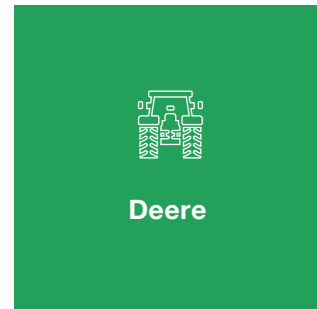


Deere

Agriculture equipment maker

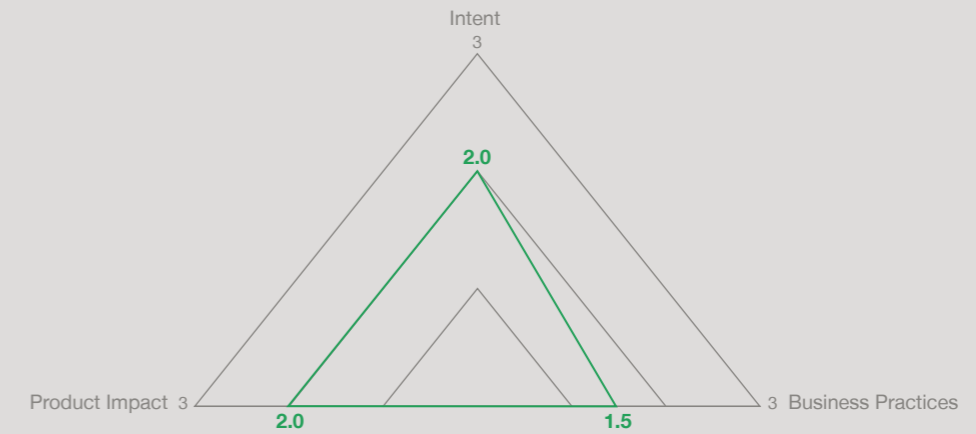


Deere is the world's largest agriculture equipment maker and the leader in precision agriculture.

Investment Case

<p>What challenge is the Company tackling?</p>	<p>In 2050, the world's population is expected to reach around 9.73 billion people, and thus global food production will need to increase by between 24% and 70% to meet this demand. However, other rising factors such as climate change, urban sprawl and soil degradation will reduce the amount of farm land available, meaning that we will need to grow more food on less land. Improving agriculture productivity while reducing its negative environmental impact will be crucial for a more sustainable food system going forward.</p>
<p>Is the Company's offering sufficiently different and better than the status quo?</p>	<p>In the past, farming equipment makers have focused on bigger, more powerful machines, so fewer people are needed and more land can be farmed. Now, precision agriculture is likely to play a crucial role, using sensors, data and automation to improve yields and reduce fertiliser and pesticide usage to achieve more sustainable food system. Deere's scale means the company can invest far more into new agriculture technologies than its competitors. Then, there is scale in distribution. Deere can fit new technologies onto their machineries and its dealers can train farmers on how to use new features. This could be an important advantage as driving adoption of new technologies in farming is not easy.</p>
<p>Is there a committed management team? What have they done before?</p>	<p>Deere have four core values – Integrity, Quality, Commitment and Innovation. These values have remained the same since Deere's founding in 1837 and underpin the business' commitment to help its customers. Chairman, Sam Allen, reinforced these values in the latest sustainability report and intent within the board is evident through Charles O. Holliday Jr and Mike Johanns, both having the requisite backgrounds in solving global food insecurity.</p>
<p>How does the Company treat stakeholders?</p>	<p>Deere seem to treat their employees and customers well. The company has received 4.1 stars on Indeed.com, 86% of employees on Glassdoor would refer Deere to a friend, and the company was recognised as the industry's best employer in 2019 by Forbes. The company is ahead of the curve in handling the environmental impacts of their operations, but we would like to see this mirrored in diversity targets.</p>
<p>Is there a potential to create a profitable and defensible business?</p>	<p>Deere's commitment to the area, its scale in research and development and its relationship with farmers and dealers, provides the company with a strong competitive advantage and enables it to benefit from the growth in precision agriculture. Deere is unique in that it's vertically integrated, manufacturing precision agriculture equipment and farming machineries such as tractors and combines. Vertical integration gives Deere a more holistic view on agriculture technology, provides faster feedback on the performance of precision ag in the real world, and facilitates closer collaboration between teams.</p>
<p>Is the business attractively valued?</p>	<p>Over the past two decades, Deere has grown its revenues by 5% per year, mostly organic. For the next decade, growth of the core business could be 3-5% with the precision agriculture opportunity on top of that. We expect Deere will maintain its current market share, around 35%, in precision agriculture, possibly expanding to 50% if things go well. Margins for precision agriculture are much higher than tractors and as this becomes a bigger part of Deere, margins should increase. At the time of purchase, Deere traded on a mid-teen P/E, which we believe is an attractive valuation given the growth opportunity and the prospect of rising margins over time.</p>

Impact Analysis



Product Impact

Despite a relatively limited geographic breadth, the contribution Deere can make towards global food security is direct and quite significant. The yield increases they enable in the Americas and Europe will outpace the demand in those regions and can help meet the shortfalls which will be seen in Asia and Africa if properly directed. We should be aware of the factors affecting food security which are outside of Deere's control, but not use them to strip Deere of the impact they certainly will have. With regards to the environment, the impact is more direct, in the case of reducing N2O emissions, but also more diffuse and difficult to predict.

Intent

Deere scores highly based on their commitments to innovation and their clear intent towards increasing yields but are moderated by questions over intent towards environmental sustainability and a lack of impact-related targets.

Business Practices

The company is ahead of the curve in handling the environmental impacts of their operations and seems to treat their employees and customers well. Recent news regarding the right to repair movement could signify a worrying shift in consumer perception of the company, and we should acknowledge this but at the same time be aware of sensationalism in the media.

	Relevant Targets	Relevant Products
<p>2 ZERO HUNGER</p>	<p>Target 2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round</p> <p>Target 2.2 By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons</p> <p>Target 2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.</p>	
<p>13 CLIMATE ACTION</p>	<p>With reference to UN Framework Convention on Climate Change.</p>	<p>Over half of GHG emissions from the agricultural sector are nitrous oxide (N2O) – a gas approximately 300 times more potent than CO₂ – produced by soil microbes when excessive nitrogen-based fertilisers are present in the soil. Around 8% of global GHG emissions are N2O, of which approximately 60 – 70% are attributed to fertiliser use. Deere's precision technologies reduce fertiliser use and therefore has the capacity to have a big impact on addressing climate change.</p>
<p>14 LIFE BELOW WATER</p>	<p>Target 14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution</p>	<p>Deere's precision technology reduces overall chemical fertiliser use, lessening the likelihood and severity of nutrient run-off pollution in to waterways and marine environments.</p>
<p>15 LIFE ON LAND</p>	<p>Target 15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species</p>	<p>The expansion of agriculture into previously wild landscapes is one of the biggest drivers of biodiversity loss. The increases in yield enabled by Deere's technologies will allow more food to be produced on the same amount of land reducing the need to further envelope nature.</p>

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