

# Deere harvests bumper returns for top investors

The farm vehicle giant has a hard-to-match competitive advantage and intense customer loyalty.

BY MILES COSTELLO

To some investors, buying an agricultural stock in a digital age might seem a bit pedestrian. Perhaps they should try climbing into the cab of a John Deere tractor.

Or maybe drive one of the company’s combine harvesters, which boast cab-mounted cameras that monitor crop heights and volumes, and satellite-linked data-gathering systems that can predict and manage the year’s yields.

The American company that makes the distinctive green and yellow farm machinery, known to the stock market as Deere & Co (US:DE), has become a world leader in the design and manufacture of state-of-the-art agricultural equipment.

Its machines are a lesson in the way technology has become a central part of modern farming, helping to make every part of the process – from ploughing to harvesting – more productive, cost efficient and sustainable.

As well as agricultural kit, where it is the world’s biggest player, Deere makes machines for use in construction, forestry and logging, and even for the military, all of which adds diversity to its appeal.

The company’s fundamentals look pretty user-friendly too. Sales have grown by just under 40% over the past three years, while net profits have risen by more than 70% in the same period. The shares have been volatile for three years, but they have nevertheless increased in value more than fourfold during the past decade.

## Elite following

Deere’s qualities have attracted the interest of some of the world’s best-performing investors. A dozen of them, each among the top 3% of the 10,000 equity fund managers tracked by Citywire, own shares in the New York-listed group. This has led to the company winning an AAA rating from Citywire Elite Companies.

Among the supporting managers are Paul and Thomas Meehan, who run the Meehan Focus Fund. They say Deere is the highest-quality manufacturer of what they call ‘mission-critical’ agricultural equipment and has been for more than 100 years.

‘We like the business because the world’s population continues to grow but the amount of arable land does not, and this creates steadily rising demand for Deere’s products,’ the two managers said.

‘The company’s competitive advantages, of which there

are many, start with a large and growing dealer network that Deere has spent decades cultivating.’

They note that the dealers typically only sell Deere products and provide post-sale parts and services themselves. This offers something a competitor would find hard to replicate.

‘In addition, Deere has been a pioneer in integrating sophisticated technology into its equipment,’ the managers said. ‘These innovations enhance farm efficiency by reducing input costs and

## Deere & Co’s top Elite Investors

Elite Investor	Fund	Weight in fund	Rank in fund
<a href="#">Paul Meehan</a> and <a href="#">Thomas Meehan</a>	<a href="#">Meehan Focus</a>	1.8	18/26
<a href="#">Ted Randall</a> , <a href="#">Daniel Ong</a> , <a href="#">Eduardo Repetto</a> and <a href="#">Mitchell Firestein</a>	<a href="#">Avantis US Large Cap Value</a>	1.1%	18/250
<a href="#">Timothy Snyder</a>	<a href="#">JP Morgan US Research Enhanced Equity</a>	0.8%	28/167

Sources: Citywire/Morningstar, latest holdings data.

increasing crop yields, which in turn boost farm earnings.

'As a result, Deere's products enjoy intense brand loyalty from their customers, as well as healthy pricing power. The high capital investment and specialised nature of the machinery limit the desire for farmers to switch to a competitor.

'In addition to Deere's strong competitive position, its shares are attractively valued, selling at a meaningful discount to their five-year average price-to-earnings ratio and to the overall market.'

## Under pressure

The group, which generates about two-thirds of its sales from agriculture, has been riding high for the past two years as farmers bought new equipment again in the wake of a pandemic-driven slump in 2020. Its strong position in its markets also helped it push through price rises as inflation began to soar.

However, Deere, and its share price, have been under pressure since February, when the company reported stronger-than-expected quarterly figures but briefed investors to

expect this year's net profits to come in between \$7.5bn and \$7.75bn. This was as much as \$500m below its previous guidance and considerably short of last year's result, and prompted some analysts to claim spending on agricultural equipment was heading for a downturn.

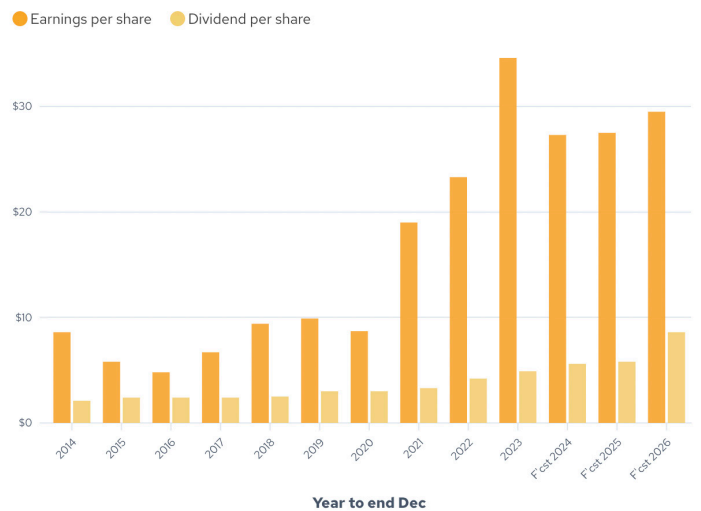
This is where the investment case for Deere comes into its own. While the company will always be vulnerable to the ups and downs of economic cycles, it is moving to counter this by aiming to generate 40% of its revenues from recurring sources, such as software and maintenance contracts, by the end of the decade.

Deere's tech wizardry should also be instrumental in helping farmers achieve what they need to over the longer term, which is to grow more food for more people on ever-decreasing amounts of land. The data-gathering iPads in its vehicles' cabs are there for precisely that reason.

## SpaceX out

It is no accident that Deere has agreed a deal with Elon Musk's SpaceX outfit to beam satellite-based internet services to farmers in remote locations

## Deere's earnings and dividends forecast to recover swiftly



Source: FactSet, consensus broker forecasts and adjustments

CITYWIRE

through SpaceX's Starlink network. Trials are to begin later this year for a partnership that can only help boost crop yields for more farmers.

Elite investors remain unworried by the near-term decline in Deere's price. Daniel Ong, senior portfolio manager at Avantis Investors, said: 'It

is common for a company's stock price to be pushed down significantly after management provides disappointing guidance. These lower prices may present investors with return premiums that can be attractive.'

### Key facts

Market capitalisation	\$112bn	Price	\$401
52-week high/low	\$450 / \$346	Return on capital employed	18.6%
F'cst price to earnings	14.6	F'cst dividend yield	1.4%
F'cst EPS growth	-12.2%	12 mth share price	1%

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