

# Portfolio Watch

October 2024

## NOTHING RUNS LIKE A DEERE

With a rich 187-year legacy, Deere & Co, through its iconic John Deere brand, has become one of the world’s most recognisable names in agricultural machinery. From its beginnings with John Deere’s invention of the world’s first self-scouring steel plough to the introduction of the first tractors in 1918 and the world’s first self-propelled combine harvester in 1947, the business has consistently been at the forefront of farming innovation. Innovations like the invention of the hydraulic bulldozer in 1958 showcased Deere & Co’s commitment to helping farmers and contractors work more effectively with fewer resources i.e. improve efficiencies. Today, the business is set to make history once more with the upcoming launch of the world’s first autonomous tractor.

### DEERE & CO’S TECH TRANSFORMATION

In recent decades, the agricultural manufacturing industry has shifted from simply building bigger machines to focusing on technology, intelligence and sustainability – both in economic and environmental terms. With over 500 000 connected John Deere machines operating on a third of the world’s arable land, Deere & Co has established a likely unassailable lead over its competitors in leveraging data to drive more efficient farming. Starting in 1998 with integrated displays in its equipment, followed by the introduction of GPS units, the business began collecting crucial data to improve farming practices.

By the 2010s, Deere & Co had leveraged the power of connectivity, ushering in the “internet of tractors”, allowing farmers to access live data to make timely, informed decisions. Today, this data-driven approach is being integrated with robotics and machine learning to assist farmers with planting, spraying and harvesting. Importantly, Deere’s technology is portable across different manufacturers, allowing farmers using equipment from other manufacturers to also use and benefit from Deere & Co’s advanced technology.

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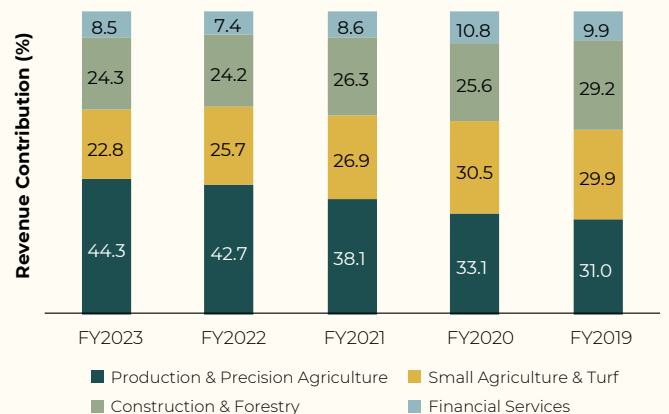
Chief Investment Officer at  
Private Clients by Old Mutual Wealth



A few of the standout technologies include their Exact Shot, which plants seeds in precise locations and then applies fertiliser directly on them, minimising waste. Similarly, See & Spray specifically targets weeds rather than applying pesticides across entire fields. Additionally, Deere & Co has acquired a majority stake in Kreisler Electric, signalling its focus on not just the use of biofuels and improving internal combustion engines, but also on the electrification of their machines.

Innovation aside, Deere & Co’s roots remain firmly embedded in manufacturing equipment. Originally sourcing steel and rubber to produce agricultural equipment, the business has now successfully transitioned into a technology leader allowing farmers to put less hours and inputs into each unit of land. Evidence of this transition is reflected in the fact that Deere & Co employs more software engineers than mechanical engineers, effectively positioning it as a leading robotics business employing artificial intelligence to drive efficiencies and deliver value for its customers. Graph 1 below highlights the business mix over the past five years, and how Production & Precision Agriculture’s contribution is growing as their technology evolves.

Graph 1: Deere & Co’s Revenue Mix (2019 – 2023)



Source: Deere & Co Investor Relations, Private Clients by Old Mutual Wealth (2024)

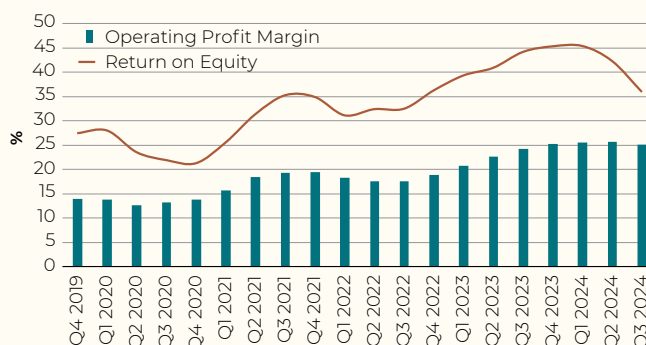
## WHAT WE LIKE ABOUT DEERE & CO

Deere & Co has built strong economic moats over the past two centuries and is synonymous with quality and reliability. While switching to competitors is not impossible, customer loyalty to the brand is evident, largely due to its advanced technology that helps farmers use resources more efficiently.

Instead of owning its distribution, Deere & Co partners with distributors who typically only sell its products. In the US, Deere & Co's distribution network is nearly double the size of its closest competitor. This reduces machine downtime, a critical factor for farmers during planting, fertilising and harvesting seasons. Outsourcing distribution also allows Deere & Co to partially shift the capital-heavy nature of its business to distributors, allowing it greater operational flexibility.

Importantly, Deere & Co is an excellent example of an old economy business successfully digitising. The growing adoption of technology among farmers has enabled the business to generate higher, more consistent margins. Despite current economic challenges such as softer commodity prices, high interest rates and rising input costs, the uptake of Deere & Co's technology-driven solutions has helped the business protect and grow margins in tough conditions. The business has also worked extremely hard at managing its inventory and production lines to ensure its resilience through difficult economic conditions, while remaining well placed to benefit when the cycle invariably turns. Graph 2 illustrates how the adoption of their new technology, alongside careful inventory management, has enhanced the business' profitability over the past five years. While return on equity has come under pressure through 2024, this was largely anticipated as they face short-term economic headwinds. However, these same headwinds allowed us to buy Deere & Co at a more attractive entry point.

Graph 2: Operating Profits & Return on Equity (2019 - 2024)



Source: Refinitive Datastream, Private Clients by Old Mutual Wealth (2024)

From a business fundamentals perspective, the investment case for Deere & Co is compelling. However, the business also enjoys several structural tailwinds. Agriculture and construction are critical industries that have a significant impact on society. With less than 2% of the world's population involved in farming, there is an increasing need for farmers to get more out of limited land. And as the global population approaches 10 billion by 2050, the demand for food will only increase with time. Deere & Co's technology is essential in helping farmers meet these demands, while the Construction & Forestry segment is positioned to benefit from ongoing infrastructure development.

### A LONG-TERM INVESTMENT WITH STRUCTURAL TAILWINDS

Deere & Co has built a globally recognised business underpinned by solid fundamentals. While it operates in a cyclical industry, it is led by a highly capable management team that is able to navigate both good and challenging conditions. As the business continues to digitise agriculture while reaping the benefits of long-term structural tailwinds, we remain confident in its potential as a strong long-term investment for the Private Clients Global Equity Portfolio.

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