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Deere & Co. (DE)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Deere & Company first quarter earnings conference call. Your lines have been placed on listen-only until the question-and-answer session of today's conference.

I would now like to turn the call over to Mr. Josh Beal, Director of Investor Relations. Thank you. You may begin.

Josh Beal

Director, Investor Relations, Deere & Co.

Hello. Welcome and thank you for joining us on today's call. Joining me on the call today are John May, Chairman and Chief Executive Officer; Josh Jepsen, Chief Financial Officer; Aaron Wetzel, Vice President, Production Systems for Production and Precision Ag; and Josh Rohleder, Manager, Investor Communications.

Today we'll take a closer look at Deere's first quarter earnings, then spend some time talking about our markets and our current outlook for fiscal 2024. After that, we'll respond to your questions. Please note that slides are available to complement the call this morning. They can be accessed on our website at www.johndeere.com/earnings.

First a reminder. This call is broadcast live on the internet and recorded for future transmission and use by Deere & Company. Any other use, recording, or transmission of any portion of this copyrighted broadcast without the express written consent of Deere is strictly prohibited. Participants in the call, including the Q&A session, agree that their likeness and remarks in all media may be stored and used as part of the earnings call.

This call includes forward-looking statements concerning the company's plans and projections for the future that are subject to uncertainties, risks, changes in circumstances and other factors that are difficult to predict. Additional information concerning factors that could cause actual results to differ materially is contained in the company's most recent Form 8-K, risk factors in the annual Form 10-K, as updated by reports filed with the Securities and Exchange Commission.

This call also may include financial measures that are not in conformance with accounting principles generally accepted in the United States of America, GAAP. Additional information concerning these measures, including reconciliations to comparable GAAP measures, is included in the release and posted on our website at johndeere.com/earnings under quarterly earnings and events.

I'll now turn the call over to Josh Rohleder.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Good morning. John Deere completed the first quarter demonstrating solid execution across the cycle. Financial results for the quarter included an 18.5% margin for the equipment operations. Fundamentals in the end markets that we serve remain supportive of equipment replacement demand. Ag fundamentals, while down from the record highs of the last few years, have returned to near mid-cycle levels.

In Construction & Forestry, we see fundamentals stabilizing at levels supportive of demand across most markets. This demand backdrop is reflected in our order books. While fleet replenishment is moderating, our order books

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remain at healthy levels representative of normalized volumes. Notably, our first quarter performance demonstrates the structural business improvements that we've achieved, enabling us to deliver higher levels of profitability across all points in the business cycle.

Slide 3 begins with the results for the first quarter. Net sales and revenues were down 4% to $12.185 billion, while net sales for the equipment operations were down 8% to $10.486 billion. Net income attributable to Deere & Company was $1.751 billion or $6.23 per diluted share.

Turning now to our individual segments, we begin with the Production and Precision Ag business on slide 4. Net sales of $4.849 billion were down 7% compared to the first quarter last year, primarily due to lower shipment volumes which were partially offset by price realization. Price realization was positive by about 4 points. Currency translation was also positive by roughly 1 point. Operating profit was $1.045 billion resulting in a 21.6% operating margin for the segment. The year-over-year decrease was primarily due to lower shipment volumes and higher SA&G and R&D expenses. These were partially offset by price realization.

Moving to Small Ag and Turf on slide 5. Net sales were down 19%, totaling $2.425 billion in the first quarter as a result of lower shipment volumes, partially offset by price realization. Price realization was positive by just over 3 points. Currency was also positive by roughly half a point. Operating profit declined year-over-year to $326 million resulting in a 13.4% operating margin. The decrease was primarily due to lower shipment volumes and higher SA&G and R&D expenses, which were partially offset by price realization and lower production costs.

Slide 6 gives our industry outlook for Ag and Turf markets globally. We continue to expect Large Ag equipment industry sales in the US and Canada to decline 10% to 15% trending closer to the lower end of that range, as normalizing farm fundamentals and elevated interest rates are somewhat tempered by resilient farm balance sheets, lower input costs relative to record peaks seen over the last few years, and fleet age, which, even after multiple years of strong replacement, remains at or above long-term averages.

For Small Ag and Turf in the US and Canada, industry demand estimates remained down 5% to 10%. The dairy and livestock segment continues to remain healthy thanks to elevated cattle and hay prices. The compact utility tractor market remains soft as the industry works to bring down inventory levels, while demand for turf products has stabilized.

Moving to Europe, the industry is now forecasted to be down 10% to 15%. Demand is expected to be softest in Central and Eastern Europe as local commodity markets remain disrupted by the ongoing conflict in Ukraine. Western Europe is faring better, although uncertainty related to current cash crop receipts, Ag policy changes, and high interest rates is increasing caution for some customers.

In South America, industry sales of tractors and combines are expected to be down around 10%, continuing the demand moderation that began in 2023. Brazil, in particular, is experiencing adverse weather conditions in the current growing season. Coupled with high interest rates, demand is expected to remain down from recent record highs. Argentina is expected to deliver strong Ag production after multiple years of drought, while the industry will remain regulated by ongoing economic challenges.

Industry sales in Asia remain forecasted to be down moderately.

Next, our segment forecasts begin on slide 7. For Production and Precision Ag, net sales were forecasted to be down around 20% for the full year. The forecast assumes roughly 1.5 points of positive price realization for the full

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year and minimal currency impact. For the segment's operating margin, our full-year forecast is now between 21.5% and 22.5%, reflecting the further tempering in net sales as demand normalizes.

Slide 8 shows our forecast for the Small Ag and Turf segment. We expect net sales to remain down between 10% and 15%. This guidance now includes 1.5 points of positive price realization and flat currency translation. The segment's operating margin remains between 15% and 16%.

Shifting to Construction and Forestry on slide 9. Net sales for the quarter were roughly flat year-over-year at $3.212 billion with positive price realization offset by lower shipment volumes. Price realization was positive by nearly 3 points. Currency translation was also positive by just under 1 point. Operating profit of $566 million was down year-over-year, resulting in a 17.6% operating margin, due primarily to higher production costs, lower shipment volumes, unfavorable currency translation, and higher SA&G and R&D expenses. These were partially offset by price realization and a favorable sales mix.

Turning now to our 2024 Construction and Forestry industry outlook on slide 10. Industry sales for earth moving equipment in the US and Canada are now expected to be flat to down 5%, while compact construction equipment in the US and Canada is expected to be flat. Improvements in the industry outlook are reflective of a better-than-expected demand backdrop and stabilized optimism through the balance of the year as dealer inventories return to more normal levels.

End markets remain healthy with single-family housing starts improving, infrastructure spending continuing to increase, and elevated manufacturing investment levels offset by further declines in commercial investments. Global forestry markets are expected to be down around 10% as all global markets continue to be challenged. Global roadbuilding markets are forecasted to be roughly flat, with strong infrastructure spending in the US offset by continued softness in Europe.

Moving to this Construction and Forestry segment outlook on slide 11. 2024 net sales are now forecasted to be down between 5% and 10%. Net sales guidance for the year includes about 1.5 points of positive price realization and flat currency translation. The segment's operating margin remains projected between 17% and 18%.

Transitioning to our Financial Services operations on slide 12. Worldwide Financial Services net income attributable to Deere & Company in the first quarter was $207 million. The increase in net income was mainly due to a higher average portfolio balance, which was partially offset by less favorable financing spreads.

For fiscal year 2024, our outlook remains at $770 million as benefits from a higher average portfolio balance offset less favorable financing spreads. As a reminder, fiscal year 2023 net income was also impacted by a non-repeating one-time accounting correction.

Finally, slide 13 outlines our guidance for net income, our effective tax rate, and operating cash flow. For fiscal year 2024, our outlook for net income is now expected to be between $7.5 billion and $7.75 billion. Next, our guidance incorporates an effective tax rate between 24% and 26%. And lastly, cash flow from the equipment operations is now projected to be in the range of $7 billion to $7.5 billion.

This concludes our formal comments. John, before we shift to a few topics specific to the quarter, would you mind sharing your thoughts on how 2024 is progressing?

John C. May
Chairman & Chief Executive Officer, Deere & Co.

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Thanks, Josh. I'd be happy to. We've had a great start to the year. The quarter was strong, and I truly appreciate the efforts of the entire Deere team to deliver these results.

As I think about 2024, it's helpful to consider the smart industrial journey that we've been on, which is grounded in unlocking incremental value for our customers through technology, and enabling Deere to deliver structurally higher financial performance.

I'm extremely pleased with how we've executed our production systems approach, centralized and advanced our tech stack, and focused on delivering value across the entire life cycle of our solutions, all while allocating capital in a more efficient and strategic manner. Deere's last few years of financial performance are evidence of the structural improvement that comes with executing our strategy, all while delivering better outcomes for our customers.

To put 2024 financials in context, let's look at how we've performed since introducing Smart Industrial. In 2022, our equipment operations net sales were just under $48 billion, and we delivered net income of over $7.1 billion, equating to just over $23.00 of EPS. In 2023, net sales increased 16% to over $55 billion, and we delivered record net income of over $10 billion, or $34.63 per share.

Our 2024 guide implies a roughly 15% reduction in net sales, putting us at very similar sales levels to 2022. However, continuing that comparison, our net income forecast of $7.5 billion to $7.75 billion contemplates at least a $400 million improvement over 2022. On an EPS basis, that's growth of over $4.00 per share, demonstrating the structural improvement enabled by our Smart Industrial strategy.

Going forward, as we execute our plans under our new operating model, we will deliver better outcomes for our customers and deliver higher levels of financial performance for Deere, generating strong cash flows that will fuel continued reinvestment in the business and significant return to shareholders.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Great. Thanks, John.

Now let's start off with farm fundamentals this quarter. The USDA just updated 2024 forecasts for net cash farm income as well as global supply and demand estimates. US net cash farm income is forecasted to be down over 20% from 2023 levels, albeit up from November estimates. At the same time, global stocks for corn and soybeans are expected to fully recover from decade lows, despite lower production in Brazil.

Josh Beal, can you provide some additional color on what this means for both farmers and equipment demand over the rest of 2024?

Josh Beal

Director, Investor Relations, Deere & Co.

Absolutely, Josh. I think that's a great place to start.

What's most important in this conversation is context. We've certainly seen better-than-expected crop production over the past six months. We had record corn yields in the US, recovering Argentina crop production is offsetting the losses you mentioned in Brazil, and two consecutive years of bumper wheat crops in Russia are offsetting

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losses in Ukraine and Australia. All of that is supporting rising carryover stocks which are putting downward pressure on prices, culminating in lowered expectations for crop margins.

All of these fundamentals are captured in the reduction in the US net cash farm income forecast that you cited. But it's important to keep the expected decline in context of where we've been. We're coming off three years of record farm income. The projected reduction puts us in line with historical averages that are still supportive of mid-cycle equipment demand. The punchline here is that farmers continue to be profitable at these levels.

In addition to farmer profitability, there's other factors that are supportive. The US fleet age remains above twenty-year averages for both tractors and combines. Used inventory in the US, while having increased, remains at manageable levels. Additionally, farm balance sheets are strong, with US farmland values up approximately 7% year-over-year and debt-to-equity ratios near all-time lows.

Outside of the US, we're seeing a similar story. Farmers remain profitable in both Europe and South America, albeit down from recent record levels. There's certainly caution in the market, particularly in the high interest rate environment that we're seeing, but we still expect to see replacement demand in both regions.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Thanks, Josh. It's helpful to understand where fundamentals are in relation to historical levels, and encouraging to hear that, despite a moderation in demand, there remains a supportive macro backdrop.

Aaron, from a sentiment standpoint, what are you hearing in your conversations with customers and dealers?

Aaron Wetzel

Vice President - Production &Precision Ag Production Systems, Deere & Co.

Thanks for the question, Josh. During my recent visits with both dealers and customers across North and South America these past few weeks, I've heard a similar sentiment from customers to what you've outlined. All are coming off record highs these past few years, and with lowering commodity prices and increasing interest rates, they're beginning to shift to a more typical replacement pattern.

Dealers in the US continue to see good demand for products and are proactively managing inventories as the underlying fundamentals of the market change. With this changing environment, customers are seeking opportunities to further improve their productivity and efficiency through the adoption of technology into their operations, technology that will enable them to reduce inputs, improve operational efficiencies, and address the labor challenges they face.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

That's great, Aaron. It's good to hear perspective from our customers and dealers. Now, Josh Beal, I'd like to pull on a thread you briefly have touched on earlier and ask about field inventory levels. Could you give us an update on where we stand today?

Josh Beal

Director, Investor Relations, Deere & Co.

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Absolutely. And it's probably best to start with new inventory. An essential element of our performance across the cycle is inventory management. We structure our production schedules to maintain the appropriate level of field inventory for wherever we are in the cycle. Notably, that's why we continue to produce to retail demand in the North America large ag market.

As we noted last quarter, we entered the year well positioned from a field inventory standpoint. And Q1 levels are consistent with normal seasonal changes, comparable with inventory-to-sales ratios from a year ago. With nearly 90% of orders sourced through our combine, sprayer, and planter early order programs, we have significant visibility into the balance of the year for those product lines.

Tractors are managed on a rolling order book, and as a quick update, we're currently taking orders into the third quarter for row crop tractors, while our 4-wheel drive tractors are full through the balance of the third quarter. All-in-all, we expect to end the year in the US and Canada positioned to produce in line with retail demand in 2025.

Let's move on to new inventory outside of the US and Canada. In Europe, we'll underproduce demand for the remainder of 2024 in response to softening market conditions.

In Brazil, we are already seeing progress from our efforts to reduce field inventory in response to the market pullback. Notably, combine inventory is down 25% on an absolute basis for the quarter, in line with our expectations. And we are on track to reach target levels by fiscal year-end. For both Europe and Brazil, our intent is to position 2024 year-end inventory so that we can produce in line with retail demand in 2025.

Aaron, I know you just got back from Brazil. Do you have anything you'd like to add?

Aaron Wetzel

Vice President - Production &Precision Ag Production Systems, Deere & Co.

Yes, in fact, just a few weeks ago, I had the opportunity to visit both dealers and customers in Brazil. I was able to spend time with both sugar cane producers as well as soybean customers in the Mato Grosso. Sugar cane customers are seeing strong price for sugar today and are making investments in equipment to drive efficiencies and productivity improvements. Our recently launched CH950 Sugar Cane Harvester is gaining adoption as it improves harvest efficiencies through its unique 2-row design, and delivers improved fuel efficiency for producers.

Our soybean customers are continuing to manage through the impacts from dry conditions in the region. Coming off historically high levels of profitability the last few years, our soybean customers are shifting to a more normal demand of product. Both customers are very optimistic for the future of Brazil, as planted area continues to increase and average yields continue to improve, creating even more production to support the growing demand for commodities globally.

Joshua Jepsen

Senior Vice President & Chief Financial Officer, Deere & Co.

This is Jepsen. Want to add is our continued focus in investing in Brazil for the long-term. During the last past quarter we announced an investment in a Brazil technology development center to focus on product and solutions suited for tropical agriculture. This should enable us to develop and deliver solutions for Brazil in Brazil and bring them to the market more rapidly.

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Joshua Rohleder
Manager, Investor Communications, Deere & Co.

Awesome. Thanks, all, for that additional color. It's great to hear about the developments and optimism in such an exciting growth market. Now, Josh Beal, do you want to switch over and touch on used inventory?

Josh Beal
Director, Investor Relations, Deere & Co.

Yeah, definitely. Within used inventory, in North America, we've seen year-over-year increases in both combines and tractors, most notably in the high-horsepower tractor segment. Again, to put these increases into context, while levels are up from recent lows, they're still in line with historical averages. Additionally, used prices have remained flat to up over the quarter. All in, we continue to feel comfortable with the used inventory levels that we're seeing.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

This is Jepsen again. It's also worth noting that most dealers experience an end-of-year seasonal increase in used equipment as they take in trades as they deliver new machines. This increase in used equipment typically occurs in the first half of the year, which our dealers are accustomed to handling. And in fact, I was just with some of our dealers from North America, Australia and New Zealand this past week and heard a consistent message from them. They feel comfortable with used inventory levels, especially when compared to where they were last fall. And many were able to proactively reduce inventory and are feeling good about where we're at today. All that to say, we feel comfortable where we are with current new and used inventory levels and with the plans we have in place to manage them.

Joshua Rohleder
Manager, Investor Communications, Deere & Co.

Thank you, all. That's really helpful perspective on what has been a topic of interest lately. And on that note, one overarching impact from this discussion that we've yet to address is the updated outlook for the quarter. Markets have clearly shifted this year, but we've maintained strong performance through the first quarter with 18.5% margins for our equipment operations. This clearly points to the structural improvement that we've achieved, bolstered by a 2024 forecast that would represent our second best year ever from an earnings standpoint. With that in mind, Josh Beal, can you walk us through what's transpired over the last three months and how that relates to the rest of the year?

Josh Beal
Director, Investor Relations, Deere & Co.

Yeah, great points, Josh, and definitely worth unpacking here. Let's start with our Production and Precision Ag and Small Ag and Turf businesses. Beginning with the quarter, we saw strong year-over-year price realization across both segments. It's worth noting, however, that we expect price realization to moderate throughout the remainder of the year, in line with our annual guide of 1.5 points for both segments. Relative to production costs, we saw material and freight come in lower for both large and small ag, leading to favorable year-over-year comparisons for the quarter. This is in line with our expectations to see slightly favorable production cost compares for both segments for the full year.

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Looking at SA&G, we had unfavorable impacts in the quarter from incentive compensation, timing of spend, which pulled costs forward into the quarter, and foreign exchange. Notably we don't expect the first quarter to be indicative of our SA&G run rate for the rest of the year as we're pulling levers in line with the rest of our operations.

Shifting to our outlook, we are seeing demand shifts in Production and Precision Ag impacting combines and large tractors, which is felt mostly in the back half of 2024. Conversely, we're seeing minimal change to our Small Ag & Turf outlook from last quarter as the dairy and high value crop segments remain stable. It's important to reiterate here that our plans in large ag to produce to retail demand in North America and underproduce retail in Brazil and Europe reflect our commitment to inventory and cycle management. This approach should position us well going into 2025 across all geographies.

Aaron Wetzel

Vice President - Production &Precision Ag Production Systems, Deere & Co.

This is Aaron. I'd like to add quickly, I believe the key opportunity here is our proactive management of production levels to adjust for the changes we are seeing in our end market demand. We have been highly effective in managing through the changing market dynamics in the US and will continue to remain focused on disciplined execution of our pricing strategies in order to maintain performance as we move through the cycle.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Thanks, Aaron and Josh. That's really helping bridge between the ag industry outlook and our Deere forecast.

Let's shift now to Construction and Forestry, which we haven't really touched on yet. Results for the quarter came in better than expected with margins slightly off year-over-year compares given flat sales levels. Josh Beal, can you walk us through how activity in the quarter has impacted our 2024 outlook?

Josh Beal

Director, Investor Relations, Deere & Co.

Absolutely. The key takeaway from the quarter is that underlying demand is stabilizing at levels higher than expected, while at the same time the industry has become more competitive given inventory availability. Looking forward, Deere inventory levels have recovered and are now in line with the industry.

We expect slightly stronger sales through the back half of the year, which is embedded in our updated outlook. Demand will be driven by key end markets where optimism remains strong. All of this is reflected in our order books, which for Construction and Forestry are full through the second quarter across most product lines, with compact construction equipment notably full through the end of the third quarter.

Joshua Jepsen

Senior Vice President & Chief Financial Officer, Deere & Co.

This is Jepson. I'd like to emphasize quickly the runway that remains on government infrastructure projects in the US. Through 2023 roughly 40% of the IIJA dollars have been awarded, but relatively minimal amounts have actually been spent thus far. Needless to say, we expect infrastructure spending to provide a strong tailwind well into 2025 and 2026 across both our construction and road building segments as dollars are awarded and projects commence.

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Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Thanks for that color, Josh. It really helps contextualize the opportunity ahead.

Shifting gears now, let's talk about the importance of managing across varying end markets. Josh Beal, coming back to you, can you walk us through what we're doing to manage the current environment?

Josh Beal

Director, Investor Relations, Deere & Co.

Yeah, for sure. First and foremost, it's proactive actions to ensure we stay ahead of demand changes. All of our factories and product lines have a list of levers we pull depending on the magnitude and direction of the volume change that we're seeing. Those efforts are ultimately grounded in our focus on inventory management, which we spoke about earlier.

The underproduction in retail in certain geographies and production of retail in North America directly reflect this laser focus on inventory management as a key pillar to maintaining price discipline and structural profitability across the cycle.

On the cost side, supply chain management is of utmost importance. Our team is working continuously to ensure not only that we're getting best price on purchased components, but that we're also maintaining a robust sourcing pipeline to ensure the resiliency of our supply base. This year, we are seeing the impact of our strategic partnerships and supplier agreements come to fruition. Additionally, we continue to design cost reduction into our products.

As noted previously, we expect the impact of these savings to drive year-over-year production cost favorability for our equipment operations despite headwinds in other spend categories.

Joshua Jepsen

Senior Vice President & Chief Financial Officer, Deere & Co.

One more thing to add here. All of this work ultimately impacts our decremental margins as we make decisions proactively, manage production and inventory levels. As we've noted, we'll underproduce in some regions which will impact decrementals as we dial down production faster than we realize savings from pulling levers. Additionally, we're negatively impacted by unfavorable mix from declines in high margin products like combines and tractors as well as geographies such as Brazil and North America.

Importantly, we continue to robustly invest in future value unlock opportunities.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Awesome. And that's a great segue into my last question, which is for Aaron. Historically, we've maintained consistent R&D spend throughout the cycle which in part reflects our commitment to leading through innovation. The ag industry is going through a precision ag revolution, and Deere has been on this journey for nearly 25 years. Aaron, can you give us an update on where we're at in our LEAP ambitions and Precision Ag journey?

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Aaron Wetzel

Vice President - Production &Precision Ag Production Systems, Deere & Co.

Sure. Within our Production and Precision Ag business, our LEAP ambitions are to help customers produce more with less, less inputs like herbicides and fertilizers and more productivity through more efficient use of labor. One measurement for this progress is through our engaged acre metrics where we are planning to achieve 500 million acres engaged by 2026. As customers use our machines and technologies, we expect to see those engaged acres continue to grow.

To propel this, we will continue to make significant investments in R&D, prioritized by the needs of our customers around the world and the value we can unlock. Our Production and Precision Ag strategy is predicated on three distinct pillars: product leadership, system leadership, and finally, go-to-market leadership.

Our products are our machines. They are the foundation of our work and enable customers to do the job in the field every day. Customers rely on our machines during critical times of the year, like planting or harvesting, and need those machines to perform. In fact, we will be reinforcing this focus through one of our most significant new product launches coming in a few weeks. Customers will see our commitment to provide them with the most advanced machines, new levels of productivity, and ability to perform their jobs faster and with more precision.

It's going to be exciting, and will have an impact on most of our Production and Precision Ag portfolio, again reinforcing our commitment to product leadership through industry-leading machine performance and quality.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Thanks, Aaron. It's great to hear about the foundational hard iron that enables us to invest in more advanced solutions. And it sounds like there's a lot more to come on the new product front, beginning with the Commodity Classic event the end of the month, so we'll wait to say anymore until then.

Now the second pillar you highlighted is system leadership. Could you start by defining this for us before breaking down what we're doing on this front?

Aaron Wetzel

Vice President - Production &Precision Ag Production Systems, Deere & Co.

Sure. The system is the key differentiating factor for us in the market. It's the integration of our technology solutions into our machines that make it easier for customers to more precisely plant seeds and apply chemicals and nutrients. The seamless integration of capturing the data from the action in the field and sending it to the cloud allows customers to make better decisions and develop more efficient and sustainable practices on their farms.

Our technology stack is helping growers reduce costs, improve efficiencies, as well as increase yields, generating more profitability for their operations. This translates to significant savings for them as well as more sustainable practices for the environment. And all of this is enhanced through the use of one key foundational technology: machine connectivity.

And for years we've been working with customers to connect machines through cellular connectivity. However, there are many areas of the world where terrestrial cellular connectivity is not available, like Brazil, for example, where nearly 70% of the current ag productive area does not have access to any connectivity.

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This is why we recently entered into an agreement with SpaceX to provide satellite connectivity for our customers, connectivity that will enable real-time data access which will drive cost savings and efficiency improvements in customer operations while also providing the foundation for future advancements in automation and autonomy. This will be key to addressing the growing labor challenges facing our customers today.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

That's really well articulated, Aaron. You can clearly see how complete system integration creates value well beyond any individual component, and how connectivity is foundational to unlocking this opportunity. The natural progression then from tech stack development and integration will lead us to the last pillar you noted, our go-to-market strategy.

Successfully designing precision equipment and technology is a feat within itself, but deploying these solutions is another challenge all on its own. What are we doing to solve this part of the equation?

Aaron Wetzel

Vice President - Production &Precision Ag Production Systems, Deere & Co.

Yeah. The third pillar of our strategy is around our dealer channel and our go-to-market capabilities to sell and support not only the equipment, but also the suite of technologies available for customers. Our dealers understand deeply the needs of their customers and where their customers are in their own technology journey as they work with each customer to provide them solutions to improve their operations.

Furthermore, we are providing the dealers with enhanced tools and capabilities to drive greater adoption and utilization of our technologies. We've launched our solutions as a service approach with customers where we're lowering the overall upfront cost of technology and shifting to a pay-as-you-go model. Our initial experiences have been extremely favorable as we engage a broader range of customers with our technology. Additionally, we're gearing up our precision upgrade offerings to further drive technology utilization on many of our existing machines in the field. See & Spray Premium is one of the latest products that enables customers with late model sprayers to take advantage of the savings that See & Spray provides. Early demand for this solution has been strong, and beyond our initial expectations.

Joshua Jepsen

Senior Vice President & Chief Financial Officer, Deere & Co.

And one more thing to add as it relates to go-to-market. We've seen tremendous response to our newly released Precision Ag Essentials upgrade kit, which is our display, receiver, and modem with a SaaS go-to-market approach, offering low upfront cost and annual subscription. Orders exceeded our expectations, and this approach allows us to reach deeper into the installed base of equipment as a large portion of the sales were incremental going to customers that did not previously have this level of technology on their existing machines.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Thanks, Aaron and Josh. That's a great update.

And before we open the line to questions, Josh Jepsen, any final comments?

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Joshua Jepsen

Senior Vice President & Chief Financial Officer, Deere & Co.

It was a good first quarter with strong results to get the year going. Fundamentals overall began normalizing across our businesses and are supportive of near mid cycle volume levels. We returned $1.7 billion in cash to shareholders through dividends and share repurchases during the quarter, while also investing in record levels of R&D to bring new solutions to market.

It was also exciting to see the team highlight some of our solutions at the Consumer Electronics Show in January that are unlocking value for customers, not just economic value, but sustainable value as well. The company's been through economic cycles in the past, and we know how to manage through various stages of end market demand. As John noted, we expect to perform better across all points of the cycle as evidenced by our nearly 19% equipe ops operating margin forecast just below mid cycle levels, while remaining focused on managing production and inventories proactively. We are, at the same time, focused on building a more resilient, less variable business, while delivering more value to customers than ever before. We will continue to adapt our business model to enable customers to adopt, use and benefit from our tech stack.

One important thing to consider, our customers do critical work to produce food, fiber, fuel, shelter, and infrastructure. The trend of fewer people going to work in these areas is not slowing, and we hear this from our customers each and every day. What this means is that our solutions need to do more, and no one is better positioned to meet our customers' needs than we are, given our ability to seamlessly integrate hardware, software, data, financing, and service and support. Importantly, our team of Deere and dealer employees get up each day with a purpose and passion to make our customers' lives easier and enable them to do more with less.

Joshua Rohleder

Manager, Investor Communications, Deere & Co.

Thanks, Josh. Now let's open it up to questions from our investors.

Josh Beal

Director, Investor Relations, Deere & Co.

Now we're ready to begin the Q&A portion of the call. The operator will instruct you on the polling procedure. In consideration of others and to allow more of you to participate in the call, please limit yourself to one question. If you have additional questions, we ask that you re-join the queue.

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question will come from Jerry Revich with Goldman Sachs. Your line is open.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Hi. Good morning, everyone.

Joshua Rohleder
Manager, Investor Communications, Deere & Co.

A

Morning, Jerry.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

I'm wondering if we – hi. Can we start the conversation on the revision to Precision Ag EBIT so coming down by about $500 million on a $700 million sales reduction? Obviously, you're off to a really good start in the year. It sounds like costs are tracking pretty well. Can you just expand on when do you expect a deterioration in performance and what's driving the revision this early considering how good the performance has been, and the implied decremental margin on that cut? Thank you.

Josh Beal
Director, Investor Relations, Deere & Co.

A

Yeah. No. Thanks for the question, Jerry. I think starting out if you think about our PPA guide and as we've noted in the change, we were a range at of down 15 to 20. We're now down in the lower end of that range. And a couple things I think to point out there.

We noted softening in Europe. We've seen that market pull back some. We've seen some more caution in that market. We're now noting that we're going to under produce retail in Europe. I think particularly noting that there's more weakness in Central and Eastern Europe given the ongoing conflict there in the region and what that's doing for trade flows, grain flows and disrupting that. So you're seeing a little more weakness. A little pullback in sentiment on the Europe side.

And although our guides are unchanged in North America, Josh Rohleder mentioned, we're probably at the higher end of that reduction on the North America guide. As we look at our order books, and as you know, we manage tractors on a rolling order book. We have seen some softening in velocity there on the tractor side, which is particularly causing us to look at back of half production and pull back a little bit there. So we're proactively taking underproduction in line with sales, again, notably producing at retail levels for North America but reacting to what we're seeing in the market.

As that relates to decrementals, I think Josh Jepsen noted this earlier. But certainly an underproduction in regions like Europe, like Brazil, has an impact on decrementals. I think the other thing to note, Jerry, is that there are mix elements. As we're pulling back in certain levels of production, there are high margin products that are coming out. Large tractors, combines in North America. Certainly regions like Brazil and in North America as well. That's

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bad mix as you pull out that, and it's a higher decremental that you're seeing in those particular regions. We are pulling levers to address that. But the savings that you see from those levers doesn't necessarily come through right away. So there's a little bit of a timing piece as well.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Yeah, Jerry. This is Josh Jepsen. The one thing I would add is we are continuing to – our order fulfillment model gives us good visibility. I think we have a good pulse on what's going on. And as a result, we're always going to make those adjustments more quickly than waiting. That allows our factories to get aligned, allows us to start driving those changes from a material demand perspective come through.

So, again, this is all really rooted in as we see that order velocity change, see some of the fundamentals change from a customer perspective, getting ahead of that to the extent possible, and positioning ourselves again to build in line with retail as quickly as we can. We're doing that in North America this year. Some of the changes that Josh mentioned will impact what we're doing in North America tractors and combines. But, again, a proactive approach and trying to being really mindful of knowing the sooner we see these things the more quickly we're able to make changes in our factories. So, thanks, Jerry. We'll go to our next question.

Operator: Our next question will come from Kristen Owen of Oppenheimer. Your line is open.

Kristen Owen
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Good morning. Thank you for taking the question. Somewhat of a follow-up to the first here. It's just help us contextualize the headwind that you're assuming from that underproduction in Europe and Brazil. How much of the guide difference is related to that underproduction versus some of the incremental North America mix and effects that you've outlined? Thank you.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Hey, Kristen. It's Josh Jepsen. Yeah, good question. If you look at the change, I'd say from the underproduction, underproducing in Brazil, which we'd planned on and we're executing on in the first quarter, and then Europe, that's probably about a point drag of operating margin for Production and Precision Ag. So that's a decent piece of that. And then as we noted, we've seen just a little more shift in demand in North America. But about a point on that underproduction.

I think important to note here, and we talk and underproduction in Brazil and some of the challenges that we faced last year coming into this year. In spite of that, we're seeing in our South American business still really strong performance. And I think evident of structural profitability improvement across the company, but even underproducing there somewhat significantly, we're doing mid-teens margins in the region. So we feel good about what we're doing there, the shifts and changes we've made to our business. And again, that's mid-teens margins while underproducing and making sure we're getting inventory in the right spot. So thanks, Kristen. We'll go to our next question.

Operator: Next, we will hear from Chad Dillard with Bernstein. You may proceed.

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Chad Dillard
Analyst, AllianceBernstein

Q

Hi. Good morning, everyone.

Josh Beal
Director, Investor Relations, Deere & Co.

A

Hey, Chad.

Chad Dillard
Analyst, AllianceBernstein

Q

So you guys have done a lot structurally over the last like couple of years to reduce your costs. I was hoping maybe you could update us with how much you're seeing. And then secondly, I think you talked a little bit about seeing some levers that you could pull to further reduce cost. Could you give a little bit more color on that, please?

Josh Beal
Director, Investor Relations, Deere & Co.

A

Yeah. Thanks for the question, Chad. I think we're encouraged by what we're seeing on production costs. I think that's evidenced in performance in Q1. You saw that favorability in both Small Ag and Turf and in large ag in that performance. Yeah, so we're feeling good about what we're seeing. We talked about it in some of our comments but it's negotiating and partnering, frankly, with our suppliers on component costs. We certainly had an opportunity to bring some of that down.

We continued to design cost reduction into our products as well. Then we're pulling levers on other parts of the business as well, whether that be SA&G and other areas where we do have opportunity to adjust as we see demand shift. And so we're making those – we're pulling those levers and think we have opportunity in front of us.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Yeah. Chad, one thing I'd add on the overhead side. We do see some headwind on overheads, and that's a couple items. Some is just the impact of adjusting production volumes in the time it takes us to see those things come through. The other is we have a contractual step-up from our labor contract and that's impacting us here in 2024 as well.

John C. May
Chairman & Chief Executive Officer, Deere & Co.

A

Yeah. Chad, this is John May. Maybe one more thing to add. Certainly, we're not going to forget about managing the fundamentals of the business, and we'll remain absolutely focused on that. If you think about the things we can control, it's all about disciplined execution within the factories. It's all about focus on quality. That drives cost, if you slip at all on that, and then cost management.

And then to your point of tackling costs, if you go back to 2020, if you remember when we first started the Smart Industrial strategy, we did a significant restructuring that positioned the company where it is today to perform at higher levels regardless of where we are in the cycle. But thank you for that question.

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Chad Dillard
Analyst, AllianceBernstein

Q

Thank you.

Joshua Rohleder
Manager, Investor Communications, Deere & Co.

A

Next question?

Operator: Our next question comes from Angel Castillo with Morgan Stanley. Your line is open.

Angel O. Castillo
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning and thanks for taking my question. I was just wondering if we could get a little bit more color on the net operating cash flow. It looked like the move there was maybe a little bit – a bigger cut than they implied it by the net income. So just curious on the pieces there. And you talked about your own inventories and just any incremental color around working capital and any other kind of levers that are impacting cash flow.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Yeah. Thanks for the question, Angel. Yeah. A couple of things to note there. As you know, we did bring down the cash flow forecast a bit, and a big piece of that is described or is part of our net income reduction. There's a couple other levers at play or things at play there. I think first, working capital assumptions, we expect that there's a little bit, maybe another half or so of explaining the differences from changes in working capital.

We still expect inventory to be favorable to cash in 2024 but a little bit less so, and that's reflected in the adjustment. The other piece is we're seeing some higher level of balance in our portfolio at John Deere Financial. That impacts how much cash we bring back from the financial operation to equipment operations. So that really explains the balance of the change. Thanks for the question.

Operator: Thank you. Our next question comes from David Raso with Evercore ISI. You may proceed.

David Raso
Analyst, Evercore ISI

Q

Hi. Thank you for the time. I was curious, the thought about replacement demand and the market fundamentals are supportive of purchasing at replacement demand. Can you help us how you're thinking about where retail sales will be this year versus replacement demand? Like you're saying basically one-for-one. And obviously when you model out, you obviously think about replacement demand in coming years. What is the base case right now for replacement demand, say, next year versus this year? I know it's just a framework analysis, but if you can help us with, again, retail this year versus replacement and how to think about underlying replacement beyond this year. Thank you.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Yeah, morning, David. It's Josh Jepsen. I'll start. I would say in 2024, I think we're relatively aligned kind of on replacement to retail. And again, the dynamics of the fleet fundamentals, would say, hey, we're still relatively

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aged. We're above our long-term averages on high-horsepower combines, slightly above the long-term average. So the fleet age, while coming through a few years of strong demand, really has not gotten tremendously younger from where we've been in the past. So I think that continues to be supportive.

The one other thing I would note is the incremental tool we have this go-round that we maybe didn't a decade ago is our ability to drive technology, and technology that can directly impact our customers' bottom line, so taking cost out, improving their profitability, improving their margins. And I think that is particularly helpful for us.

As we think about precision upgrades, the ability to go back across the installed base of machines, we mentioned a few things. We've got a limited launch on See & Spray retrofit, which is called See & Spray Premium. Or the Precision Ag Essentials, which I noted. We're seeing strong uptick. It's allowing customers to get into these machines. We're going deeper in installed base and driving incremental business.

So I think the combination of the desire to take costs out of their operations and improve overall productivity and profitability will remain. And we think that's particularly important.

Thanks, David. We'll go to our next question.

Operator: Our next question comes from Steven Fisher with UBS. Your line is open.

Steven Fisher
Analyst, UBS Securities LLC

Q

Great. Thanks. Good morning. You gave us some color on the visibility of the order book. But on the lower large ag sales outlook, I guess, to what extent was that guidance reduction driven more by what you're actually seeing at the level of the order books today on that visibility versus really the momentum and the sentiment indicators and the grain prices are suggesting? Just curious how you frame the confidence you have in the second half outlook. Do you think you've gotten enough ahead of where that momentum is trending at the moment? Thank you.

Josh Beal
Director, Investor Relations, Deere & Co.

A

Yeah. I mean thanks for the question, Steve. Our best indicator of demand is our order book. And I think that was by and large the biggest driver here as we made these adjustments. We noted, large tractors as we looked velocity of orders, and we mentioned route into the third quarter on orders, but we do see velocity moderating there. And given that, I think that was a big driver of the change for the segment this quarter was reflecting what we're seeing in our order books.

Again, we talked some of the other changes beyond that. Similarly, I think some softening in the European side and some desire to take down inventory there is the other piece.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Steve, the one thing I'd add is the other thing we watch closely is what's going on with used. What's happening with used inventories, what's happening with used prices. And what we've seen is we've seen some uptick in used combines for example in used high horsepower, but still relative to historical in decent shape.

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And pricing's held in pretty well. I think we've seen combines from a quarter ago have been up slightly. High-horsepower tractors have been flat. However, watching that trend and being mindful and lessons learned from the past would tell us, hey, we want to make sure we're exercising good caution there, knowing where our order books are, but also what are some of the leading indicators. And that's been a bit of guide for us as well as we think about our revision here?

Steven Fisher
Analyst, UBS Securities LLC

Q

Thank you very much.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Thanks, Steve. We'll go to our next question.

Operator: Our next question will come from Tami Zakaria with JPMorgan. Your line is open.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Thank you so much. I was curious about the partnership with SpaceX. Could you give some color on how exactly this gets integrated into your products? Is this more about a tech enhancement that will come as a default in new machines? Or is there more to come? And more importantly, how do you think this partnership can be monetized over the long term, be it in terms of share gains or price-mix gains or maybe subscriptions? So any color there would be helpful.

Josh Beal
Director, Investor Relations, Deere & Co.

A

Yeah, thanks for the question, Tami. And I'll tell you, we're really excited about this. Aaron mentioned this in some of the opening comments, but connectivity is the foundation of Precision Ag. And candidly there are regions around the world where there are gaps in the connectivity. We talked about a 70% gap in Brazil, even 30% gap in the US as it relates to the total ag farmland. And so as we've introduced this, it provides a solution for that gap and really is a foundational piece to introducing new technologies.

And what I would tell you is, is that the level of interest we've seen from growers really exceeded our expectations as we came out with the announcement. And what it really presents, it's an opportunity to make Precision Ag work in our operations. In the very near-term it provides benefit today in terms of things like access to data, remote data access, in-field data sharing, which enables customers to run their operations better. And this also serves as the foundation for future technology. So as you think about autonomy in the future and the opportunity that that presents, a foundational piece of this is getting the connectivity on our machines.

Aaron, was there anything else you'd add there?

Aaron Wetzel
Vice President - Production &Precision Ag Production Systems, Deere & Co.

A

Yeah. First of all, it's super exciting to be able to announce the relationship with SpaceX and the value that this really unlocks for our customers, particularly in the areas where we don't have connectivity available to them.

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Just having been in Brazil a few weeks ago and talking to customers there, they're very excited about the opportunities this presents for their operations, being able to now connect their machines and to be able to do the things that Josh just referenced.

In the short term, we'll be planning a retrofit solution as we bring this to market towards the latter part of 2024 and make this more fully available in 2025 and beyond. What the intent would be is to bring that into factory installed options available for customers. At the end of the day, we want to provide the tools for our customers to be able to take advantage of the full tech stack and be able to improve the operation and the efficiencies of their farms, and this is a key enabler for them to do that. So we're excited about the future that this brings.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.
A

Hey, Tami, it's Josh Jepsen. To one part of your question there around how does this – as we create value, how do you monetize? I think there's a couple things.

One, we would expect these to come through a solutions-as-a-service model. And on top of that, as you enable automation and enable autonomy, that comes with the combination of hardware and the potential for more of a SaaS solution as these things are getting better over time and there's ability to continue to improve on those products.

So this is foundational, particularly for Brazil. But we think it's going to drive a key component of how we think about solution-as-a-service going forward.

John C. May
Chairman & Chief Executive Officer, Deere & Co.
A

Yeah, Tami. You can tell we're excited. This is John May. I just want to jump in as well. The trend is definitely customers are wanting higher levels of technology, and they want us to rapidly accelerate that in markets where they don't have the infrastructure to support it.

Telematics, obviously, and this satellite solution gives us the ability to transfer data onboard and offboard to the machine. But we also have several, several products that rely on that telematics connection, whether we're sharing maps between machines, planters in a given field. So we're going to monetize it through additional technologies that we offer today in markets like North America. We'll be able to quickly adapt those products and solutions now that we have this connectivity in markets like Brazil, and we're really excited about it.

Thanks for your question.

Operator: Thank you. Our next question will come from Nicole DeBlase with Deutsche Bank. Your line is open.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Yeah, thanks, guys. Good morning.

Josh Beal
Director, Investor Relations, Deere & Co.
A

Morning.

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Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Just wanted to ask about particularly within Production and Precision Ag, any help that you guys can give on quarterly cadence from here of both revenue and margins? Like, is that underproduction more focused in the second half? Are you guys really going after that in the second quarter? That would be really helpful. Thank you.

Josh Beal
Director, Investor Relations, Deere & Co.

A

Yeah, great – thanks, Nicole. I mean, I think as you look at overall equipment operations, we'd expect Q2 to be down relatively more than the down for the rest of the year. Although pretty, pretty close. PPA, though, it's a little bit of a different story. That's a little bit more back-half loaded. Q3, Q4 is I think where you'll see more of the reduction coming out of the PPA segment.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Yeah, Nicole, I think from a seasonality perspective, I think 2024 looks a lot like 2023, a more normal distribution in terms of quarterly splits. So expecting strongest top line margin in 2Q would remain. So not a significant change from a seasonal split perspective in terms of how the business looks.

Thank you. We'll go ahead and go to our next question.

Operator: Our next question comes from Steve Volkmann with Jefferies. You may proceed.

Stephen Volkmann
Analyst, Jefferies LLC

Q

Great. Thanks, guys. I wanted to go back to the ideas around the sort of decremental margins here, because Josh Jepsen, I think you said that you were sort of looking to prioritize reduced volatility. But obviously these decrementals early in the downturn look pretty big I think relative to what we were expecting. So can you just update us on what normal decrementals should be as we think through a longer downturn? And any implication for how we should think about 2025 I guess is what I'm trying to think about. And then what an incremental might look like as well, if there's just any update there. Thanks.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.

A

Hey, Steve. It's Josh Jepsen. I would say we're running right now. If you look at the total equipment operations, our forecast is probably in the range of 37%, 38% overall across the businesses. And obviously there's a range there from 30% to just in the low 40% on the Production and Precision Ag side.

That Production and Precision Ag piece, clearly impacted by the underproduction there. I mean historically that's probably on the decremental side run higher, closer to 45%. I think we're seeing a shift in structurally how we perform and driving that down. And I think ex-underproduction would be 40% or maybe a touch better.

But I think our focus areas, yeah. Can we manage this across these businesses in this range of, from an equip ops perspective, in between 35% and 40% and as we continue to execute, drive that down lower?

Now part of that, to your question, one of the points you made is the ability to drive less variability in our business. Certainly continuing to execute on our life cycle solutions strategy helps there. The solutions as a service, which

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we just talked about with SATCOM as an example and some of the things we're doing on the precision upgrade side. Also, we think we can continue to build a base of revenue and profitability that is much less reliant on just end-market demand in terms of new units and volume each and every year. So we're focused there. We're going to continue to execute, but we feel good about the opportunity we have there. Thanks, Steve.

Joshua Rohleder
Manager, Investor Communications, Deere & Co.
A

Probably have time for one more question.

Operator: Thank you. And that last question will come from Tim Thein with Citigroup. Your line is open.

Tim W. Thein
Analyst, Citigroup Global Markets, Inc.
Q

All right. Thanks for squeezing me in. Yeah, I suspect we'll hear some early feedback on the Crop Care EOP on next quarter's call. And obviously the commodity price backdrop heading into planting season in North America looks like it'll be less supportive than last year. And I think there was also some uniqueness in terms of the tightness in new and used sprayers a year ago.

So maybe this is best for Aaron. I'm just curious if you can share any thoughts as to how you expect this will play out. And back to the earlier point around early indicators for next year, do you expect that to be as useful of a signal for large ag demand in 2025? And then I guess, importantly, how you expect you'll approach pricing on that. So thank you.

Joshua Jepsen
Senior Vice President & Chief Financial Officer, Deere & Co.
A

Yeah. Thanks, Tim. Hey, this is Josh Jepsen. Maybe I'll start. I would say as we look at going forward, we're early. We'll roll out those early order programs in the June timeframe, beginning on planters and then sprayers to follow, or in that range.

You're right. Last year, we saw a little bit of a bifurcation between those. And those generally have looked similar. We saw planters incrementally a little bit weaker than sprayers, and sprayers have been constrained. So there has been some difference in what we've seen there.

I think importantly, to your question of, do we think it's going to be a good indicator, I would say, yes. I think that's always a good opportunity for us to get a pulse on how are folks thinking after they've got a crop in the ground. What are they looking at in terms of upgrading their planters and sprayers, and also level of technology?

And the ability for us to also go back and make trade-ins for folks that do want to upgrade their technology and take those trade-ins and upgrade them for the second or third customer I think will be important as well. And our dealers are investing in that activity. They're investing in the capabilities to do that, I think which is really important.

So go ahead, Aaron.

Aaron Wetzel
Vice President - Production &Precision Ag Production Systems, Deere & Co.
A

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Yeah. I don't know that I could add much more to what Josh said, other than I think given some of the new technologies we're bringing out across both planters and sprayers, we expect customers to want to take advantage of that for their operations. But we'll closely watch the EOP activity as it transpires through the period and adjust accordingly once we see how things roll out.

Josh Beal
Director, Investor Relations, Deere & Co.

A

Thanks for the question, Tim.

Josh Beal
Director, Investor Relations, Deere & Co.

And that's all the time we have for today. We really appreciate everybody calling in and thanks for joining us. Have a great day.

Operator: Thank you. That does conclude today's conference. Thank you for participating. You may disconnect at this time.

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