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# Deere & Co. (DE)

Q3 2024 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to the Deere & Company Third Quarter Earnings Conference Call. Your lines have been placed on a listen-only mode 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, Chief Executive Officer; Josh Jepsen, Chief Financial Officer; Luke Gakstatter, Senior Vice President-Ag & Turf, Sales & Marketing for Americas and Australia; and Josh Rohleder, Manager of Investor Communications.

Today, we'll take a closer look at Deere's third quarter earnings and 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 [johndeere.com/earnings](http://johndeere.com/earnings).

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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](http://johndeere.com/earnings) under Quarterly Earnings & Events.

I will now turn the call over to Josh Rohleder.

### Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

Good morning, and thank you for joining. John Deere completed the third quarter with disciplined performance amid a tough macro backdrop. Financial results for the quarter included an 18.5% margin for the equipment operations. Ag fundamentals remain muted, and market demand in Construction & Forestry has tempered alongside continued price competition, resulting in another quarter of overall challenging market conditions.

Despite tougher markets in both ag and construction, we continued to execute to our plan, focusing on proactive inventory and cost management. Notably for the quarter, we adjusted rest of year production schedules in our earthmoving product line to target lower year-end field inventory levels. As a result, order books across all segments are effectively full for the remainder of the fiscal year as we position our business to respond to

changes in retail demand. These actions, along with the continued focus on cost control, are essential to keeping our business healthy as we continue to invest in future growth.

We'll now begin with slide 3 and our results for the third quarter. Net sales and revenues were down 17% to \$13.152 billion, while net sales for the equipment operations were down 20% to \$11.387 billion. Net income attributable to Deere & Company was \$1.734 billion or \$6.29 per diluted share.

Now, looking into our individual business segments, we'll start with Production & Precision Ag on slide 4. Net sales of \$5.099 billion were down 25% compared to the third quarter last year, primarily due to lower shipment volumes, which were partially offset by price realization. Price realization was positive by slightly more than 2.5 points. Currency translation was negative by a little more than 1 point. Operating profit was \$1.162 billion, with a 22.8% operating margin for the segment. The year-over-year decrease was primarily due to lower shipment volumes and employee separation program expenses. These were partially offset by price realization and lower warranty expenses.

Next, we'll turn to Small Ag & Turf on slide 5. Net sales were down 18% year-over-year, totaling \$3.053 billion in the third quarter because of lower shipment volumes, partially offset by price realization. Price realization was positive by more than 1.5 points. Currency translation was negative by just under 0.5 point. Operating profit declined year-over-year to \$496 million, leading to a 16.2% operating margin. The decrease was primarily due to lower shipment volumes and higher warranty expenses, which were partially offset by price realization.

Slide 6 gives our 2024 industry outlook for Ag & Turf markets globally. Across all major markets, we continue to see muted demand, resulting from a challenging macro environment. Global stocks of grains continue to rebuild, with excellent growing conditions leading to better-than-expected production and lower commodity prices. High interest rates and geopolitical uncertainty further weigh on customers' purchase decisions, resulting in reduced demand across all end markets.

In the US and Canada, we continue to expect large ag equipment industry sales to be down approximately 15% during the quarter. Demand continues to be pressured by declining farm margins and elevated used inventory levels in late model year machines, which is partially offset by an elevated fleet age, rising farmland values, and stable farm balance sheets. Within Small Ag & Turf in the US and Canada, industry demand estimates remain down approximately 10%. Further declines in the turf and compact utility tractor segments, which are more sensitive to interest rates, are partially offset by improving dairy and livestock fundamentals.

Turning to Europe, the industry is forecasted to be down approximately 15%, reflecting yield headwinds and weakened margins. Volatile weather patterns continue to drive commodity price and arable cash flow uncertainty, which is enhanced by slightly elevated input costs. However, dairy and livestock fundamentals remain healthy, providing moderate stability to the segment.

In South America, we expect industry sales of tractors and combines to decline between 15% and 20%. Commodity price softening and elevated interest rates continue to pressure grower profitability, especially in Brazil, our largest market in the region. Fundamentals are further pressured by better-than-expected production in Brazil, despite regional weather challenges and a slower-than-forecasted recovery in Argentina. Industry sales in Asia are forecasted down moderately.

Moving on to our segment forecast, beginning on slide 7. Production & Precision Ag, our net sales forecast remains down between 20% and 25% for the full year. The forecast now assumes roughly 2 points of positive

price realization and flat currency translation for the full year. For the segment's operating margin, our full year forecast remains between 20.5% and 21.5%, despite muted demand.

Slide 8 covers our forecast for the Small Ag & Turf segment. We expect net sales to remain down between 20% and 25%. The guide now includes 2 points of positive price realization and flat currency translation. The segment's operating margin continues to be forecasted between 13.5% and 14.5%, in line with slowing net sales.

Shifting now to Construction & Forestry on slide 9. Net sales for the quarter were down 13% year over year to \$3.235 billion due to lower shipment volumes. Price realization was negative by 1 point. Currency translation was also negative by more than 0.5 point. Operating profit of \$448 million was down year-over-year, resulting in a 13.8% operating margin due primarily to lower shipment volumes, unfavorable sales mix, and negative price realization.

Slide 10 provides an update to our 2024 Construction & Forestry industry outlook. Industry sales for earthmoving equipment in the US and Canada is now expected to be down 5% to 10%, while compact construction equipment in the US and Canada is now expected to be flat to down 5%. Demand for earthmoving and compact construction equipment is down from robust levels of 2023 and increasingly competitive as rental re-fleeting decelerates and used inventory levels rise. While US government infrastructure spending remains supportive and manufacturing investments continue to increase, we are witnessing a sequential slowdown in single-family housing starts amid interest rate uncertainty. This is compounded by continued declines in multifamily housing starts and persistent weakness in the commercial real estate sector.

Global forestry markets are projected to remain down around 10% as all global markets continue to be challenged. The global roadbuilding market forecast remains flat to down 5%, as strong infrastructure spending in the US is offset by continued softness in Western Europe.

Moving on to Construction & Forestry segment outlook on slide 11. 2024 net sales estimates are now expected to be down between 10% and 15% as moderating demand is coupled with planned underproduction. Net sales guidance for the year now includes about 0.5 point of positive price realization and flat currency translation. The segment's operating margin is now projected to be around 15%, reflecting a tougher competitive environment, decelerating demand, and underproduction of construction equipment.

Transitioning to our financial service operations on slide 12. Worldwide Financial Services net income attributable to Deere & Company in the third quarter was \$153 million. Net income was lower due to a higher provision for credit losses and less favorable financing spreads, which were partially offset by a higher average portfolio and favorable discrete tax items. For fiscal year 2024, our outlook for net income is now at \$720 million as benefits from a higher average portfolio balance are expected to be more than offset by a higher provision for credit losses and less favorable financing spreads.

Subsequent to the quarter, we announced an agreement with Banco Bradesco to invest and become 50% owners in our Brazilian financing subsidiary, Banco John Deere. This strategic decision reduces incremental financing risks, while allowing for a continued investment and growth in the Brazilian market. The transaction is expected to close in the second fiscal quarter of 2025. In our quarterly results, we classified Banco John Deere as a business held for sale, which resulted in a net impact of a pre-tax and after-tax loss of \$15 million, accounted for in SA&G within the Financial Services segment.

Next, slide 13 outlines our guidance for Deere & Company's net income, our effective tax rate, and operating cash flow. For fiscal year 2024, we remain – we maintain our outlook for net income at approximately \$7 billion. Next,

our guidance continues to incorporate an effective tax rate between 23% and 25%. And lastly, cash flow from the equipment operations is now projected to be in the range of \$6 billion to \$6.5 billion.

And finally, on slide 14, I'd like to hand it over to John May to say a few words.

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## John C. May

*Chairman & Chief Executive Officer, Deere & Co.*

Thank you, Josh. The third quarter was another solid quarter, thanks to the efforts of the entire John Deere team, in partnership with our outstanding dealer network and supply base. As mentioned in the opening comments, our customers across nearly all business segments are facing headwinds, including softer commodity prices and elevated interest rates. Against this backdrop, I'm extremely proud of our team's unwavering commitment to and execution of our key priorities. They have navigated the business cycle through proactive inventory management and disciplined cost control, while continually striving to deliver value to our customers.

Effective cycle management begins with ensuring that inventory levels are appropriately aligned to end-market demand. Throughout 2024, we've prudently and proactively adjusted production schedules in our Large Ag business at a faster pace than ever before in order to reduce field inventory in our end markets. This quarter, we made a similar adjustment for many of our earthmoving product lines in North America in response to signs of moderating demand. We will also continue to focus on reducing used inventory levels, particularly in North American Large Ag for the remainder of the year.

As we approach the start of fiscal 2025, the lean levels of field inventory resulting from these actions will best position our operations in both segments to respond effectively to changes in market demand. Proactively managing our production schedules also facilitates disciplined cost control. In this lower volume environment, we've made challenging decisions that impact both our factories and our offices to ensure that our cost structure aligns with current market demand. And while these actions have been hard and certainly not something we take lightly, they help us maintain our competitiveness throughout the business cycle, allowing us to continue investing in the products and solutions that empower our customers to address their unique challenges.

That is our ultimate purpose: delivering value for our customers. In the near term, this means continuing to build and ship the highest level quality and most productive equipment to our customers. I want to extend my heartfelt gratitude to all of our John Deere team members who have maintained this commitment at the highest level throughout 2024, despite necessary adjustments we've had to make in our operations. None of this happens without a high-performing team that shows up to deliver for our customers every single day.

In the medium and long term, our ability to deliver value for our customers is rooted in Deere's unique position to help them do more with less by developing precision solutions that leverage our extensive product portfolio, our vertically integrated tech stack, and unparalleled service and support.

Looking ahead, we are optimistic about the opportunities before us. Our machines are delivering ever greater cost savings and promoting sustainable operations for our customers. We see significant potential to leverage our existing technologies across various production systems, enabling us to scale innovation and enhance value delivery across our customer base. Ultimately, this results in a continually expanding offering of solutions that drive improved outcomes for our customers, dealers, and Deere alike.

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## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

Thank you, John. This concludes our formal comments. We'll now shift to discussions on a few topics specific to the quarter. Starting off with Deere's performance in the third quarter, net sales declined approximately 20% year-over-year, but we still saw our operating margin come in at over 18%. Clearly a challenging macro environment, but we've managed to hold margins.

Josh Beal, can you kick us off with what happened this quarter?

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## Josh Beal

*Director-Investor Relations, Deere & Co.*

Absolutely. Thanks, Josh. As you mentioned, our strong margin performance is encouraging, given the difficult market backdrop, particularly as we pull the inventory management levers that John noted. In both ag segments, we saw declines in net sales as end user demand continued to soften. However, by keeping inventories in check, we've been able to maintain solid price realization.

In addition, our strategic partnerships with our supply base are helping drive down material and freight costs, which are offsetting overhead efficiencies as we bring down production rates at our factories. In Construction, we saw a downshift in demand and an uptick in used inventories as rental re-fleeting cooled and home starts slowed amid interest rate uncertainty, all while a competitive market environment drove increased incentive spending.

This put pressure on both volumes and price in the quarter. And, as a result, we adjusted our North American construction equipment production schedule for the rest of the year to lower our ending field inventories and better position us for 2025. And with roughly two months of order visibility in the segment, we are confident in our ability to execute our plan.

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## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

Great recap, Josh. On your note about the challenging quarter and decline in demand, farm fundamentals are clearly top of mind right now with corn, soy, and wheat prices all down more than 15% year-over-year, which brings down farm margins as well. Can you walk us through what we're seeing and what this means for both farmers and equipment demand?

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## Josh Beal

*Director-Investor Relations, Deere & Co.*

Sure. It's definitely a tough – different and tougher environment today than it was a year ago. If you take North America as an example, on the one hand, farmers are experiencing one of their best crops in years, thanks to excellent weather conditions. But then, on the other hand, the high levels of production resulting from these strong expected yields are causing crop prices to decline, as you mentioned. Although input costs are projected to be down this year, it's not enough to offset the lower commodity prices, leading to projected year-over-year declines in farm net incomes, which ultimately puts pressure on equipment demand.

Brazil is experiencing a similar situation in North America with ag commodity prices softening due to replenished global supplies, another year of near-record yields, and expansion of soybean acreage. Unit profitability for Brazilian customers is magnified by persistently high interest rates in the region, leading to further pullbacks in equipment sales.

In Europe, farm investments continue to soften as weather uncertainty pressures crop yield estimates. And while living conditions remain tight, input costs have remained elevated in the region, leading to depressed margins and

weaker farmer sentiment. However, steady prices and reduced input costs in the dairy and livestock segment are providing some moderating tailwinds on what is otherwise a challenging equipment demand environment in the region.

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## Joshua Jepsen

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

This is Jepsen. One important note regarding fleet fundamentals is that North America, we continue to see an elevated fleet age, which enables replacement purchases. Additionally, strong balance sheets are providing support in a downturn, driven by farmland values that are up nearly 5% year-over-year. So, while it's definitely a challenging market for customers, there are some supportive factors to account for.

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## John C. May

*Chairman & Chief Executive Officer, Deere & Co.*

Yeah. This is John. I'd like to share an additional thought. Last week, I was in Brazil speaking with some of our customers in the region about the near and long term prospects for agriculture in the country. The near term, while the market has experienced a decline, it appears to be more stable now than it was just a few months ago, which is encouraging for 2025. Looking ahead, there is a strong sense of optimism regarding the region's prospects, with significant opportunities still on the horizon. One customer mentioned that his business has structurally improved over the years. He is eager to continue investing in solutions and technologies that enhance productivity and profitability. Deere is committed to supporting this need through ongoing investments in the region as we continue to introduce new product and technologies, specifically designed in Brazil, for Brazil.

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## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

Perfect. Thank you, all, for that great color. Now, with that context on ag fundamentals, I'd like to move on to our early order programs in North America to better understand how this is translating into equipment sales for model year 2025. Luke, our EOPs typically account for roughly 90% of our production for seasonal products each year. Can you walk us through what's transpired so far as we begin to get some insights into next year?

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## Luke Gakstatter

*Senior Vice President-Ag & Turf Sales & Marketing, Americas and Australia, Deere & Co.*

Absolutely, Josh. It's probably best to start with what's changed in our process year-over-year. Historically, our early order programs would leverage multiple phases to help shape demand and fill our production schedules. Under this approach, generally speaking, the earlier an order is placed in the program, the greater the discount for the customer. Now, during the last few years of constrained supply, this all changed, and we leveraged more of an allocation approach in attempt to meet our dealer and customer needs in a time of high demand.

Now, given the return to more moderated demand, we have returned to our traditional approach of multiple phases with tiered discounts for products like planters, air feeders, sprayers, and combine. Planters and sprayers opened earlier this summer and are currently in their second or third phase, while combines just opened last week with list price increases across all EOPs currently in the 2% to 3% range. Tractors, as a reminder, are on a rolling order book, with roughly four months of visibility, providing confidence in our production plans as we close out the portfolio.

Now, as we shift and talk about progress on our early order programs, coming off last year's near peak demand levels, the model year 2025 sprayer EOP is currently down double digits. That said, orders are tracking slightly

above pre-2022 EOP volumes. Planter sales are also down double digits and down relatively more than sprayers on a year-over-year basis. It's worth noting that historically, we have seen greater variability with implement sales throughout the ag cycle when compared to self-propelled product lines. And given North American planters were another product well above mid-cycle volumes in 2024, it is not unexpected to see a larger reduction with planters relative to sprayers this year.

Additionally, history would tell us that in times of uncertainty, we typically see more activity at the end of the EOP phases compared to the beginning as customers time their purchases to better align delivery with their seasonals. The current high interest rate environment further extends this trend as both customers and dealers look to minimize carrying costs and be as efficient as possible with their assets.

While planter and sprayer EOP orders are down for model year 2025, tech adoption continues to accelerate as customers adopt precision solutions to help increase profitability amidst a tougher macro environment. Across our more established solutions, we have seen average adoption rates well above 80% with ExactApply in particular up nearly 10 points.

For our newest and most advanced offerings like ExactShot and See & Spray, we are seeing healthy adoption rates during the first year. And in particular, our See & Spray technology has achieved high single-digit take rates in its first full year of commercial availability, at a pace commensurate with historical precedents.

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## Joshua Jepsen

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

One thing to highlight beyond just the take rates for our latest solutions is the feedback we're receiving from both customers and dealers on the efficacy of the technology. We continually hear that See & Spray savings are meeting or exceeding expectations, and that the ROI pencils out. That said, See & Spray does require significant shifts in the way our customers manage their crop care programs. Everything from what chemicals they buy, to how much they buy, to how often they're tendering their equipment in the field must change, which is a significant investment on the part of the customers.

We understand this, which is why we are more committed than ever to dealer engagement and customer success, ensuring we provide the solutions, support, and, most importantly, the outcomes that our customers need to succeed.

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## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

Thanks for the additional detail, Josh. And, Luke, if I can come back to you once more, we've covered ag fundamentals, which, in turn, has resulted in early indications on our planter and sprayer EOP sales. How does this relate to inventory levels? Can you give us an update on how we're progressing in our inventory management plan?

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## Luke Gakstatter

*Senior Vice President-Ag & Turf Sales & Marketing, Americas and Australia, Deere & Co.*

Yeah. You bet. And just as a reminder, our decision to under-produce is rooted in our learnings from the last cycle. Given that, we began taking actions last year and again this year to drive inventories lower. And while this has caused some short term pain, it is the right plan to manage the cycle and better sets us up for whichever way the market moves.

And so with that, I would start by highlighting our situation in Brazil. This market has remained challenged, as you noted earlier. However, we significantly under-produced the market. And despite the industry demand declining more than anticipated, we've still seen inventory declines so far this year and fully anticipate that this trend will accelerate throughout the remainder.

Relative to the North American Large Ag segment, we are beginning to see the impacts of our proactive inventory management decisions with absolute units of new inventory declining double digits over the past quarter, outpacing the industry. We expect further reductions to occur during the fourth quarter, which is in line with historical trends. And while we expect our inventory to sales ratios, which remain below industry levels, to end the year at roughly the same level as last year, this reflects a material decrease in the absolute number of units.

In fact, to put this into perspective, on an absolute basis, we are forecasting to end the year with less than one row crop tractor per dealer level.

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## Josh Beal

*Director-Investor Relations, Deere & Co.*

If I may jump in and quickly add some color to Luke's comment on rest of the year reductions in North America, the underproduction of large tractors we highlighted last quarter will be a significant driver of the implied margin decline in our fourth quarter. For example, our guide contemplates planned shutdowns of our 8 Series tractor production line in Waterloo, Iowa for about 50% of the total production days in the quarter, which will have a material impact on our decremental margins.

It's important to note here that these are shutdown days rather than line rate shifts, as we work to implement our planned underproduction for fiscal 2024 as efficiently as possible while remaining agile enough to respond to any future demand changes next year.

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## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

That's a great point to highlight, Josh. And, in fact, we're taking that approach at other factories around the world. For example, our 6-Series tractors in Mannheim, Germany are also planning a similar shutdown for roughly a third of their fourth quarter production days. This will have an impact on small ag margins as well.

But to shift back to inventory levels, Luke, can you walk us through the used side?

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## Luke Gakstatter

*Senior Vice President-Ag & Turf Sales & Marketing, Americas and Australia, Deere & Co.*

Certainly. On the used inventory side, we've seen total units increase across all product lines year-over-year. While combines did peak near 10-year averages last quarter, we have since seen volumes retreat as dealers work through normal intra-season swing. As we look to finish out the year and into 2025, one of our primary focus areas is used equipment.

To that end, last week, we hosted our dealer CEOs and key leaders at various locations across North America. Our message to our dealers is clear: reduction in used inventory was our number one priority right now, and we were further committed to helping them drive down used inventories.

Furthermore, we rolled out additional programs and tactics to support them. The best example would be our increase in pool fund, which, as a reminder, are dollars dealers earned from new sales that can be applied as

incentives to used equipment. We expect this and other additional tactics to help them sell through late-model, high-horsepower tractors and combines to best position us for next year.

Overall, as I reflect on the meetings with our dealers, I came away with a strong sense of optimism on three important points. Number one, incredibly strong alignment and focus between Deere and our dealers on managing used inventory differently from previous cycles. Two, our strategy of high-quality iron, combined with world-class technology, supported by the best dealers in the industry, is a winning strategy that is delivering incremental value to our customer. And I heard a number of examples of this last week. And, three, that despite headwinds in the industry, there is still strong support for Deere and dealers to continue to transform in areas that add significant customer value. Examples of this include even higher levels of tech utilization, along with greater investment in the tech stack and life-cycle solutions.

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## John C. May

*Chairman & Chief Executive Officer, Deere & Co.*

Yeah. This is John. I'd like to add one additional point to share. I recently spoke with one of our largest dealers in the US who said, he does not expect this downturn to be as prolonged as the last cycle. He noted that the proactive steps we are taking to manage inventory are reinforcing that sentiment.

As Luke mentioned, Deere and our dealer network are working together to navigate this cycle differently. We are taking action more quickly and making more aggressive decisions to ensure that inventory levels remain balanced as markets soften. And our dealers are working closely with each customer to better rationalize equipment replacement schedules this time. We fundamentally believe that these actions will lead to more favorable cycle dynamics than in previous downturns.

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## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

Thanks, Luke and John. That's a great summary on both the current state of the industry, as well as the proactive measures we're taking to manage it.

Turning now to Construction & Forestry, we previously mentioned some increased volatility this quarter. Josh Beal, can you further break down what's happened and what that means for the final quarter of the year?

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## Josh Beal

*Director-Investor Relations, Deere & Co.*

Yeah. Definitely, Josh. This is really a story of two businesses, earthmoving and roadbuilding. While our roadbuilding business continues to experience more stable volumes, we've seen some hesitation in earthmoving equipment purchases. Project demand for our earthmoving customers has remained relatively unchanged. However, those same customers are seeing increased competition on their job bids, as well as higher financing costs and overall higher equipment carrying costs following years of – recent years of high inflation.

That means that while still profitable, many customers are experiencing lower profitability compared to just a year ago. And as a result, we are seeing some slowdown in order velocity, which is reflected in our guidance update. Additionally, rental CapEx spending has diminished with investments in construction equipment at multiyear lows following years of robust re-fleeting.

Recall that Deere, along with the industry, has been rebuilding our field inventory levels over the past several years. With the recent softening that we've seen, we are taking steps similar to those in our ag business to under-

produce retail demand in both our construction and compact construction equipment segments through the remainder of the year to best position ourselves for 2025.

From a pricing perspective, we continue to see robust competition in the market. This, coupled with rising inventory levels, has required the deployment of additional incentives into the market, resulting in net pricing declines this past quarter.

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## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

Great. Thanks, Josh. And now, for a final question. This quarter included a few special items. Josh Jepsen, can you walk us through those, as well as the overall state of the business before we open up the line to investors?

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## Joshua Jepsen

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

Yeah. Absolutely, Josh. I'd like to start by echoing John's appreciation to our entire John Deere team for their adaptability and resilience to the changes in demand and their continued commitment to delivering for our customers. This quarter, we made difficult decisions to structure the business to align with current market conditions. This involved a mid-single-digit reduction in our global salaried workforce, resulting in a onetime expense of approximately \$150 million for the business, \$125 million of which was booked in the third quarter while delivering roughly \$230 million in run rate savings. The net impact for 2024 is expected to be an expense of about \$25 million.

Given the velocity of the market pullback we've seen this year, this has also created volatility in our working capital. As a result, we've seen a downward revision to operating cash flow guide. However, it's important to note that there are – our cost management actions, whether that be our supply management teams that are driving down production costs, or focus on reducing inbound and outbound freight, or engineering teams working diligently to design out costs from new equipment and retrofit solutions are yielding savings in 2024 on material and freight, which gives us confidence in our ability to deliver on our net income guide of approximately \$7 billion this fiscal year.

And these cost management actions are an example of the many things our team is doing every day to drive a structurally better business that has capital available to invest in value-enhancing products, solutions, and support to help make our customers more productive, profitable, and sustainable each and every day. And, as we do that, all stakeholders of John Deere will benefit.

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## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

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

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question comes from Jamie Cook from Truist Securities. Please go ahead.

**Jamie Cook**

*Analyst, Truist Securities, Inc.*

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Hi. Good morning. I guess just my first question – or my one question, then I'll get back in queue, the – I was surprised you guys were able to raise your price assumption for 2024 in Precision & Production Ag to 2% from 1.5% just given the fundamentals. So, can you talk to what the factors were behind that? Any color on pricing per region? And does that include discounting? And just receptivity to the price increases you announced for 2025. Thanks.

**Josh Beal**

*Director-Investor Relations, Deere & Co.*

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Hey. Thanks, Jamie. Good – thanks for the question. Yeah. I mean, as you think about pricing for the year, and we've talked – we tend to think about normalized pricing is in that range of 2% to 3%. And we've really seen that all year in both our North American market and in our European markets. As you know, as we've talked before, in Brazil, we have been talking about negative price this year in 2024, and with the high inventories that we had to enter the year. Notably in the quarter, we had actually flattish price realization, actually slightly positive in Brazil. So, we've seen that turn a little bit. It harkens back to some of the stabilization that John mentioned in the market.

Additionally, on the back half of the year, we had planned some incentives as we were facing used inventory levels. We didn't have to deploy as many of those in the quarter, and we're seeing favorable price there as well.

As you talk about early order programs for 2025 and the price there, I think Luke gave some color on how that's building over the course of the year, I think, at a very sort of normal rate to what we've seen historically in time to build. So, that pricing seems appropriate.

**Joshua Jepsen**

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

A

Hey, Jamie. It's Josh Jepsen. One thing I would add to – a little bit to your question is, our incentive is included in that number, and they are. So, when we talk about incremental pool funds that Luke mentioned to help move used in the full year, that's in. So, that raise in the net price from 1.5% to 2% for Production & Precision Ag embeds what we're doing from an incentive perspective. So I think continuing to be disciplined in how we manage that, but also mindful of how we best position inventory, both new and used as we roll into 2025. But thank you.

**Jamie Cook**

*Analyst, Truist Securities, Inc.*

Q

Thank you.

**Operator:** Next, we'll go to the line of Angel Castillo from Morgan Stanley. Please go ahead.

**Angel O. Castillo**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Thanks for taking my question, and congrats on a solid quarter. Just wanted to dig in a little bit more into the Construction segment. You talked about implementing an underproduction strategy, similar to what you've been doing in Ag. Can you talk about the magnitude of that, how much you're planning to under-produce?

And you noted, I think, rising inventories. So, as we think about how long this can kind of persist, do you anticipate for this to be kind of continuing into fiscal 1Q or 2Q? And just kind of what the magnitude is that you think you need to work through in terms of underproduction, and just how that maybe relates to your ability to get price in the next few quarters? Thanks.

**Josh Beal**

*Director-Investor Relations, Deere & Co.*

A

Yeah. Thanks for the question, Angel. Yeah. Maybe starting on the field inventories, we – as you recall, we have been building inventories over the past year or so. But this year, construction equipment, pretty much producing in line with demand. We feel like we got field inventories at a level that's very normal within our inventory band.

As we mentioned, we did see some softening over the past quarter. We had a couple months of down retail sales for the industry. Actually came out last night as well. So, I think it's now three months running of down retail sales for the industry, and a little bit of softening in order velocity. And given that, we've made the decision to proactively bring down inventory levels to the lower end of those bands. Again, we're sitting at pretty normal levels now on Construction Equipment. And so what that will amount to is about mid-single-digit underproduction in Construction Equipment for this year.

On Compact Construction, we were still building some inventory this year. We'll under-produce a little bit in the fourth quarter there. But net for Compact is still pretty much production in line. In fact, building inventory this year, net on Compact Construction.

**Joshua Jepsen**

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

A

Yeah. Angel, I would say, I think as you contemplate inventory levels and where we're planning, as we look to execute this underproduction and see our retail plans come through in 4Q, we think that positions us really well for the year to come. And in – we would not expect to see dramatic changes there, but the guide would be – or the goal would be to build it in line with retail as we step forward. Thank you.

**Operator:** Next, we'll go to the line of Tami Zakaria from JPMorgan. Please go ahead.

**Tami Zakaria**

*Analyst, JPMorgan Securities LLC*

Q

Hey. Good morning. Thank you so much. So, I wanted to build on the pricing conversation. I think you mentioned 2% to 3% pricing in the EOP order books for seasonal ag products. Could you share any comments on what you're seeing on the construction side? Are there any orders in the books for next fiscal? And if so, can you comment on what kind of pricing you're seeing for that segment?

**Josh Beal**

*Director-Investor Relations, Deere & Co.*

A

Hey, Tami. We wouldn't have a guide yet for 2025 on pricing. I think definitely in the construction market, we talked about increased levels of price competition. We're seeing that. We did lower our full year guide down to 0.5 point for 2024, given some of the increased pressure. And then that would imply for Q4 flattish pricing for the segment. And so we're definitely balancing price with share as we navigate the competition in the market. But, again, for the full year, we're expecting to see about 0.5 point of price. Thanks.

**Operator:** Thank you. Next, we'll go to the line of Jerry Revich from Goldman Sachs. Please go ahead.

**Jerry Revich**

*Analyst, Goldman Sachs & Co. LLC*

Hi. Yes. Hi. Good morning, everyone.

Q

**Josh Beal**

*Director-Investor Relations, Deere & Co.*

Hey, Jerry.

A

**Jerry Revich**

*Analyst, Goldman Sachs & Co. LLC*

John – hi. John, in the prepared remarks – and, Luke, you mentioned this as well – the focus on keeping this downturn shorter than in prior cycles. I'm wondering, as you folks look at the moving pieces for 2025 that you shared with us on this call, so sounds like we've got headwinds from the weaker demand that you laid out in the early order program. But we've got tailwinds from underproduction of \$2 billion of dealer inventory destock this year. We have list price increases, and it sounds like there's some cost takeout opportunities. So, I'm wondering if there are any other moving pieces that we should be keeping in mind as we think about 2025 as consensus estimates have earnings with essentially flat 2025 versus 2024.

Q

**Josh Beal**

*Director-Investor Relations, Deere & Co.*

Yeah. I'll maybe start, Jerry, and then, John, feel free to jump in. I mean, certainly as we think about the dynamics that we're seeing in early order programs, I think one thing to note is that the sprayer and planter EOPs, when they were open last summer, we still had corn. They open that – corn was about \$6 a bushel, and then they closed at over \$5 a bushel.

A

And so Luke mentioned this in his comments that those are two product lines that were basically at peak volumes again in 2024. And so some early indication there as we're seeing that cycling, Luke talked about down double digits on both of those. It's just not necessarily a read-through to all product lines, just given the dynamics of those particular individual product lines.

But given that, and we've been talking this all year, is the setup for controlling what we can control, and that starts with inventory management. And so as we talked in Large Ag, this is a global statement. But globally, high single-digit underproduction for the segment across all regions is really setting us up to be well-positioned at the low end of our inventory band as we enter in the year.

In addition to that, there's been – by making those production adjustments, there have been some cost headwinds that have come into the business this year as we ramped down production. We've seen some overhead inefficiencies as we've made those adjustments. So, that kind of nets out to a positive tailwind next year, as well

as some of the cost actions that we've taken. Josh Jepsen mentioned the run rate savings on the workforce adjustment. That will be tailwinds into 2025 as well.

So, again, we don't know fully what the year looks like in 2025. We're getting some early reads, but we are doing what we can, both from an inventory and cost standpoint to set us up.

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### John C. May

*Chairman & Chief Executive Officer, Deere & Co.*

A

Yeah. Jerry, thanks for the question. One of the things we did right away when we started to see some demand soften, we went back and looked at prior periods of where we saw the industry start to cycle downward or soften. And we saw a lot of mistakes that we made, and, frankly, the industry made as well. And we decided this time, we were going to control what we can control. And we were going to act with speed, action, and tight collaboration with our dealer channel. And that's all about taking out inventories, under-producing retail demand. It's all about taking out excess costs and restructuring the business to function in a much leaner environment. In the past, that might have taken us 2 to 2.5 years to react. We reacted in the first quarter, and I'm really proud of the team for doing that. And while the changes are difficult and sometimes it's hard on the employees, it's the right thing to do.

The other thing, Jerry, I'd just like to mention is, the team also knows it's important while you're doing this to remain focused on what matters, and that's disciplined execution, continue to execute in the factory. Obviously, proactive inventory management. We've got to build high-quality products, and make sure that we're meeting our customers' needs. And then cost the business, structure the business in a way that allows us to be – continue to be profitable and generate the money we need to continue to reinvest in our business and our portfolio. So, thank you for that question.

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**Operator:** Next, we'll go to the line of David Raso from Evercore ISI. Please go ahead.

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### David Raso

*Analyst, Evercore ISI Institutional Equities*

Q

Hi. Thanks for the time. Yeah. The spirit of the question is related to how to look at the fourth quarter. If people are trying to figure out what's that kind of run rate annualized, adjusting for seasonality, I guess that – I have a question, but just clarification in the first and the fourth quarter. The net income guide for the year implies EPS for the fourth quarter around \$4.20. But if you run it from the business segment level, it's more implying only \$3. So, I don't know if it's something one-off in the fourth quarter. Like, sometimes it's a non-service pension income, right, when that's a big income flow from better asset returns. It's not in the segments, it's in other. But we have the tax rate guide, we have all the segment guide, we have FinCo. So, just given the importance of how people are looking at the fourth quarter, what's that \$1.20 EPS gap?

And the real question is, all right, we have the fourth quarter, we have a lot of shutdowns. Can we still think about the first quarter of 2025, the second quarter 2025 in a normal seasonal way for large ag – call it, global ag, right? Global ag is usually down 20% first quarter versus the fourth. And then it goes up over time, it's like 50%. Is the fourth quarter in that similar pattern? The setup that we should think of it is down 20% in the first quarter and then goes up from there? Or is the fourth quarter so low, it doesn't have to go down sequentially? So, that's the spirit of the question is that fourth quarter number, just a clarification, and how to think about normal seasonality. Have we altered that with how deep the cuts are in the fourth quarter? Thank you.

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### Joshua Jepsen

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

A

Hey, David. Thanks for the question. This is Jepsen. I think maybe to start, we don't think the fourth quarter is indicative of how you would run into 2025. And the biggest reason are the underproduction in those shutdowns that we've talked about. So, Waterloo 8 Series tractors, half of the production days in the fourth quarter we're not producing. Harvester combines, it's something like two-thirds of the production days we're not operating. Similarly, Mannheim, Josh Rohleder mentioned, a third of days we're under-producing pretty significantly in construction equipment in the fourth quarter as well.

So, that is – even though typically we have some shutdown and more on the seasonal product like combines, we pulled that back much more significantly in the fourth quarter. And you're right, margins, EPS will suffer as a result of that. But we don't think that is a good launching point from an EPS perspective or how we run from a margin perspective into 1Q 2025. While we don't have a 1Q 2025 guide, I would say, because of that underproduction, probably the typical seasonal patterns in sales should not follow to what maybe they would have historically. Thanks, David.

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**David Raso**

*Analyst, Evercore ISI Institutional Equities*

Q

And the gap in the fourth quarter? Oh, come on, the gap in the fourth quarter. What – I'm just – clarification, please.

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**Joshua Jepsen**

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

A

I think what you see there, it's really the operational aspects of what we see flowing through from a margin perspective. So, I think that's the biggest driver. I don't see anything significant from a kind of below the line that would drive a significant delta there.

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**David Raso**

*Analyst, Evercore ISI Institutional Equities*

Q

We can talk offline...

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**Joshua Jepsen**

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

A

Thank you.

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**David Raso**

*Analyst, Evercore ISI Institutional Equities*

Q

...but it is a pretty big gap. Thank you.

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**Operator:** Next, we'll go to the line of Kristen Owen from Oppenheimer. Please go ahead.

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**Kristen Owen**

*Analyst, Oppenheimer & Co., Inc.*

Q

Hi. Thank you for taking the question. Also, a little bit of clarification on some of the prepared comments and some of the Q&A afterwards. I just want to make sure I understand. Inventory-to-sales ratio in the third quarter, looks like that was flat from 2Q. Just help us understand difference in end user demand versus those production declines. And then how we should still think about building to a target of 10% inventory-to-sales. Is that still the

outlook? Just a little bit more granularity on some of those comments that you made on the inventory-to-sales ratio. Thank you.

**Josh Beal**

*Director-Investor Relations, Deere & Co.*

A

Yeah. Hey, Kristen. Thanks for the question. Yeah. As you talk about greater than 100-horsepower tractors, you're right, flattish from a IS ratio quarter-over-quarter. I think it's important – it's such a broad range, the 100-horsepower. It's better to look at – if you look at 220 horsepower-plus, we're now down about 20%. Down to about 20% IS ratio as we exit Q3, which is a pretty normal spot to be. And we are – if you talk about that in absolute units, it's about a 10% reduction in absolute units in the field over the quarter.

So, we are seeing the progress that we anticipated. And as we mentioned last year, we talked about – we ended the year at about 15% inventory-to-sales on 220 horsepower-plus. We expect to be at that level or better. So, maybe a little bit higher than we were talking 10% last quarter, but still on that range of at or lower than the 15% IS ratio that we exited 220 horsepower-plus last year.

**Joshua Jepsen**

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

A

Yeah. Kristen, this is Jepsen. I think one thing, too. If you look at 100 horsepower-plus, we're around 30%, 31% inventory-to-sales ratio. I think the industry ex-Deere is closer to 70%. So, we're running particularly lean in that and we feel good about that and how we're executing in that regard. So, we're going to keep kind of, as John mentioned, controlling what we can there and managing inventories and working really closely with the dealers to execute on those new and used plans. But thank you.

**Kristen Owen**

*Analyst, Oppenheimer & Co., Inc.*

Q

Thanks.

**Operator:** Next, we'll go to the line of Joel Jackson from BMO Capital Markets. Please go ahead.

**Joel Jackson**

*Analyst, BMO Capital Markets Corp. (Canada)*

Q

Hi. Good morning. Thanks for taking my question. Maybe drilling down more on some of your See & Spray early feedback commentary. Maybe you could talk about – you talked about how your – the efficacy, the ROIs, all hitting what you thought on some of the early days here. Can you maybe elaborate on that? What are the components that you're really seeing that are working like you thought? What are the lessons you've learned that maybe you've got to work on and do a bit better as you get some real-world experience now with some volume?

**Josh Beal**

*Director-Investor Relations, Deere & Co.*

A

Hey, Joel. Welcome to the call. Good to hear from you. Yeah. I'll start, and then maybe, Luke, you want to jump in with some feedback from the field. As you'll recall, Joel, this year in 2024, there's a limited release of See & Spray, both on our Ultimate solution – factory-installed Ultimate solution and on the Premium retrofit. And I think we've been very, very encouraged by the results in the field for those operators that have gotten in and used the technology. Josh Jepsen mentioned, they're seeing savings on their herbicide at or better than their expectations. For I think See & Spray Premium as an example, greater than 50% savings for the folks that had it in the field.

I think what you're seeing is – it is a new technology. And Josh Jepsen mentioned this as well, that changes a lot about how our growers do their operations, everything from how they buy their chemical to how they tender their chemical in the field. The efficacy also drives a change of operation.

I think we're seeing customers figuring that out in the first year of use. Some of our top-end customers putting a lot of acres on See & Spray as they're figuring out how to use it. I think you've had some others in that segment of that limited release this year that are kind of in a trial phase as they figure out how to best implement that into their operations. But I think the net takeaway is that everyone's feeling good about the technology and the efficacy, and now it's about implementing and adopting it into their business.

I don't know, Luke, if there's anything you want to add.

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**Luke Gakstatter**

*Senior Vice President-Ag & Turf Sales & Marketing, Americas and Australia, Deere & Co.*

A

I think that's well said, Josh. And as you look at the performance we've seen across 2024, we've been incredibly encouraged by the number of acres that are – we're seeing See & Spray utilized. We're also encouraged by the feedback we're hearing from both customers and dealers.

And, Josh, you said it earlier, I think one of the biggest opportunities we continue to have is working with the growers as they think about it from an overall production system in terms of how do they do their tending and how do they do the setup. And those are things that we continue to collaborate with our dealers on to help those customers be able to work through those opportunities.

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**Joshua Jepsen**

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

A

Yeah. This is Jepsen. Maybe one thing to add, just for perspective. When we rolled out ExactEmerge, so really revolutionizing planting, doubling the speed of planting, more precise in terms of seed placement. First year for that was 2015, and we did about a 10% take rate. So, to be in not a terribly dissimilar spot with See & Spray, which is arguably probably a bigger step function change and maybe a bit more disruptive to how you have to plan and execute, yeah, we think it's a good start. Obviously, tons of opportunity, and then we're going to keep working on this. And delivering that outcome for the customer becomes really important. Thank you.

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**Operator:** Thank you. Next, we'll go to Mig Dobre from Baird. Please go ahead.

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**Mircea Dobre**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Thanks. Good morning. Just a clarification on inventories for me as well. If I look at your slide 15 where you discussed Canada and US inventories, the way I'm interpreting that table, to me, that looks like your unit inventories in both two-wheel drive tractors and combines are flat versus a year ago. Do correct me if I'm wrong here. But if that's the case and I understand it correctly, I'm sort of curious as to how your production cuts actually flow through here. I mean, is there a natural lag that we should be thinking about? And if we think about what you're going to report next quarter or Q1 of 2025, how should we think about these metrics given your production cuts? Thank you.

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**Josh Beal**

*Director-Investor Relations, Deere & Co.*

A

Yeah. No. Great question, Mig. Good to hear from you. Yeah. I mean, I think as you – as we talk about North America specifically and the inventory there, recall that primarily for North America, it's been a focus on building in line with retail. The one segment of the industry where we're under-producing is on row crop tractors, and you're seeing that pull down into 220-horsepower-plus. Again, a lot of that is going to happen in the fourth quarter. We mentioned Waterloo being shut down half the days in the quarter. So, it's a significant underproduction quarter. On top of that, Q4 for tractor retail tends to be a very strong retail quarter as well. So, that's going to be a big quarter for drawdown on the row crop side.

But you're going to see underproduction in combines as well. That's part of normal seasonality. You're probably having some more underproduction this year. Again, Josh Jepsen mentioned two-thirds of the days at harvester will be shut down in the quarter. So, we'll have some significant drawdown there. So, we're very much in line with kind of normal seasonality and a lot of those product line. But, again, you'll see that typical drawdown, and probably a greater-than-normal drawdown in Q4.

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### John C. May

*Chairman & Chief Executive Officer, Deere & Co.*

A

Yeah. Josh, I think another important point here is, in my career, I've never witnessed the level of alignment with our dealer network that we have today focused on proactively managing the cycle while investing in our future together. Our dealers are this time playing a critical role in providing differentiated support that is critical to uptime, reliability, and overall customer support. So, we have full alignment with our dealers, they're working on inventories, and they're continuing to serve the customers in an industry-leading way. So, we're really pleased with where we are.

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### Josh Beal

*Director-Investor Relations, Deere & Co.*

A

Thanks for the question, Mig. I think we've got time for one more.

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**Operator:** And for our final question, we'll go to the line of Chad Dillard from Bernstein. Please go ahead.

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### Chad Dillard

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Hey. Good morning, everyone. Just had a question for you guys on decrementals in the fourth quarter. Is there something you could frame, like, how big the under-absorption impact would be from underproduction across, like, the three segments of yours? So, for example, for Production & Precision, it seems like decrementals are in the 50% range versus a more typical 35%. I was hoping if you could just kind of walk through those moving pieces. Thanks.

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### Joshua Jepsen

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

A

Hey, Chad. This is Jepsen. I think, yeah, I mean, decrementals, a bit higher in 4Q compared to what we've done through the year, the underproduction, the biggest driver far and away. I don't have a good impact on just the fourth quarter. But if you look at the full year, the underproduction is probably 1.5 points to 2 points of margin drag. And that's more than what we would have contemplated earlier in the year. But in that range for the full year, and fair to say, the majority of that impacts 4Q. And a bit to David's question, really weighs on what we see from an absolute margin perspective, but also on decrementals in the quarter. Thank you.

## Joshua Rohleder

*Manager-Investor Communications, Deere & Co.*

Thanks a lot. That's all the time we have for today. We appreciate everybody calling in, and thanks for joining us.

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**Operator:** Thank you, all, for participating in the Deere & Company third quarter earnings conference call. That concludes the call for today. You may disconnect at this time, and have a great rest of your day.

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