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# Deere & Co. (DE)

Q4 2024 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to the Deere & Company Fourth 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. And thank you, sir. 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; Cory Reed, President, Worldwide Agriculture & Turf Division, Production and Precision Ag Americas and Australia; and Josh Rohleder, Manager, Investor Communications.

Today, we'll take a closer look at Deere's fourth quarter earnings, then spend time talking about our markets and our current outlook for fiscal 2025. 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).

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

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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 and Events.

I will now turn the call over to Josh Rohleder.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Good morning and an early happy holidays to everyone joining us today. John Deere finished the year with a better-than-expected fourth quarter that included 13.1% margins for equipment operations. Full year operating margins came in at 18.2%, reflecting solid proactive execution throughout our organization amidst a challenging and rapidly changing market environment. Our ability to generate just over \$6.9 billion in operating cash flow from equipment operations had shipment volumes below mid-cycle levels is indicative of the structural improvements we've made enabling continued reinvestment in the business and significant cash return to shareholders.

Looking ahead to 2025, we expect continued contraction of ag markets globally to result in Small Ag & Turf equipment demand at or below trough levels. Additionally, Construction & Forestry market demand is expected to be down as healthy end markets are offset by continued uncertainty in equipment purchases.

Slide 3 begins with the results for fiscal year 2024. Net sales and revenues were down 16% to \$51.7 billion, while net sales for equipment operations were down 19% to \$44.8 billion. Net income attributable to Deere & Company was \$7.1 billion or \$25.62 per diluted share.

Next, fourth quarter results are on slide 4. Net sales and revenues were down 28% to \$11.1 billion, while net sales for the equipment operations were down 33% to \$9.3 billion. Net income attributable to Deere & Company decreased to \$1.2 billion or \$4.55 per diluted share.

Diving into our individual business segments on slide 5, we'll review our fourth quarter results, starting with our production and precision ag business. Net sales of \$4.305 billion were down 38% compared to the fourth quarter last year, primarily due to lower shipment volumes.

Price realization in the quarter was flat, in line with expectations. Currency translation was negative by about one point. Operating profit was \$657 million, resulting in a 15.3% operating margin for the segment. The year-over-year decrease in operating profit was primarily due to lower shipment volumes and sales mix, which was partially offset by lower production costs.

As a reminder, we anticipated tougher year-over-year comps for PPA in the fourth quarter due to extended factory shutdown days associated with planned under production at several facilities.

Turning to Small Ag & Turf on slide 6. Net sales were down 25%, totaling \$2.306 billion in the fourth quarter, primarily due to lower shipment volumes, although this was partially offset by price realization. Price realization in the quarter was positive by approximately 2.5 points.

Currency was also positive by approximately 0.5 point. For the quarter, operating profit declined year-over-year to \$234 million resulting in a 10.1% operating margin. The decrease was primarily due to lower shipment volumes and mix, along with special nonrecurring items. These items were partially offset by price realization and lower warranty expenses.

Slide 7 details our fiscal year 2025 Ag & Turf industry outlook. We expect industry sales of Large Ag equipment in the US and Canada to decline approximately 30% as demand further moderates amid weak farm fundamentals, high interest rates, elevated used inventory levels and short-term pharma liquidity concerns heading into next year's growing season.

For Small Ag & Turf in the US and Canada, industry demand is estimated to be down around 10%. The dairy and livestock segment continues another year of strong profitability as elevated protein and hay prices are further enhanced by low input feed costs. This is offset by restrained demand in the turf and compact utility tractor markets as single-family home sales and home improvement spending remains stagnant amid high interest rates.

In Europe, the industry is projected to be down between 5% and 10%. Farm fundamentals in the region continued to deteriorate. Lingered headwinds include depressed yields for unfavorable weather, reduced regional commodity prices, and persistently elevated input costs.

Confluence of these issues, coupled with high interest rates are expected to keep industry equipment demand at low levels throughout 2025. Within South America, we anticipate industry sales of tractors and combines to be roughly flat as headwinds from 2024 stabilized but persist.

Looking forward to 2025, while crop prices are expected to decline input costs are also decreasing with yields improving as drought concerns abate. Coupled with continued soybean acreage expansion, overall sentiment has improved, although this has yet to translate into additional equipment demand. Additionally, recent appreciation of the US dollar against the Brazilian reais offers further profitability tailwinds to farmers as commodity prices are typically quoted in dollars, while many input costs are denominated in real.

Across the rest of South America, strong yields are offset by low commodity prices and elevated interest rates. Argentina, however, is experiencing some favorable tailwinds as government actions begin to stabilize the currency, amid a recovery in the ag industry. Finally, industry sales in Asia are projected to be down slightly as foundational technology adoption and improving ag fundamentals in India provide moderate demand tailwinds.

Moving to our segment forecast on slide 8. We anticipate production in Precision Ag net sales to be down approximately 15% in fiscal year 2025. The forecast assumes roughly 1 point of positive price realization and 0.5 point of negative currency translation. Segment operating margin forecast for the full fiscal year is between 17% and 18%, reflecting strong execution amid tough geographic and product mix headwinds.

Slide 9 provides our forecast for the Small Ag & Turf segment. We expect fiscal year 2025 net sales to be down around 10%. This includes about 0.5 point of positive price realization as well as 0.5 point of positive currency translation. The segment's operating margin is projected to be between 13% and 14%.

Shifting now to Construction & Forestry on Slide 10. Net sales for the quarter were down 29% year-over-year to \$2.664 billion due to lower shipment volumes. Both price realization and currency translation were slightly positive in the quarter by less than 0.5 point.

Operating profit decreased to \$328 million, resulting in a 12.3% operating margin. Lower shipment volumes and sales mix were partially offset by lower production costs and proceeds from special non-recurring items.

Slide 11 outlines our 2025 Construction & Forestry industry outlook. Industry sales for earthmoving equipment in the US and Canada are expected to be down around 10%, while compact construction equipment in the US and Canada is expected to be down 5%.

Fixed end markets in 2025 are expected to temper equipment demand across both construction and compact construction equipment. Modest growth in single-family housing starts and US government infrastructure spending will be more than offset by further slowdowns in multifamily housing developments, still softening non-residential building investments and muted CapEx spending in oil and gas.

Additional headwinds from historically low levels of earthmoving rental re-fleeting and somewhat elevated used inventories will further pressure equipment sales as market uncertainty persists into the start of fiscal 2025.

Global forestry markets are expected to be flat to down 5% as challenged global markets stabilized at low demand levels in 2025. Global road building markets are forecasted to be roughly flat as a modest recovery in Europe compensates for modest slowdowns in other geographies.

Continuing with our C&F segment outlook on slide 12. 2025 net sales are forecasted to be down around 10% and 15%. Our net sales guidance for the year includes about 1 point of positive price realization and flat currency translation. The segment's operating margin is projected to be between 11.5% and 12.5%.

Switching to our financial services operations on slide 13. Worldwide Financial Services net income attributable to Deere & Company was \$173 million for the fourth quarter. The year-over-year decline was mainly due to a higher provision for credit losses, partially offset by income earned on a higher average portfolio balance, a reduction in derivative valuation adjustments and lower SA&G expenses. Results were also negatively impacted by the increased valuation allowance on assets held for sale of Banco John Deere.

For fiscal year 2025, the net income forecast is \$750 million. Results are expected to be higher year-over-year, primarily due to a lower provision for credit losses, partially offset by less favorable financing spreads. Additionally, 2024 results were affected by the valuation allowance on assets held for sale of Banco John Deere.

Slide 14 concludes with our guidance for net income, effective tax rate and operating cash flow. For fiscal year 2025, our full year net income forecast is expected to be in the range of \$5 billion and \$5.5 billion, highlighting structural improvements over previous cycles.

Next, our guidance incorporates an effective tax rate between 23% and 25%. Lastly, cash flow from equipment operations is projected to be in the range of \$4.5 billion to \$5.5 billion.

It is important to emphasize that our implied guidance of around \$19 in earnings per share is at sub trough levels with expected sales for fiscal 2025 below 80% of mid-cycle, underscoring our commitment to operational excellence as we focus on proactive management to drive customer value at all points in the business cycle.

This concludes our formal remarks. We'll now cover a few key topics before opening the line to Q&A. But before we get into this detail, John, would you like to share your thoughts on the year?

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## John C. May

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

Yes. Thanks, Josh. 2024 was characterized by our resiliency in the face of significant challenges. The pullback we experienced in global markets this year provided our organization with an opportunity to showcase the structural improvements we've made since announcing the Smart Industrial Operating Model in 2020.

Starting with our financial scorecard. We continued to demonstrate better performance across the cycle. Notably, our margins in 2024 exceeded 18%, reflecting nearly 700 bps of improvement from 2020, which was the last time we were at this point in the cycle. This margin expansion has enabled us to invest record levels back into the business this year.

More important than the numbers, I couldn't be prouder of the resilience demonstrated by our John Deere employee team this year, the velocity at which markets slowed, tested our discipline and our agility. However, in the face of these difficulties, we emerged more focused than ever on our mission to help our customers do more with less.

Our dedicated teams across factories, engineering centers, dealerships, branches, offices and in the field showed remarkable fortitude as we made proactive decisions based on hard learned lessons from the past.

We maintain our focus on the customer, ensuring we not only retain but also actively seek out the best talent with the skills and experience necessary to help us solve the significant challenges facing our customers.

This year also brought about a range of new and exciting solutions as we furthered our progress on many of our Leap Ambitions, including connected machines, engaged acres and autonomous acres.

Our flagship Sense & Act technology, See & Spray, covered 1 million acres this year alone, reducing herbicide use by an average of nearly 60%. This solution and many other similar technologies we've developed have not only positively impacted our customers' operations, but the environment as well, and we've only begun to scratch the surface.

Our employees come to work every day, driven by a higher purpose that extends beyond merely solving a problem or completing a task. At the end of the day, we can confidently step back and reflect on the fact that our products are making a meaningful difference for our customers and the world.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, John. I'd like to continue our discussion about the past year before we dive into 2025. This past fiscal year clearly represented a very dynamic market, characterized by significant demand declines following peak levels in 2023. Nevertheless, as you noted, John, we ended the year with over \$7 billion in net income. Josh Beal, can you provide a breakdown of what happened during the quarter and throughout the fiscal year?

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

Yes, happy to, Josh. And it's best to start off with the quarter, which came in better than expected. We targeted field inventory reductions by pulling back production and shipping at our factories across the globe. Large Ag retail sales of new equipment generally came in line – came in as expected across most geographies and product lines, especially in North America.

As a result, field inventory of new equipment, particularly North American tractors and combines ended the year at extremely low levels on both an absolute and inventory to sales basis. We managed this underproduction while controlling costs, delivering year-over-year improvements in production costs and SA&G and R&D. Additionally, we successfully reduced in-process inventory levels, which drove much of the cash flow outperformance relative to our third quarter guide.

Turning to the full year. John previously highlighted that our performance was marked by resiliency in the face of challenging market conditions, which necessitated tough operational decisions that required significant flexibility and adaptability from everyone, our employees, dealers and suppliers.

As a result, we successfully managed operations to lower levels of demand this year. Production costs for the full year came in favorable, primarily due to year-over-year improvements in material and freight costs across all business segments. Despite muted sales, we remain disciplined and committed to our investments in the business, maintaining record levels of R&D spending. We recognize that many of the new product introductions this year stemmed from investments that we made throughout the previous cycle, and we will continue to prioritize these value-creating investments moving forward.

Overall, the decisive actions we took this year resulted in a solid finish. We closed fiscal year 2024 delivering strong returns while successfully reducing new field inventory levels, ultimately positioning the business to effectively execute in what are expected to be challenging market conditions in 2025.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, Josh. That's a great color on 2024. Let's pivot directions now and discuss our fiscal 2025 outlook for Ag & Turf? With commodity prices down, albeit partially offset by bumper crops across the US, farmer margins have been compressed. Our guide implies a challenging year for farmers in 2025. Josh, could you help us unpack what we're seeing here and what to expect by segment and geography?

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

Sure. It's definitely going to be another dynamic year across the Ag industry. Let's start with Large Ag in North America. We expect farm fundamentals to remain depressed globally in 2025, putting additional pressure on farm profitability. Given the strong yields from US harvest this past year, we've seen a rebuilding of global stocks with the USDA forecasting global stocks to reach the fourth highest level on record. Anticipated record production in South America, particularly in Brazil and Argentina, is likely to further pressure global commodity prices in 2025. And with input costs relatively flat year-over-year, farm net incomes will remain compressed globally.

Conversely, dairy and livestock margins remain elevated, supported by significantly lower input feed costs and positive market demand. However, machinery demand for this segment has lagged the margin gains in positive sentiment as interest rates and slow herd expansion continue to be the primary headwinds. Broadly across the Ag sector and despite significant macro headwinds, farm balance sheets remain strong, with land value supporting



healthy debt-to-equity ratios. That said, as cash receipts have slowed and credit conditions in the industry have tightened, many growers are keeping a greater focus on the liquidity of their operations.

As we look at the impact on equipment sales in the coming year, it's important to highlight the varying dynamics across each of our primary regions. As a reminder, our goal for 2024 was to under produce global Large Ag retail by a high single-digit.

In North American Large Ag, we successfully achieved our underproduction goals for the fourth quarter, reaching targeted inventory levels on most of our key products. For example, new combined inventory was down mid-teens year-over-year on a unit basis and finished the year at 4% inventory to sales, in line with 2023 year-end levels. In 220-horsepower and above large tractors, we reduced field inventory by nearly 50% year-over-year, resulting in a year-end inventory sales ratio of 10%, a 500-basis point reduction year-over-year.

In the last 10 years, inventory to sales ratios for 220 horsepower tractors for Deere have only been this low twice. In April 2014, just prior to the last down cycle and in January 2022 due to post-pandemic supply constraints. Given the inventory reductions we've achieved, we expect to produce in line with retail demand in North America in 2025. We're encouraged by the progress we've made on this front, particularly as industry inventory to sales ratios for new equipment are more than double Deere's ratios for both 100 horsepower and above tractors and combines.

Despite our proactive inventory management, macro factors continue to be a headwind for equipment demand in 2025, resulting in subdued early order program results. As a reminder, during our last earnings call in August, we were partway through the early order programs for sprayers and planters in North America, and our combined early order program had just begun.

As an update, our sprayer program concluded down from 2024 and declining in line with our industry guide for North American Large Ag and setting 2025 production levels for sprayers below mid-cycle. Planters, on the other hand, experienced a more significant decline closing with a year-over-year reduction greater than what we saw in sprayers.

Finally, combines will complete the second of three early order program phases next week. And when this program closes at the end of January, we expect the product line to be down in a range similar to the reduction we've seen in sprayers.

North American tractors are managed on a rolling order basis with row crop tractor order books full through the middle of the second quarter. Demand for row crop tractors in 2025 is expected to be down less than the overall industry forecast, with Deere shipments decreasing even less as production levels rebound to align with retail demand following our high single-digit underproduction for row crop tractors in 2024.

Conversely, demand for four-wheel drive tractors in 2025 is expected to decline year-over-year more than the industry guide, but as a reminder, that product line actually saw increased demand in 2024. It's worth noting here that our order books for our newest tractor, the high horsepower 9RX, which we introduced last February at Commodity Classic, are currently full through the middle of the fourth quarter, underscoring the value that we're bringing to the market and the importance of continued investment in our core product lines.

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## Cory J. Reed

*President, Worldwide Agriculture & Turf Division; Production and Precision Ag, Americas and Australia, Deere & Co.*



Josh, this is Cory. I'd like to jump in here to highlight the efforts of our Canadian team and customers. We've seen significant competitive conversions in this market post our smart industrial redesign, which is focused on supporting the production steps that our customers take over the course of the year in their specific crop types and the geography. In Canada, the majority of broad acre farming occurs in the western half of the country.

This primary production system is small grains, which is wheat, canola and barley and the operations tend to be large scale. Many of the new product introductions over the past few years have been tailor-made for solving our Canadian small grains customers' toughest challenges and doing so at the system level from X9 combines to high horsepower 9RX tractors to our C Series air carts, coupled with our integrated technology solutions in the John Deere operations center, these customers are experiencing significant increases in productivity, in profitability and in quality of life.

And finally, when you layer in a dealer network that's committed to investing in their customers and ensuring they get the most out of their Deere equipment, while delivering uptime and reliability, the result is exceptional system-level value for our Canadian customers.

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### Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks for that call out, Cory. Clearly, a great story with our team up there that should continue into the next year. And Josh, thanks for the update on EOPs in the North American market. Now can you walk us through what's happening in South America and maybe more specifically Brazil?

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### Josh Beal

*Director, Investor Relations, Deere & Co.*

Of course, as you recall, Brazil represented our largest targeted under production in 2024 as we work to correct excess new field inventory resulting from the market slowdown at the end of 2023. Our factory and marketing teams in the region worked diligently over the last year to adjust production and shipping in the midst of a dynamic retail sales environment. As a result, we've driven significant reductions in new field inventory units and have reached targeted levels for most product lines, enabling us to produce in line with retail demand in 2025 across most equipment categories. Given our flat guide for industry retails in 2025 and the significant underproduction to retail in 2024, producing in line with retail in 2025 will represent a double-digit increase in Deere shipments year-over-year in the region.

The one product where we still have some work to do is combines, where inventories remain elevated following slightly weaker-than-anticipated retail sales in the fourth quarter. As a result, we're planning another year of underproduction for combines in Brazil in 2025, although to a much lesser extent, and with the majority of the inventory drawdown occurring in the first half of the year.

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### Joshua Jepsen

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

Hi. This is Jepsen. I wanted to take a moment to express how proud we are of our South American team and the exceptional work they've done to efficiently and resourcefully rightsize inventory levels while maintaining strong operating margins. Our optimism in the region's prospects remain strong, demonstrated by our continued local investments focused on developing solutions in the region for the region.

A great example is our investment in Brazil in our new R&D center in Indaiatuba, which will be opened in December. This center will focus on developing the products or Brazilian customers need to tackle challenges specific to tropical agriculture.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

That's great, Josh. Now let's finish it out with Europe. What are the dynamics over there?

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

2024 was a tough year for the region. We really saw a perfect storm of factors depressed commodity prices, lower yields, regional conflicts and frustration with ag policy that ultimately drove a retail sales decline much greater than normal for a market that is traditionally less volatile than North and South America. We expect this atypical trend to continue in 2025 with another year of declines as uncertainty, interest rates, pressure on cash crop receipts and elevated field inventory levels weigh on equipment demand.

To illustrate this challenge, harvest yields in France, the largest grain producer in Western Europe came in this fall at multi-decade lows, placing significant strain on many growers in that region. Similar to other regions, we had success in reducing Deere new field inventory units in Europe in 2024, driving levels down over 20% from the start of the year. However, due to the ongoing and greater-than-expected declines in retail demand, our field inventory targets have continued to adjust downward in line with the market softening. We finished 2024 with inventory to sales ratios for both midsized tractors and combines at or slightly above the upper end of our targeted bands, which we feel necessitates further under production in those product lines in 2025. Order books in the region remain healthy with orders for Monheim tractors extending into the second quarter of the year.

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## Joshua Jepsen

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

One additional point to highlight for the ag outlook broadly is that our implied 2025 decrementals are impacted by product and geographic mix as North American Large Ag equipment, like combines and row-crop tractors experienced larger reductions compared to the rest of the world. This is particularly noteworthy in the first quarter given the year-over-year comparison to strong North American Large Ag sales in the first quarter of 2024.

Now when we think about the first quarter of 2025, we expect top line sales for the equipment operations to be down 15% to 20% sequentially and from 4Q 2024, with margins 300 to 400 basis points lower than the full year guide. Additionally, we are forecasting production costs to be favorable again in 2025 for the equipment operations, driven primarily by improved material costs and lower overhead expenses, all despite significant volume reductions.

Overall, we expect to see positive price cost for the full fiscal year, yet another example of the structural improvements our teams continue to deliver.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, Josh's. That's a great walk around the world, as well as get additional insight into where we're projecting production costs for 2025. Now we've talked extensively about 2025 order books and new inventories, but a significant concern heading into next year is North American used inventories. Last quarter, we discussed the

levers we were pulling to return long-term averages. Cory, this next question is for you. Can you give us an update on where we stand in North America and what steps we're taking to manage these inventory levels?

## Cory J. Reed

*President, Worldwide Agriculture & Turf Division; Production and Precision Ag, Americas and Australia, Deere & Co.*

Yeah. Sure, Josh. As you just heard, our team has done an excellent job proactively managing new inventories, and we're seeing the benefits of those decisions play out in 2025. As you noted, our primary focus over the last few quarters and now heading into the new fiscal year is to diligently work to bring down used levels, especially late model harvesting equipment and row crop tractors. Broadly speaking, we're seeing used inventory to new sales ratios starting to plateau just above the long-term average. While it's too early to call an inflection point on used equipment, we are encouraged by the slowdown in growth that we saw during the fourth quarter.

As we look at used inventory by model year, we're seeing a similar phenomenon in both row-crop tractors and combines. When compared to long-term average distributions, the current mix of used is heavier than normal in one to two-year-old equipment, and correspondingly, lighter in model year 2019 to 2021 equipment. This correlates closely a trade ladder in, which second owners who typically buy late-model equipment every three to five years will be looking to come back into the market for this first time since pre-inflationary pricing and significant interest rate increases. This backdrop, along with compression and farm net income is putting pressure on trade differentials and has slowed in this part of the trade ladder.

As a result, we're hyper focused on helping these farmers transition to this next generation of equipment, which is needed based on today's even tighter harvesting windows and transition to precision applications like high-speed planning.

In turn, this will help the used market return to a more normal distribution mix by vintage of machine. Our approach to reducing used inventories is three-pronged. First and foremost, we've managed new inventory levels to ensure we don't flood the market as equipment demand moderates.

Second, we're working closely with our dealers to drive targeted programs and engagement with each customer to understand their needs and what's most impactful to their bottom line. One example of the changes we made in 2024 as a result of this engagement is the offering of new financing programs, which have been greatly appreciated by both our customers and the dealers supporting them.

Finally, we're further elevating pool fund contributions to ensure dealers have the necessary funds to drive used sales. Stepping back, despite the softer end markets, our dealers remain healthy. We're not only focused on managing used inventories in the near-term, but are also committed to continuing to invest in our technology journey. At the end of the day, our dealers are focused on one goal, consistently delivering greater value to our customers.

## John C. May

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

Cory, I wanted to add a comment on the current state of our dealer network. Our dealers are in a structurally better position today versus previous cycles as we continue to work in close partnership with them to stay ahead of inventory demand changes. We recognize that we wouldn't have made the progress that we've seen in the field inventory, without the execution of our dealers.

They have and continue to invest in specialized capabilities, while [ph] remaining (00:32:12) strongly capitalized. This strength and our aligned purpose enhance the level of service and support that our customers receive, which remains our primary goal.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, Cory and John. That's a great perspective. Let's shift now to the Construction & Forestry. 2024 was a dynamic year and really a story of two-halves, starting with solid, stable demand in the first two quarters, consistent with the strong levels that we saw in 2023.

The second half, however, gave way to softening retails and tougher competition, which ultimately pressured margins as we proactively shifted to underproducing retail demand in the earthmoving segment in the fourth quarter. Josh Beal, can you walk us through what happened and how this will impact 2025?

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

Yes, definitely. As you noted, we saw ongoing strength in retail demand for earthmoving equipment in the first half of 2024, but that shifted to a softening market in both our third and fourth quarters.

We're seeing that trend continue this next year, and has reflected in our industry guides for both construction and compact construction, we expect further softening in 2025. Construction work is still robust and government infrastructure spending associated with the IIJA is still less than 50% awarded.

Our customers continue to see a strong backlog of work, albeit alongside stiffer competition, which is driving down bids and overall project margins, compounded by elevated interest rates and a recently re-fleeted rental industry, there's less near-term appetite for new equipment purchases.

Despite these pressures, it's worth reiterating that we continue to see a robust utilization of equipment in the field. Josh Rohleder earlier mentioned our decision to underproduce earthmoving retail demand in the fourth quarter of 2024, which successfully drove down field inventories over the past three months.

Given the additional softening in retail demand that we're anticipating in 2025, we've made the decision to continue to underproduce retail in the first half of next year to ensure inventory levels are appropriately sized to respond to demand changes in the back half of 2025.

In fact, much like Large Ag this past quarter, earthmoving lines at our North American factories will be shut down for approximately half of the total production days in the first quarter of the year. This will have a material impact on our quarterly decremental margins as well as overall profitability for the segment in the quarter.

Given the steady outlook for roadbuilding, combined with demand in global forestry being flat to down 5%, we expect these product lines to provide stability to our overall Construction & Forestry segment.

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## Joshua Jepsen

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

Hey. This is Josh. Maybe just to summarize here, we feel good about our C&F business, we're being proactive, learning lessons from previous cycles as well as our ag business.

It's important to note, that even with this underproduction, we're weathering the demand reduction in the competitive environment better than we have in the past. This is a testament to the efforts of our team to drive structural improvements, alongside differentiated customer value as we continue to concentrate our investments in margin accretive opportunities.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Yeah. That's great insight into what appears to be a dynamic market right now, Josh. Given the tougher competition and uncertainty surrounding long-term end market demand, our underproduction should put us in the best position to generate strong returns in the back half of the year.

Now for our last topic, I'd like to focus on our technology progress. Josh and Cory, there have been quite a few new product releases and milestones achieved over the last 12 months. Could you walk us through some of those key highlights and what it means for the business going forward?

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## Cory J. Reed

*President, Worldwide Agriculture & Turf Division; Production and Precision Ag, Americas and Australia, Deere & Co.*

Sure, I can start. 2024 represented a year of significant new product introductions and technological advancements available on our model year 2025 equipment. These releases ranging from our most powerful tractor ever designed to new seating equipment to the most advanced harvesting technology to-date are a testament to the success we've seen in our production systems approach. At the top end of our tech stack, we're seeing record adoption of some of our most advanced features.

For example, over 75% of combined EOP orders have opted for our highest level of harvest settings automation because the immediate value this technology will bring to their operations. In fact, we expect our customers will experience up to 20% boost on average and harvest productivity from this feature alone.

Another great example would be Large Ag equipment in Brazil. We brought our new inventory levels down to target over the course of the year while managing to both maintain and grow market share. And this means that we not only grow the share of acres covered by equipment, but also the number of acres connected to our John Deere operations center, which ultimately means more productive, more profitable farmers.

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

Yes, that's right, Cory. And to put that statistic in perspective, we saw our global engaged acres grow by nearly 20% this past year, reaching 455 million acres with South America up nearly 30%. And growth in highly engaged acres, which currently make up over 25% of our total engaged acres is outpacing the overall growth trend in engage acres as we see deeper and broader utilization.

Global year-over-year growth in highly engaged acres is over 30%, with South America notably up nearly 50%. And while you noted that the adoption of some of our latest technologies has exceeded expectations, we're also continuing to see significant growth and adoption of some of our more established solutions during this downturn as farmers seek ways to enhance productivity and improve margins.

For example, the adoption of Exact Applied Technology on Model year 2025 sprayers increased by over 10% year-over-year, reaching a nearly 80% take rate in this year's early order program. On See & Spray, as John mentioned, we've covered over 1 million acres in 2024 with just a few hundred units in the field.

For 2025, across both factory installed option and retrofit precision upgrades, we have currently taken over 1,000 orders for new See & Spray premium and ultimate units. As a result, we expect to see a significant increase in the number of acres covered by See & Spray technology in the 2025 season.

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## Cory J. Reed

*President, Worldwide Agriculture & Turf Division; Production and Precision Ag, Americas and Australia, Deere & Co.*

Exactly. When you have technology that you know is going to save money for your customers, you want to get that solution in their equipment as quickly as possible. We recognize this is a revolutionary technology that requires our customers to invest time and effort to transform their crop care programs, but we also know that typically, when we have a customer see it work in their field or in their operations, they see the value.

Our goal is to enable more customers to experience the impact of our See & Spray technology by leveraging a different business model to unlock that value, which is more crucial than ever in the current macro environment.

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## Joshua Jepsen

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

Cory, this is Jepsen. Maybe one thing to add on to that. There's been quite a bit of discussion about our pay-per-use model, and if it's the right go-to-market strategy for some of our latest offerings. The reality is that we're seeing higher levels of adoption using this model compared to our traditional upfront pricing approach, but only when it makes sense. For example, take our Precision Ag Essentials kit, which includes three foundational pieces of technology, guidance, connectivity and onboard compute needed to run any of our other precision technology solutions.

We recently changed the pricing model from a onetime cost to a recurring license that allows customers to access the vital technology at a fraction of the traditional upfront investment. In the first year alone, we sold over 8,000 kits. And these kits are being installed on equipment with an average model year vintage of 2012. This example highlights the importance of finding new ways to meet our customers at every stage of their precision tech journey. It also emphasizes our commitment to providing cost scaling solutions that enable all customers to adopt precision technology regardless of the size of their operations.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks all. It's great to see so many proof points demonstrating how our continuous through-cycle investment in the business is driving significant innovation and differentiated value for our customers.

Now, before we open up the line for questions. Josh Jepsen, do you have any final thoughts you'd like to share?

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## Joshua Jepsen

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

Yeah, it would be great. I start by echoing John's comments from earlier. 2024 marked a year of resiliency, resiliency in our business and resiliency in our employees, who in the face of significant challenges throughout the year, still performed at the highest level and with the utmost determination. And as a result, we delivered strong performance, including over \$25 in EPS, marking the second best level in company history and returned over \$5.6 billion to shareholders via dividends and share buybacks. It's noteworthy that our earnings per share and cash return to shareholders not only surpassed historical mid-cycle levels, but also historical peaks.



This performance is yet another proof point of the structural performance improvement that we've made in the business and will build upon going forward. And possibly even more important is the fact that we were able to do all of this, while maintaining significant investment in the business across both R&D and new product capital spending.

As we look forward, we're encouraged by the significant pipeline of opportunities ahead, opportunities that we believe will drive even greater levels of customer productivity and profitability.

While there's our continued rollout of differentiated high-quality heart iron or our increasing breadth of precision technology solutions, our focus is on making sure that each dollar unlocks the most incremental value, because at the end of the day, the only way we succeed is if our customers succeed.

As we look ahead to 2025, we're excited and confident as ever that we can perform at step function levels better than previous cycles. Our proactive decisions in 2024 have positioned us well to achieve structurally better margins in what we anticipate will be a sub-80% of mid-cycle year for our equipment operations.

Said more simply, we expect to deliver higher margins at trough than we did during the previous peak in 2013. We're proud of what we've accomplished this year, but we're never satisfied. We come to work every day focused on solving the challenges our customers face. 2025 will be another year of discipline, hard work and renewed focus to ensure customers can achieve more tomorrow than they did today.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

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

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

We're now ready to begin the Q&A portion of the call. The operator will instruct you on the polling procedure. In consideration of others and our hope to allow more of you to participate on the call, please limit yourself to one question. If you have additional questions, we ask that you rejoin the queue. Operator?



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question is from Kristen Owen with Oppenheimer. Your line is now open.

**Kristen Owen**

*Analyst, Oppenheimer & Co., Inc.*

Q

Good morning. Thank you so much for taking the question. Lots of color commentary, particularly around some of the cadence in Q1, but I'm just wondering if we could get a little bit of a cleaner bridge on what the margin expectations are for 2025? What are the puts and takes in terms of productivity costs that you're carrying over, raw materials and the headwinds from production in the first half?

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yeah. Good to see you, Kristen. I'll take a shot and team jump in. I think as we think about margin, there's a few things at play here as you look at 2025. First and foremost, and notably, I think it's just the continued volume declines that we're seeing in the market expectations as you look at the individual guides would be that total equipment operations would be down in kind of around 13% for the full year. And certainly, that continued level of volume reduction is weighing on the margins.

As we mentioned, we expect pricing to be positive across all three segments. And Josh Jepsen mentioned favorable production costs as well. So, we're seeing favorable price/cost. And in addition to that, obviously, some of the take – the decisions we've made in terms of reducing cost this year will carry over into next year as well, providing a lift. And so overall, it's – as we mentioned, margin expectations relative to history, very strong.

I think maybe lastly as you think about decrementals, probably a little bit higher than normal on the Large Ag business. That's really a mix-driven impact as we think about the Large Ag business in North America being down around 30%.

Our sales reduction will be less than that given the comp to 2024 and the underproduction that we did this year, but still the outsized reduction in one of our most profitable regions and sort of our most profitable product lines will weigh on decrementals next year. Thanks, Kristen.

**Operator:** Our next question is from Jerry Revich with Goldman Sachs. Your line is open.

**Jerry Revich**

*Analyst, Goldman Sachs & Co. LLC*

Q

Yes, hi. Good morning everyone. I'm wondering if you could just expand on the pool funds program and the use of pool funds to help the trade-ins for late model year equipment, I know you can move around pool funds year-to-year and given the incentives last year, from the rebates to dealers, there's quite a bit that you're able to deploy to get those inventory levels down. Can you just flush it out for us? And if you don't mind just share the order of magnitude on how much you can put in that direction?

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yes. Jerry. As you think about pool funds and maybe it's best the first put in context where we started the year and really the past couple of years, the strong equipment demand that we saw in 2022 and 2023 and the associated sales there, really drove a record level of pool fund balance entering this downturn.

And that's by design, that's how we structure the program. It provides stability in the used market when we see a downturn, and we've seen that play out in 2024, as those pool funds are being deployed by our dealers to help drive reductions in used inventory. Because of that, and again, by design, we've seen pool fund balances decline over the course of the year as dealers are using those funds.

We've put some additional incentives that worked to help support that balance. That's what you saw with pricing in the fourth quarter for Large Ag as we talk about really flat pricing for the quarter. That was really some specific work targeted towards used and to help shore up the pool funds.

And that's actually contemplated in our pricing guide for 2025 as well. We're talking about net price of 1% for the segment, that's inclusive if you think about list price increases for next year in the range of 2% to 3%. We are expecting a little bit higher incentive rate in 2025, and that higher incentive rate is really driven by a focus on continuing to put funds to work in the pool fund area. So, again, supporting the reduction in use that we're driving towards, and we'll continue to do that. And again, we can continue to do that with positive price.

**Joshua Jepsen**

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

A

Hey Jerry, this is Josh. The only other thing I'd add, I mean, on top of just the pool funds unused, we had a good finish to the year from a retail perspective on new – Josh Beal laid out where we ended from an inventory perspective, whether it's Large Ag in North America or South America.

We also had a really strong retail October in the construction division. So, we've talked about the trend, which has been pretty negative in the back half of the year. October was a term for us. We – as noted in pricing, we had a little more incremental incentives the market, but we had a good month and really brought down inventory upper teens reduction in inventory in earthmoving in 4Q.

So, I think overall, between deploying incentives in the right places, whether it's for new or used, we're seeing that impact and like how we're positioned as we step into 2025.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Thanks Jerry.

**Operator:** Our next question is from Kyle Menges with Citigroup. Your line is open.

**Kyle Menges**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thank you. I was hoping if you could just unpack the full year guidance a little bit. It sounds like it is back half weighted. I would just love to hear if that's kind of baking in any assumed improvement in retail demand in some of these end markets in ag and construction?

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

It's more so, Kyle, related to, I think, year-over-year comps. You think about our segments, and I'll look at Large Ag and Construction & Forestry and just look at it by half. In 2024, Large Ag, in the first half of the year was down 10% year-over-year compared to 2023. In the back half, it was down 30%. And similarly, in Construction & Forestry first half of 2024, down 4% year-over-year, back half down 20%.

So as you look at how that's going to play out in year-over-year comps for 2025, we would expect greater year-over-year declines in the first half of the year for both segments, particularly Construction & Forestry where we talked about significant underproduction in the first half of the year. And then those comps will get progressively better as we move through the year when you're comparing to the back half of 2024. Thanks, Kyle.

**Operator:** Our next question is from David Raso with Evercore ISI. Your line is open.

**David Raso**

*Analyst, Evercore Group LLC*

Q

Hi. I'm going to slide in two quick ones, if you don't mind. Just a little sort of piggybacking off the last comment. So the first quarter, just using midpoints, right? It's around \$3 of earnings, sales down over 27%, EPS down about 50%. But the rest of the year that is implied sales are only down 9%, earnings down about 15%. Just curious, I'm not trying to pin you to a quarterly cadence. But just we have a sense of how the underproduction ceasing later in the year is how you're interpreting it. Are we back to growth year-over-year by the third quarter?

And then second, not to get you in trouble, just curious your thoughts I'll give you the platform to answer. With the new administration coming in, just how are you thinking about the impact of tariffs you maybe compare it to last time, the immigration question and obviously, the appointment of the new Secretary of Health and Human Services, just how to think about framework-wise, how that could impact how farmers are thinking about their business. Thank you.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yeah. Thanks, David. Thanks for the questions. Starting with the first one on the year. Yes. I mean, as Josh Jepsen mentioned, as we think about Q1, particularly and sequentially, that's going to be down 15% to 20% compared to the fourth quarter. And as Josh mentioned, if you look at the margin expectations for the first quarter, 300 basis points to 400 basis points below the full year guide for equipment ops.

So certainly, you're going to see more of that decline in Q1, particularly again, noting Construction & Forestry, which will be at the top end of that range of top line sequential decline. And then actually margins, if you think about like decrements for Construction & Forestry in the first quarter, it'll be higher than the implied guide for the full year, again, given the underproduction.

And then to your question, as you move throughout the course of the year, those year-over-year comps get better, particularly in the back half, and you get to kind of flattish, if not up a little bit as you look at 2020 – Q3, Q4 of 2025.

On the new administration, I mean, obviously, we're thinking about that in terms of how it impacts our customers, how it impacts our suppliers and certainly how it impacts our operations as well. I think I think too early at this

point to know exactly what that means in terms of enacted policy and what the impact will be on those three stakeholder growth groups. But certainly, we're engaging. We'll monitor that as we go forward.

**John C. May**

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

A

Yes. You know, and the other thing I'd like to add is we're – this is John May, by the way. We're positioned really well. We rely heavily on our highly skilled employees in the US to design and build high quality. The most technologically advanced equipment in the world. And as a result of that, greater than 75% of all products that we sell in the US are assembled here in the US. And they're assembled by highly skilled employees, 30,000 employees in the US that are located in 60 different facilities across 16 different states.

And a result of all of their hard efforts and frankly, manufacturing leadership results in John Deere, Ag & Turf division being a net exporter of our products manufactured in the US, exporting it to other countries. So we feel really positioned well. We've been at this for nearly 200 years, building product in the US, and I'm very, very proud of our team and what they're able to accomplish.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Thanks for the question, David.

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

**Angel O. Castillo**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Thanks for taking my question. And I just wanted to maybe follow up a little bit more on the price dynamic, particularly in construction, where you noted, some bigger underproduction in the first quarter here, it seems like there's a little bit of a broadening of the soft – of the softness I think we had talked about rental fleet, as being a factor. And now it sounds like a little bit broader than that.

So with that in mind, can you just give us a little bit of color on what drives the price guide for the year being positive in construction and or maybe how to think about that in the first kind of half of the year versus the second half. And then, yes, just maybe more color on the trends that you're seeing outside of rental?

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yes. Thanks for the question, Angel. I mean, yes, certainly as we've mentioned, I think the price dynamic and Construction & Forestry, is competitive. And as we've talked, it's a balance that we're maintaining between price and share as we look at the environment going ahead. In terms of the cadence of price, I mean, really nothing of significance there. As you look at the layout of the year.

And the other thing I'd remind you too, is that if you think about our Construction & Forestry business, and the different elements of that business that includes road building, which makes up 35% to 40% of that business as well. There's been a lot more stable. And there's opportunity to get price there as well. And so that that adds into the mix, which is helpful. But certainly it's dynamic. Thanks, Angel.

**Operator:** Our next question is from Rob Wertheimer with Melius Research. And your line is open.

**Rob Wertheimer**

*Analyst, Melius Research LLC*

Q

Hi. Thanks, everybody. And thanks for the commentary around so many of the topics, including used equipment. I'm curious if you can talk any more about that. I don't know if you're seeing already the kind of early bow wave of people who would be trading up, nibbling at some of the higher priced, higher valued used equipment.

I don't know what, if anything you can say about where you expect dealer used inventory balances to kind of progress throughout the year. Do we get to mid-year and you work them down based on your production levels and how trade-ins work? Any further commentary on that would be great because that seems to be a sticking point still.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yes. Hey, Rob, thanks for the question. Yes, I mean we feel good about a lot of the progress we've made. And I think as you think about where used inventory sits in North America, it's going to be levels that we're going to work on here over the next few quarters. It's not something you turn overnight. I think we feel good about the stabilized level that we saw in the fourth quarter. Keep in mind, as you think about quarterly cadence on used, Q4 for us is a big quarter from a retail standpoint of new equipment. That drives trade-ins coming into the pipeline. And so to be able maintain and kind of mitigate the increase we've seen in the quarter, we feel good about.

Q1 provides a really good opportunity for us as we think about year-end tax buying, production levels are a little bit lower typically in the first quarter. Sequentially, this next quarter in Q1 provides an opportunity to continue to drive that down. But we'll be working over that again over the course of the next couple of quarters.

**Cory J. Reed**

*President, Worldwide Agriculture & Turf Division; Production and Precision Ag, Americas and Australia, Deere & Co.*

A

Yes, Rob, this is Cory. We've seen – as we closed out the harvest this year, we saw better-than-expected yields. Obviously, price has been a concern, but we've seen more profitability than was likely expected. Pricing activity in the market has been good.

We said we're not ready to call the inflection point, but we have seen used levels plateau even though we had strong retail in the fourth quarter. We continue – we underproduced the demand, and we saw the effects of that on the new side, but it's also showing up in what we do in used.

The dealers tactical focus on being able to rightsize the value of these machines, rightsize the value of the trades, we're seeing people come back into the market. The bottom line is if you take a late-model used row crop tractor, those products are needed as people expand high-speed planning in the market. We're taking high-speed down further into the marketplace as they go out to plant in tighter windows, late model, high horsepower row crops are needed, and we're seeing people come back into the market for them.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

We probably have time for one more question.

**Rob Wertheimer**

*Analyst, Melius Research LLC*

Q

Thank you.

**Operator:** Our last question is from Jamie Cook with Truist Securities. Your line is open.

**Jamie Cook**

*Analyst, Truist Securities, Inc.*

Q

Hey, good morning and thanks for let me ask the question. Just back to the decrements on PPA. A little worse probably than I would have thought. And so my question is, to what degree is pricing? I know you said positive pricing for the year. But like with North America down 30%, can pricing be positive in that region. And then just a follow-up. I know you said equipment operations will be 80% of mid-cycle for 2025. Just your thoughts are on where Large Ag is going to be relative to mid-cycle as we exit the year and obviously, what that means for 2026?

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yes. Hi, Jamie, thanks the question. Yes, we expect to maintain positive price in North America. And again, taking production costs as well. So price cost will be positive. More muted than we've seen. We talked about 1% price realization. And how do we do that? I mean, it starts with the new inventory levels that we talked about.

Again kind of to reiterate 220 horsepower tractors and above, we reduced the units in the field by 50% over the course of the year. Inventory to sales ratios were 220 horsepower and above like 10%. So very, very low, combines at 4%. Because of those tight levels, that that allows us to maintain that price.

But again, as I mentioned, we've contemplated some increased level of incentives next year, that increased level is going towards used, that's going towards pool funds. As Cory described, we'll continue to work that down and continue to support our dealers and helping to make those trades. But net-net, given all those ingredients, we still believe we can deliver positive price in the year.

**Joshua Jepsen**

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

A

Hi, Jamie, this is Josh. The one other thing I'd point out is Brazil and 2024, given kind of all the challenges there was negative from a price perspective. We see that bounce back, and we see a positive price in 2025, I think reflective of a flatter environment, inventories in better shape. So we expect that to turn favorably. So I think as you walk across the globe, we would expect positive price in PPA in every region of the world. Thank you.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

Thanks all. That concludes our call for today. We appreciate everybody's time. And for those of us in the US, I hope you have a great Thanksgiving holiday. Have a great day.

**Operator:** As we are concluded again, thank you for your participation today. You may disconnect, please, at this time.

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