

Deere Releases Annual Report - Message from Chairman Samuel R. Allen

Deere & Company today released the company's [Annual Report](#) as well as the following message from Chairman Samuel R. Allen:

Performance States Strong Rebound; Company Sets Ambitious Course for Future

The year 2010 will be remembered as a pivotal one for John Deere. The company delivered sharply improved financial results despite sluggish global economic conditions that restrained sales in certain regions and businesses. John Deere also proceeded with significant investments aimed at widening our manufacturing footprint and expanding our global market presence. As a result, the company remains well-positioned to capitalize on growth in the world economy and, longer term, to benefit from broad economic trends that hold attractive promise for the future.

We maintained our strong financial condition as well. Deere's equipment operations ended the year essentially debt-free on a net basis, while our credit company's balance sheet remained conservatively capitalized.

In a step that could have a major impact on the company's future, an ambitious blueprint was introduced to guide our efforts in meeting the world's increasing need for food, shelter and infrastructure. The next evolution of the John Deere Strategy places a sharp focus on producing the agricultural and construction equipment solutions required by global markets that are gaining in both size and stature.

For fiscal 2010, Deere reported income of nearly \$1.9 billion, on net sales and revenues of \$26.0 billion. Both figures were the second-highest in the company's history, trailing only 2008. Income more than doubled on a 13 percent increase in sales and revenues. Earnings, in rising by nearly \$1 billion, staged their largest single-year improvement ever.

All our business units reported higher profit in relation to 2009. The company again generated strong cash flow as a result of its solid financial performance and the skillful execution of our business plans. Net cash from operating activities equaled \$2.3 billion on an enterprise basis. The total was more than enough to fund a healthy level of capital

projects, resume share repurchases, and pay out a record amount in dividends to shareholders.

Deere's performance reflected continued success delivering more profit from a lean slate of productive assets. Our profit and asset model aims for all businesses to earn their cost of capital –and deliver SVA, or Shareholder Value Added – across the business cycle. In 2010, SVA reached a record \$1.714 billion. All company business units had improved SVA performance for the year. What's more, despite significantly higher sales and factory production, asset levels remained well under control.

A&T Pacing Performance

Our performance was led by the Agriculture and Turf (A&T) division, which delivered particularly impressive results. With a sales increase of just 10 percent, A&T reported almost twice as much operating profit and more than four times the level of SVA achieved in 2009. Deere's largest division efficiently managed assets, brought advanced new products to market and broadened its customer base. A&T results were aided by positive farm conditions and strong sales of large equipment, particularly in the United States.

Sales also rose dramatically in Brazil after a steep decrease in 2009. However, conditions in Europe – our second-largest regional market, after North America – showed a further decline.

In other parts of our business, Construction and Forestry (C&F) saw an impressive rebound with sales increasing by 41 percent and operating profit turning strongly positive. C&F had success introducing advanced new products, expanding into new geographies and picking up market share in key categories. The division's results were especially noteworthy in light of underlying weakness in U.S. construction markets. Even with the year's sharp improvement, sales remained well below what traditionally has been considered a trough level.

Making a further contribution to last year's performance was John Deere Credit, which recorded significantly higher financial results while continuing to provide competitive financing to our equipment customers. Credit's earnings jumped 85 percent as a result of higher loan margins and loan quality in addition to growth in the average portfolio of about \$1 billion. Loan quality remained quite strong as the provision for loss declined to less than

\$50 for each \$10,000 of portfolio value.

Powerful Tailwinds Shaping Plans

As we've pointed out in previous messages, powerful global economic trends are lending support to our current performance and future prospects. The world's population continues to grow, adding many thousands of new mouths to feed every day.

Of equal importance, rising prosperity, particularly in developing economies such as China and India, is leading to a greater need for food and energy.

As a result, worldwide stocks of key farm commodities have fallen near historic lows in relation to use. Grain prices have risen in response, propelling farm incomes to unprecedented levels. The combination of low grain reserves and higher global demand bodes well for crop prices over the long term. This, in turn, should help sustain our customers' profitability and support further profitable growth for John Deere.

It is widely believed that agricultural output will need to double by mid-century to satisfy demand – and do so from essentially the same amount of land – requiring further advances in farming mechanization and productivity. In our view, John Deere is uniquely positioned to meet this challenge and is investing accordingly.

At the same time, more people are moving from rural areas to cities, increasing the need for infrastructure development. Today, more than half of the world's population resides in urban areas. That percentage is expected to reach 70 percent in the next 40 years – meaning that more people could be living in cities by 2050 than now make up the world's entire population. Such a migration will lead to tremendous demand for roads, bridges, and buildings – and for the equipment needed to construct them.

The implications for our company are both clear and compelling:

Trends of this nature should help support demand for innovative farm, construction, forestry and turf-care equipment for years, if not generations, to come.

Targeting SVA Growth

Partly as a result of these positive macroeconomic factors, extending the John Deere brand

to a wider worldwide audience remains a top priority. Last year, in spite of weakness in Europe, sales outside the U.S. and Canada increased 14 percent and represented about 35 percent of the company total.

A number of important projects were announced or moved ahead to promote growth on a global scale. These included a new manufacturing and parts complex in Russia that went into operation during the year. We also opened a joint-venture facility in India for the manufacture of backhoes and four-wheel-drive loaders and broke ground for a new combine-harvester facility in India. In December 2010, Deere announced plans for a construction-equipment factory in China for the production of four-wheel-drive loaders and excavators. These investments build on earlier ones that have added significantly to our capacity and marketing presence worldwide.

Expanding our product range and entering attractive new businesses are vital to our growth. Among the products debuting last year was a midsize-tractor line built in India that targets a broad customer segment of the developing world. In addition, Deere introduced its most advanced forestry harvesters and forwarders to customers in North America and added power to its largest row-crop tractors. Further, the company brought out a family of zero-turn-radius mowers for smaller-scale commercial customers and introduced high-performance utility vehicles that can travel at speeds above 40 miles per hour.

Honored for Innovation

Again in 2010, the company was widely honored for its highly advanced products and features. Included were nine awards from a major U.S. agricultural-engineering group, a silver medal from a leading Russian trade show, and five medals awarded at an international agricultural trade fair in Spain. Among the products honored were the company's flagship 8R row-crop tractor, which had strong customer response in its first full year on the market, and an innovative steering system that enhances efficiency and safety.

In addition, the company launched new engines that meet customer requirements for power and efficiency with lower emissions. The engines will be more widely available on products being introduced or sold beginning in 2011. In a move reflecting Deere's focus on providing advanced products on an increasingly global scale, technology centers were opened or expanded in Germany and China.

Investors Seeing Strong Returns

John Deere investors shared in our success of 2010. Stockholders realized a total return of 72 percent during the fiscal year compared with about 17 percent for the overall U.S. equity market. This signified the financial community's recognition of our achievements and our attractive prospects for growth in the future. Roughly one-third of the company's cash flow from operations was returned to our owners in dividends and share repurchases. Dividends totaled about \$500 million for the year, a record, while share repurchases of nearly \$360 million were made. Since mid-2004, the company has increased the quarterly dividend rate on eight occasions (through first-quarter 2011) and repurchased more than 100 million shares of common stock.

Revised Strategy Unveiled

As our world changes, so must John Deere. With those words, the company in 2010 introduced an ambitious blueprint to guide its efforts in meeting the world's expanding needs in the years ahead. The next evolution of the John Deere Strategy builds on the company's strong record of achievement. It raises the bar on growth and profitability and puts more emphasis on global expansion.

The strategy concentrates the company's focus on two growth areas – agricultural and construction equipment solutions. Other operations – turf, forestry, parts, engines, intelligent solutions, and financial services – have vital roles supporting or complementing the growth operations. Emphasizing a lineup of tightly knit operations puts Deere in a stronger position to leverage strengths, optimize investments, efficiently target leadership and employee resources, and extend its ability to compete in the global marketplace.

Further, the revised strategy sets out challenging metrics including \$50 billion in mid-cycle sales by 2018 and 12 percent mid-cycle operating margins by 2014. Meeting these goals would result in a near-doubling of sales, a healthy increase in profitability, and an almost three-fold increase in economic profit, or SVA. The strategic plan targets roughly half of the company's sales coming from outside the U.S. and Canada by 2018, versus about one-third today.

In addition, measures are being introduced to help assure that financial performance remains sustainable as we accelerate our growth aspirations. "Health" metrics, as they're being known, pertain to product quality, market share and employee engagement, among

other areas.

Aiming Higher, Moving Faster

The John Deere Strategy calls on us to aim higher, move faster and perform better than ever before. Yet we firmly believe its goals are within reach based on the company's proven capabilities and previous record of accomplishment. Successfully executed, the strategy will allow us to serve customers, employees, neighbors, business partners and investors at a higher level for years to come.

Regardless of the changes required to realize our ambitions, John Deere's commitment to how we do business is not subject to revision or reconsideration. Our values unite us. They also differentiate us. Our values have sustained the loyalty of generations of customers and are a powerful source of inspiration for thousands of talented employees, suppliers and dealers. They also have helped deliver solid returns to our investors over many years. We therefore reaffirm our dedication to the company's values – integrity, quality, commitment and innovation – in order to move ahead wherever we do business.

Extending Proud Record of Citizenship

Being a responsible corporate citizen and a progressive employer are essential to being a great company. To this end, the company and the John Deere Foundation continued their support in 2010 of worthy organizations that address world hunger, community betterment and higher education. With world hunger solutions remaining the signature program of the John Deere Foundation, KickStart International, a maker of manual irrigation pumps for subsistence farmers, continued to be a major recipient of foundation support. Support also continued for Opportunity International, a group that provides microfinance services to farmers in Africa. In the United States, the company increased funding for student "backpack" programs, which provide food supplies for more than 5,000 needy children over weekends.

Economic development remained another priority, with grants of \$2.8 million approved for programs in five U.S. communities in which Deere has a significant presence.

Deere's leadership in environmental responsibility took further strides in 2010. Company facilities in China, Spain and the United States were recognized for their successful environmental practices, including sustainable building design and commitment to energy

conservation. On the product side, the John Deere 8320R tractor set fuel-efficiency records for its size class in the Nebraska-lab tests. Further, two applications relying on global positioning satellite technology – iGrade and iSteer – were introduced to help customers manage surface water and equipment operation with greater efficiency and precision.

With respect to our employees, John Deere's exceptional safety record continued in 2010. More than half of over 100 company locations ended the year without a lost-time injury. About one-third of our units completed 2010 with more than one million hours worked since the last such injury.

Realizing that the success we attain can be no greater than the talent we attract and nurture, John Deere introduced a series of rigorous competencies for its leaders during the year. The aim is to drive higher, more sustainable levels of employee engagement while tying the role of managers throughout the organization more directly to company business goals. One new leadership competency, proactively leading change, underscores the vital importance of change in guiding John Deere toward new levels of achievement.

Well-Positioned for Future

With our strong 2010 performance, the company remains well-positioned to capture the economic tailwinds that hold such promise for our future. Thanks in large part to the dedication and hard work of talented John Deere employees, our plans for helping meet the world's growing need for advanced agricultural and construction equipment are well on track and moving ahead at an accelerated rate. That's a chief reason we remain so confident about the company's prospects and our ability to deliver significant value to customers and investors in the years ahead.

We firmly believe this is a great time to be associated with John Deere. To all who share our commitment to improving global living standards and our passion for serving those linked to the land, we say thanks for your continuing support.

On behalf of the John Deere team,

Samuel R. Allen

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