley, sorghum, oilseeds, peanut, sugar, cotton*
*Source: IHS Global Insight, February 2017*

# U.S. Farm Commodity Prices

| ($ per bushel except where noted) | 2015/16 Estimate | 2016/17 Projection | Previous 2016/17 |
|---|---|---|---|
| **Corn** | **$3.61** | **$3.40** | $3.30 |
| **Soybeans** | **$8.95** | **$9.50** | $9.20 |
| **Wheat** | **$4.89** | **$3.85** | $3.70 |
| **Cotton** ($ per pound) | **$0.61** | **$0.69** | $0.67 |

*Source: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# U.S. Farm Commodity Prices




*Source: USDA, 9 February 2017*

# U.S. Acres Planted

| (millions) | 2015/16 Estimate | 2016/17 Projection |
|---|---|---|
| Corn | 88.0 | 94.0 |
| Soybeans | 82.7 | 83.4 |
| Wheat | 55.0 | 50.2 |
| Cotton | 8.6 | 10.1 |

*Source: Deere & Company forecast as of 17 February 2017*

# U.S. Crop Yields

| (bushels per acre except where noted) | 2015/16 Estimate | 2016/17 Projection |
|---|---|---|
| **Corn** | **168.4** | **174.6** |
| **Soybeans** | **48.0** | **52.1** |
| **Wheat** | **43.6** | **52.6** |
| **Cotton** (pounds per acre) | **766** | **855** |

*Source: Deere & Company forecast as of 17 February 2017*

# U.S. Farm Cash Receipts

| ($ billions) | 2015 | 2016 Forecast | 2017 Forecast | Previous 2017 |
|---|---|---|---|---|
| **Crops** | **$185.7** | **$187.7** | **$186.7** | $186.2 |
| **Livestock** | **$189.8** | **$168.2** | **$168.2** | $168.4 |
| **Government Payments** | **$10.8** | **$13.0** | **$12.5** | $12.5 |
| **Total Cash Receipts** | **$386.3** | **$368.9** | **$367.4** | $367.1 |

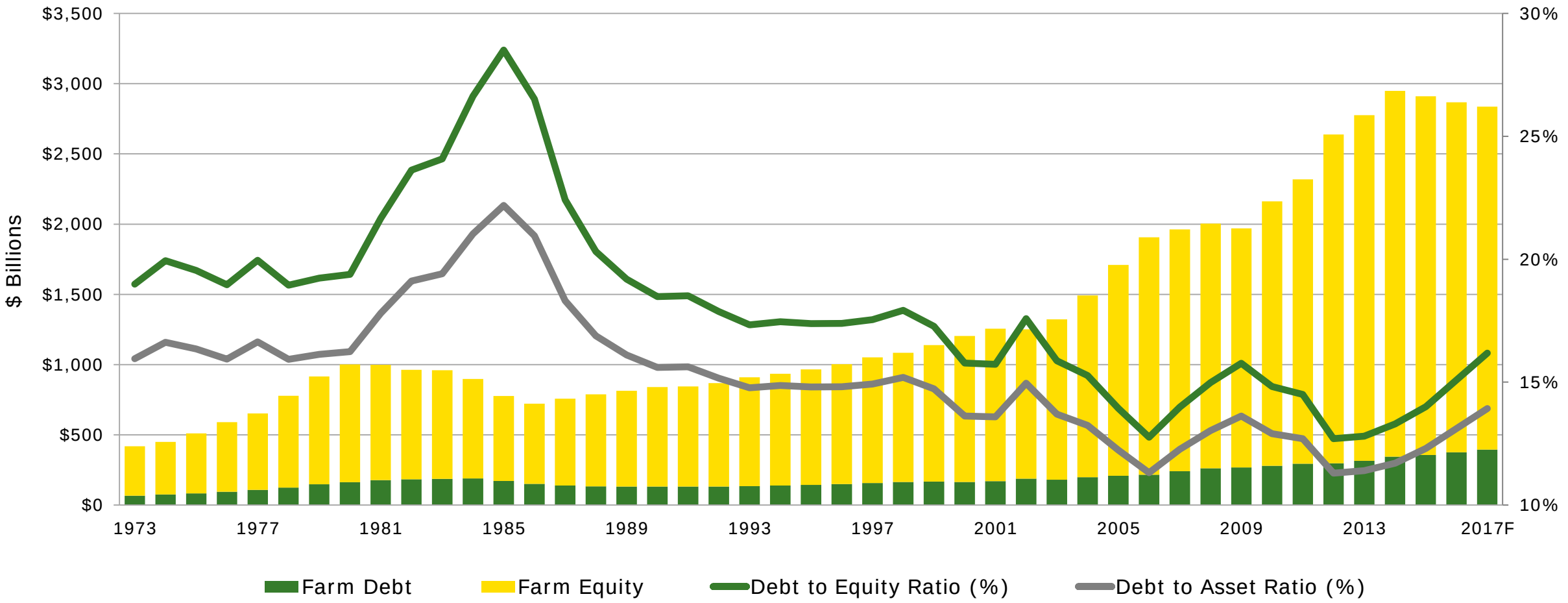
*Source: 2015: USDA, 7 February 2017*
*2016F–2017F: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# U.S. Net Farm Cash Income

| ($ billions) | 2015 | 2016 Forecast | 2017 Forecast | Previous 2017 |
|---|---|---|---|---|
| **Total Cash Receipts** | **$386.3** | **$368.9** | **$367.4** | $367.1 |
| **Other Farm-Related Income** | **$34.3** | **$30.6** | **$34.4** | $34.3 |
| **Gross Cash Income** | **$420.6** | **$399.5** | **$401.8** | $401.4 |
| **Cash Expenses** | **($315.9)** | **($307.6)** | **($308.3)** | ($299.0) |
| **Net Cash Income** | **$104.7** | **$91.9** | **$93.5** | $102.4 |

*Source: 2015: USDA, 7 February 2017*
*2016F–2017F: Deere & Company forecast as of 17 February 2017 (previous forecast as of 23 November 2016)*

# U.S. Farm Balance Sheet




*Source: 1973–2015: USDA, 7 February 2017*
*2016F–2017F: Deere & Company forecast as of 17 February 2017*

# January 2017 Retail Sales and Dealer Inventories

| Retail Sales<br>U.S. and Canada Ag | Industry* | Deere** |
|---|---|---|
| **2WD Tractors** (< 40 PTO hp) | ↑ 15% | ↑ Single digit |
| **2WD Tractors** (40 < 100 PTO hp) | ↓ 9% | ↓ More than the industry |
| **2WD Tractors** (100+ PTO hp) | ↓ 30% | ↓ More than the industry |
| **4WD Tractors** | ↓ 40% | ↓ More than the industry |
| **Combines** | ↓ 36% | ↓ In line with the industry |

| Deere Dealer Inventories***<br>U.S. and Canada Ag | 2017 | 2016 |
|---|---|---|
| **2WD Tractors** (100+ PTO hp) | 38% | 29% |
| **Combines** | 14% | 10% |

** As reported by the Association of Equipment Manufacturers*
*** As reported to the Association of Equipment Manufacturers*
**** In units as a % of trailing 12 months retail sales, as reported to the Association of Equipment Manufacturers*

# January 2017 Retail Sales

| Retail Sales<br>EU 28 Ag | Deere* |
|---|---|
| Tractors | ↓ Double digits |
| Combines | ↔ Flat |

| Retail Sales<br>U.S. and Canada | Deere* |
|---|---|
| Selected Turf & Utility Equipment | ↑ Single digit |
| Construction & Forestry | |
| First-in-the-Dirt | ↓ Double digits |
| Settlements | ↓ Double digits |

** Based on internal sales reports*

**Deere & Company's 2Q 2017 earnings call is scheduled for 9:00 a.m. central time on Friday, 19 May 2017**

