DEERE & CO
Form 10-Q/A
March 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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# FORM 10-Q/A

Amendment No. 1

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 28, 2018

Commission file no: 1-4121

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DEERE & COMPANY

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 36-2382580 |
| (State of incorporation) | (IRS employer identification no.) |

One John Deere Place

Moline, Illinois 61265

(Address of principal executive offices)

Telephone Number: (309) 765-8000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | X | | Accelerated filer |
| Non-accelerated filer | | (Do not check if a smaller reporting company) | Smaller reporting company |
| | | | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

At January 28, 2018, 323,787,852 shares of common stock, $1 par value, of the registrant were outstanding.

Explanatory Note

Deere & Company (the Company) is filing this Amendment No. 1 on Form 10-Q/A (the Amendment) to amend its Quarterly Report on Form 10-Q for the three month period ended January 28, 2018, originally filed with the U.S. Securities and Exchange Commission on March 1, 2018 (the Original Filing). The Company is filing the Amendment to correct an inadvertent typographical error in the Original Filing in which the amount of secured borrowings resulting from a retail note securitization transaction entered into by the Company in February 2018 was not included. The last sentence in Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations is hereby amended and restated to read "In February 2018, the Company's financial services operations entered into a retail note securitization transaction, which resulted in $753 million of secured borrowings."

This Form 10-Q/A should be read in conjunction with the Original Filing. Except as specifically noted above, this Form 10-Q/A does not modify or update disclosures in the Original Filing. This Form 10-Q/A does not reflect events occurring after the filing of the Original Filing or modify or update any related or other disclosures.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

### Overview

#### Organization

The Company's equipment operations generate revenues and cash primarily from the sale of equipment to John Deere dealers and distributors. The equipment operations manufacture and distribute a full line of agricultural equipment; a variety of commercial and consumer equipment; and a broad range of equipment for construction, road building, and forestry. The Company's financial services primarily provide credit services, which mainly finance sales and leases of equipment by John Deere dealers and trade receivables purchased from the equipment operations. In addition, financial services offers extended equipment warranties. The information in the following discussion is presented in a format that includes information grouped as consolidated, equipment operations, and financial services. The Company also views its operations as consisting of two geographic areas, the U.S. and Canada, and outside the U.S. and Canada. The Company's operating segments consist of agriculture and turf, construction and forestry, and financial services.

#### Trends and Economic Conditions

Industry sales of agricultural machinery in the U.S. and Canada are forecast to increase approximately 10 percent for 2018. Industry sales in the European Union (EU)28 nations are forecast to increase approximately 5 percent. In South America, industry sales of tractors and combines are projected to be the same or increase about 5 percent. Asian sales are projected to be about the same as 2017. Industry sales of turf and utility equipment in the U.S. and Canada are expected to be approximately the same or increase 5 percent for 2018. The Company's agriculture and turf segment sales increased 18 percent in the first quarter and are forecast to increase about 15 percent for fiscal year 2018. Construction equipment markets reflect continued improvement in demand driven by higher housing starts in the U.S., increased activity in the oil and gas sector, and economic growth worldwide. In forestry, global industry sales are expected to be up about 5 percent. The Company's construction and forestry segment sales increased 57 percent in the first quarter, with Wirtgen adding 23 percent, and are forecast to increase about 80 percent in 2018, with Wirtgen adding 56 percent to the segment's sales. Net income attributable to Deere & Company for the Company's financial services operations is forecast to be approximately $840 million in 2018, which includes about $320 million of favorable changes associated with U.S. tax reform legislation (see Note 8).

Items of concern include the uncertainty of the effectiveness of governmental actions in respect to monetary and fiscal policies, the impact of sovereign debt, eurozone issues, capital market disruptions, trade agreements, labor supply issues, changes in demand and pricing for used equipment, and geopolitical events. Significant fluctuations in foreign currency exchange rates and volatility in the price of many commodities could also impact the Company's results.

First quarter net sales increased from improved demand in key markets; however, sales were moderated by bottlenecks in the supply chain and logistical delays in shipping products to the dealers. Although net income for the quarter was affected by the upfront costs of U.S. tax reform legislation, the changes will reduce the Company's overall tax rate and be beneficial in the future. The Company is positioned to capitalize on strengthening agricultural and construction equipment markets. The more durable business model and investments in new products, businesses, markets, and technologies allows the Company to remain confident in the present direction and the Company believes it will continue delivering value to customers and investors in the future.

#### 2018 Compared with 2017

Net loss attributable to Deere & Company was $535.1 million, or $1.66 per share, for the first quarter of 2018, compared with net income of $199.0 million, or $.62 per share, for the same period last year. Affecting first quarter 2018 results were charges to the provision for income taxes due to tax reform (see Note 8). The provisional income tax expense includes a write-down of net deferred tax assets of $715.6 million, reflecting a reduction in the U.S. corporate tax rate from 35 percent to 21 percent beginning on the enactment date, as well as the cost of a mandatory deemed repatriation of previously untaxed non-U.S. earnings of $261.6 million, partially offset by a favorable reduction in the annual effective tax rate and other adjustments of $12.1 million.

Worldwide net sales and revenues increased 23 percent to $6,913 million for the first quarter this year, compared with $5,625 million a year ago. Net sales of the worldwide equipment operations rose 27 percent to $5,974 million for the first quarter, compared with $4,698 million for the corresponding period last year. The Company's completion of the acquisition of Wirtgen (see Note 18) in December 2017 added 5 percent to net sales for the quarter. Sales also included a favorable currency translation effect of 3 percent. Equipment net sales in the U.S. and Canada increased 24 percent for the first quarter of 2018, with Wirtgen adding 1 percent. Outside the U.S. and Canada, net sales increased 33 percent for the first quarter, with Wirtgen adding 12 percent, and a favorable currency translation effect of 5 percent.

The Company's equipment operations reported operating profit of $419 million for the first quarter of 2018, compared with $255 million for the same period last year. Results for the quarter included an operating loss for Wirtgen of $92 million, attributable to the unfavorable effects of purchase accounting and acquisition costs. Excluding the Wirtgen loss, the improvement was primarily driven by higher shipment volumes and lower warranty costs, partially offset by higher production costs. In addition, the prior period included a gain on the sale of SiteOne Landscapes Supply, Inc. (SiteOne), and incurred expenses associated with a voluntary employee-separation program. The Company's equipment operations reported a net loss of $964 million for the first quarter, compared with net income of $85 million in 2017. In addition to the operating factors previously mentioned, the quarter was unfavorably affected by a provisional income tax expense and adjustments of $1,243 million related to tax reform.

The Company's financial services operations reported net income attributable to Deere & Company of $425.3 million for the first quarter, compared with $114.4 million for the same period last year. The increase was largely attributable to a provisional income tax benefit of $278.1 million related to tax reform. Additionally, quarterly results benefited from a higher average portfolio and lower losses on lease residual values. Last year's results included expenses associated with a voluntary employee-separation program.

Business Segment Results

- Agriculture and Turf. Segment sales increased 18 percent for the first quarter due to higher shipment volumes and the favorable effects of currency translation. Operating profit was $387 million for the first quarter, compared with $218 million last year. The first quarter's improvement was driven mainly by higher shipment volumes and lower warranty costs, partially offset by higher production costs. The prior period benefited from a gain on the sale of a partial interest in SiteOne and was affected by voluntary employee-separation expenses.
- Construction and Forestry. Segment sales increased 57 percent for the first quarter, with Wirtgen adding 23 percent. Additionally, net sales increased due to higher shipment volumes and the favorable effects of currency translation. Operating profit was $32 million for the first quarter compared with $37 million for the same period in 2017. Lower results for the quarter were attributable to an operating loss for Wirtgen of $92 million related to the effects of purchase accounting and acquisition costs. Excluding Wirtgen, the improvement for the quarter was primarily driven by higher shipment volumes, partially offset by higher production costs. Results in 2017 also included voluntary employee-separation costs.
- Financial Services. The operating profit of the financial services segment was $217 million for the first quarter, compared with $167 million in the first quarter of 2017. The improvement for the first quarter was primarily due to a higher average portfolio and lower losses on lease residual values. Total financial services revenues, including intercompany revenues, increased 13 percent to $840 million in the current quarter from $746 million in the first quarter of 2017, primarily reflecting a higher average portfolio and higher average financing rates. The average balance of receivables and leases financed was 6 percent higher in the first quarter of 2018, compared with the same period last year. Interest expense increased 30 percent primarily as a result of higher average interest rates and higher average borrowings. The financial services' consolidated ratio of earnings to fixed charges was 2.13 to 1 for the first quarter this year, compared with 2.18 to 1 in the same period last year.

The cost of sales to net sales ratios for the first quarter of 2018 and 2017 were 78.8 percent and 80.5 percent, respectively. The decrease was primarily due to lower warranty costs in 2018 and the impact of the 2017 voluntary employee-separation programs expenses, partially offset by higher production costs.

Other income decreased in the first quarter of 2018 primarily due to the 2017 sale of a partial interest in SiteOne. Research and development expenses increased primarily as a result of increased spending to support new products and the impact of acquisitions. Selling, administrative and general expenses increased in the first quarter primarily due to the unfavorable effects of purchase accounting for the Wirtgen acquisition and acquisition costs, partially offset by the 2017 voluntary employee-separation program expenses. Other operating expenses increased primarily due to acquisition costs and higher depreciation on operating leases, partially offset by the favorable effect of currency translation.

Market Conditions and Outlook

Company equipment sales are projected to increase about 29 percent for fiscal year 2018 and about 30 to 40 percent for the second quarter compared with the same periods a year ago. Of these amounts, Wirtgen is expected to add about 12 percent to the Company's net sales for the full year and about 16 percent for the second quarter. Also included in the forecast is a positive foreign currency translation effect of about 3 percent for the year and about 4 percent for the second quarter. Net sales and revenues are projected to increase by about 25 percent for fiscal year 2018. Net income attributable to Deere & Company is forecast to be about $2,100 million. The net income outlook includes an unfavorable impact of tax reform estimated at $750 million, representing the net impact of the provisional income tax expense related to tax reform recorded in the first quarter of $965 million, partially offset by the estimated benefit of a lower effective tax rate and other adjustments over the remainder of the fiscal year of $215 million.

· Agriculture and Turf. The Company's worldwide sales of agriculture and turf equipment are forecast to increase about 15 percent for fiscal year 2018, including a positive currency translation effect of about 3 percent. Industry sales for agricultural equipment in the U.S. and Canada are forecast to increase about 10 percent for fiscal year 2018, led by higher demand for large equipment. Full year 2018 industry sales in the EU28 member nations are forecast to be up about 5 percent due to improving conditions in the dairy and livestock sectors. South American industry sales of tractors and combines are projected to be the same to up about 5 percent as a result of continued positive conditions, particularly in Argentina. Asian sales are forecast to be about the same as last year. Industry sales of turf and utility equipment in the U.S. and Canada are expected to be the same to up 5 percent for 2018. Deere's turf sales are expected to outperform the industry due to the success of new products.
· Construction and Forestry. The Company's worldwide sales of construction and forestry equipment are forecast to increase about 80 percent for 2018, including a positive currency translation effect of about 2 percent. Wirtgen is expected to add about 56 percent to the segment's sales for the year. The outlook reflects continued improvement in demand driven by higher housing starts in the U.S., increased activity in the oil and gas sector, and economic growth worldwide. In forestry, global industry sales are expected to be up about 5 percent mainly as a result of improved demand throughout the world, led by North America.
· Financial Services. Fiscal year 2018 net income attributable to Deere & Company for the financial services segment is expected to be approximately $840 million, which includes about $320 million of favorable changes associated with tax reform. Additionally, results are expected to benefit from a higher average portfolio and lower losses on lease residual values, partially offset by increased selling, administrative and general expenses.

Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under "Overview," "Market Conditions and Outlook," and other forward-looking statements herein that relate to future events, expectations, and trends involve factors that are subject to change, and risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the Company's businesses.

The Company's agricultural equipment business is subject to a number of uncertainties including the factors that affect farmers' confidence and financial condition. These factors include demand for agricultural products, world grain stocks, weather conditions, soil conditions, harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth and sustainability of non-food uses for some crops (including ethanol and biodiesel production), real estate values, available acreage for farming, the land ownership policies of governments, changes in government farm programs and policies, international reaction to such programs, changes in environmental regulations and their impact on farming practices; changes in and effects of crop insurance programs, global trade agreements (including the North American Free Trade Agreement and the Trans-Pacific Partnership), animal diseases and their effects on poultry, beef and pork consumption and prices, crop pests and diseases, and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the Company's turf and utility equipment include consumer confidence, weather conditions, customer profitability, labor supply, consumer borrowing patterns, consumer purchasing preferences, housing starts and supply, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

Consumer spending patterns, real estate and housing prices, the number of housing starts, interest rates and the levels of public and non-residential construction are important to sales and results of the Company's construction and forestry equipment. Prices for pulp, paper, lumber, and structural panels are important to sales of forestry equipment.

All of the Company's businesses and its results are affected by general economic conditions in the global markets and industries in which the Company operates; customer confidence in general economic conditions; government spending and taxing; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates; inflation and deflation rates; changes in weather patterns; the political and social stability of the global markets in which the Company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts; natural disasters; and the spread of major epidemics.

Significant changes in market liquidity conditions, changes in the Company's credit ratings and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could reduce the Company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the Company's products and customer confidence and purchase decisions, borrowing and repayment practices, and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, demand for equipment, and Company operations and results. The Company's investment management activities could be impaired by changes in the equity, bond, and other financial markets, which would negatively affect earnings.

The anticipated withdrawal of the United Kingdom from the European Union and the perceptions as to the impact of the withdrawal may adversely affect business activity, political stability, and economic conditions in the United Kingdom, the European Union, and elsewhere. The economic conditions and outlook could be further adversely affected by (i) the uncertainty concerning the timing and terms of the exit, (ii) new or modified trading arrangements between the United Kingdom and other countries, (iii) the risk that one or more other European Union countries could come under increasing pressure to leave the European Union, or (iv) the risk that the euro as the single currency of the Eurozone could cease to exist. Any of these developments, or the perception that any of these developments are likely to occur, could affect economic growth or business activity in the United Kingdom or the European Union, and could result in the relocation of businesses, cause business interruptions, lead to economic recession or depression, and impact the stability of the financial markets, availability of credit, currency exchange rates, interest rates, financial institutions, and political, financial, and monetary systems. Any of these developments could affect our businesses, liquidity, results of operations, and financial position.

Additional factors that could materially affect the Company's operations, access to capital, expenses, and results include changes in, uncertainty surrounding and the impact of governmental trade, banking, monetary, and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies, tariffs, and sanctions in particular jurisdictions or for the benefit of certain industries or sectors; actions by central banks; actions by financial and securities regulators; actions by environmental, health and safety regulatory agencies, including those related to engine emissions, carbon, and other greenhouse gas emissions, noise, and the effects of climate change; changes to GPS radio frequency bands or their permitted uses; changes in labor and immigration regulations; changes to accounting standards; changes in tax rates, estimates, laws and regulations and Company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets and otherwise; and actions by other regulatory bodies.

Other factors that could materially affect results include production, design, and technological innovations and difficulties, including capacity and supply constraints and prices; the loss of or challenges to intellectual property rights whether through theft, infringement, counterfeiting or otherwise; the availability and prices of strategically sourced materials, components, and whole goods; delays or disruptions in the Company's supply chain or the loss of liquidity by suppliers; disruptions of infrastructures that support communications, operations or distribution; the failure of suppliers or the Company to comply with laws, regulations, and Company policy pertaining to employment, human rights, health, safety, the environment, anti-corruption, privacy and data protection, and other ethical business practices; events that damage the Company's reputation or brand; significant investigations, claims, lawsuits or other legal proceedings; start-up of new plants and products; the success of new product initiatives; changes in customer product preferences and sales mix; gaps or limitations in rural broadband coverage, capacity and speed needed to support technology solutions; oil and energy prices, supplies, and volatility; the availability and cost of freight; actions of competitors in the various industries in which the Company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; changes in demand and pricing for used equipment and resulting impacts on lease residual values; labor relations and contracts; changes in the ability to attract, train, and retain qualified personnel; acquisitions and divestitures of businesses; greater than anticipated transaction costs; the integration of new businesses; the failure or delay in closing or realizing anticipated benefits of acquisitions, joint ventures or divestitures; the implementation of organizational changes; the failure to realize anticipated savings or benefits of cost reduction, productivity, or efficiency efforts; difficulties related to the conversion and implementation of enterprise resource planning systems; security breaches, cybersecurity attacks, technology failures and other disruptions to the Company's and suppliers' information technology infrastructure; changes in Company declared dividends and common stock issuances and repurchases; changes in the level and funding of employee retirement benefits; changes in market values of investment assets, compensation, retirement, discount, and mortality rates which impact retirement benefit costs; and significant changes in health care costs.

The liquidity and ongoing profitability of John Deere Capital Corporation and other credit subsidiaries depend largely on timely access to capital in order to meet future cash flow requirements, and to fund operations, costs, and purchases of the Company's products. If general economic conditions deteriorate or capital markets become more volatile, funding could be unavailable or insufficient. Additionally, customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact write-offs and provisions for credit losses.

The Company's outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The Company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the Company and its businesses, including factors that could materially affect the Company's financial results, is included in the Company's other filings with the SEC (including, but not limited to, the factors discussed in Item 1A. Risk Factors of the Company's most recent annual report on Form 10-K and quarterly reports on Form 10-Q).

## Critical Accounting Policies

See the Company's critical accounting policies discussed in the Management's Discussion and Analysis of the most recent annual report filed on Form 10-K. There have been no material changes to these policies.

## CAPITAL RESOURCES AND LIQUIDITY

The discussion of capital resources and liquidity has been organized to review separately, where appropriate, the Company's consolidated totals, equipment operations, and financial services operations.

### Consolidated

Negative cash flows from consolidated operating activities in the first three months of 2018 were $1,297 million. This resulted primarily from a seasonal increase in inventories and a decrease in accounts payable and accrued expenses, which were partially offset by an increase in net accrued income taxes, a net loss adjusted for non-cash provisions, and a change in net retirement benefits. Cash outflows from investing activities were $4,090 million in the first three months of this year, primarily due to acquisitions of businesses, net of cash acquired, of $5,130 million (see Note 18) and purchases of property and equipment of $176 million, partially offset by collections of receivables (excluding receivables related to sales) and proceeds from sales of equipment on operating leases exceeding the cost of receivables and equipment on operating leases acquired by $1,193 million and proceeds from sales of businesses and unconsolidated affiliates, net of cash sold, of $50 million. Negative cash flows from financing activities were $231 million in the first three months of 2018, primarily due to dividends paid of $193 million and a decrease in borrowings of $145 million, partially offset by proceeds from issuance of common stock of $143 million (resulting from the exercise of stock options). Cash and cash equivalents decreased $5,420 million during the first three months this year.

The Company is evaluating additional, voluntary contributions to its U.S. pension and postretirement plans in 2018. The amount and timing of additional contributions, if any, will be at the discretion of the Company's board of directors or a committee thereof and will be based on the Company's liquidity and ability to make U.S. tax-deductible contributions applicable to tax year 2017.

Negative cash flows from consolidated operating activities in the first three months of 2017 were $737 million. This resulted primarily from a seasonal increase in inventories and a decrease in accounts payable and accrued expenses, which were partially offset by net income adjusted for non-cash provisions, a decrease in receivables related to sales, and a change in net retirement benefits. Cash inflows from investing activities were $1,104 million in the first three months of 2017, primarily due to collections of receivables (excluding receivables related to sales) and proceeds from sales of equipment on operating leases exceeding the cost of receivables and equipment on operating leases acquired by $1,156 million and proceeds from sales of businesses and unconsolidated affiliates, net of cash sold, of

$114 million, partially offset by purchases of property and equipment of $155 million. Negative cash flows from financing activities were $774 million in the first three months of 2017, primarily due to a decrease in borrowings of $818 million and dividends paid of $189 million, partially offset by proceeds from issuance of common stock of $263 million (resulting from the exercise of stock options). Cash and cash equivalents decreased $446 million during the first quarter of 2017.

The Company has access to most global markets at a reasonable cost and expects to have sufficient sources of global funding and liquidity to meet its funding needs. Sources of liquidity for the Company include cash and cash equivalents, marketable securities, funds from operations, the issuance of commercial paper and term debt, the securitization of retail notes (both public and private markets), and committed and uncommitted bank lines of credit. The Company's commercial paper outstanding at January 28, 2018, October 29, 2017, and January 29, 2017 was $2,830 million, $3,439 million, and $1,051 million, respectively, while the total cash and cash equivalents and marketable securities position was $4,377 million, $9,787 million, and $4,336 million, respectively. The decrease of $5,410 million during the first three months of 2018 is primarily due to the Wirtgen acquisition (see Note 18). The total cash and cash equivalents and marketable securities held by foreign subsidiaries, in which earnings are considered indefinitely reinvested, was $1,334 million, $3,386 million, and $1,760 million at January 28, 2018, October 29, 2017, and January 29, 2017, respectively.

Lines of Credit. The Company also has access to bank lines of credit with various banks throughout the world. Worldwide lines of credit totaled $8,201 million at January 28, 2018, $4,670 million of which were unused. For the purpose of computing unused credit lines, commercial paper and short-term bank borrowings, excluding secured borrowings and the current portion of long-term borrowings, were primarily considered to constitute utilization. Included in the total credit lines at January 28, 2018 were 364-day credit facility agreements of $1,750 million, expiring in February 2018, and $750 million, expiring in October 2018. In addition, total credit lines included long-term credit facility agreements of $2,500 million expiring in April 2021, and $2,500 million expiring in April 2022. In February 2018, the Company extended its $1,750 million, 364-day credit facility agreement to expire in February 2019. These credit agreements require John Deere Capital Corporation (Capital Corporation) to maintain its consolidated ratio of earnings to fixed charges at not less than 1.05 to 1 for each fiscal quarter and the ratio of senior debt, excluding securitization indebtedness, to capital base (total subordinated debt and stockholder's equity excluding accumulated other comprehensive income (loss)) at not more than 11 to 1 at the end of any fiscal quarter. The credit agreements also require the equipment operations to maintain a ratio of total debt to total capital (total debt and stockholders' equity excluding accumulated other comprehensive income (loss)) of 65 percent or less at the end of each fiscal quarter. Under this provision, the Company's excess equity capacity and retained earnings balance free of restriction at January 28, 2018 was $10,023 million. Alternatively under this provision, the equipment operations had the capacity to incur additional debt of $18,615 million at January 28, 2018. All of these requirements of the credit agreement have been met during the periods included in the financial statements.

Debt Ratings. To access public debt capital markets, the Company relies on credit rating agencies to assign short-term and long-term credit ratings to the Company's securities as an indicator of credit quality for fixed income investors. A security rating is not a recommendation by the rating agency to buy, sell, or hold Company securities. A credit rating agency may change or withdraw Company ratings based on its assessment of the Company's current and future ability to meet interest and principal repayment obligations. Each agency's rating should be evaluated independently of any other rating. Lower credit ratings generally result in higher borrowing costs, including costs of derivative transactions, and reduced access to debt capital markets. The senior long-term and short-term debt ratings and outlook currently assigned to unsecured Company debt securities by the rating agencies engaged by the Company are as follows:

| | Senior Long-Term | Short-Term | Outlook |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Fitch Ratings | A | F1 | Stable |
| Moody’s Investors Service, Inc. | A2 | Prime-1 | Stable |
| Standard & Poor’s | A | A-1 | Stable |

Trade accounts and notes receivable primarily arise from sales of goods to independent dealers. Trade receivables increased $760 million during the first three months of 2018, primarily due to the Wirtgen acquisition and a seasonal increase. These receivables increased $1,448 million, compared to a year ago, primarily due to the Wirtgen acquisition and higher shipment volumes. The ratios of worldwide trade accounts and notes receivable to the last 12 months’ net sales were 17 percent at January 28, 2018, compared to 15 percent at October 29, 2017 and 14 percent at January 29, 2017. Agriculture and turf trade receivables increased $693 million and construction and forestry trade receivables increased $755 million, compared to a year ago. The percentage of total worldwide trade receivables outstanding for periods exceeding 12 months was 2 percent at January 28, 2018, 1 percent at October 29, 2017, and 2 percent at January 29, 2017.

Deere & Company stockholders' equity was $9,253 million at January 28, 2018, compared with $9,557 million at October 29, 2017 and $6,825 million at January 29, 2017. The decrease of $304 million during the first three months of 2018 resulted primarily from net loss attributable to Deere & Company of $535 million and dividends declared of $194 million, partially offset by a change in the cumulative translation adjustment of $223 million, an increase in common stock of $94 million, a decrease in treasury stock of $57 million, and a change in the retirement benefits adjustment of $46 million.

Equipment Operations

The Company's equipment businesses are capital intensive and are subject to seasonal variations in financing requirements for inventories and certain receivables from dealers. The equipment operations sell a significant portion of their trade receivables to financial services. To the extent necessary, funds provided from operations are supplemented by external financing sources.

Cash used for operating activities of the equipment operations, including intercompany cash flows, in the first three months of 2018 was $983 million. This resulted primarily from a seasonal increase in inventories and a decrease in accounts payable and accrued expenses. Partially offsetting these operating cash outflows were an increase in net accrued income taxes, a decrease in trade receivables held by the equipment operations, cash inflows from a net loss adjusted for non-cash provisions, and a change in net retirement benefits. Cash and cash equivalents decreased $5,551 million in the first three months of 2018, primarily due to the Wirtgen acquisition of $5,130 million (see Note 18).

Cash used for operating activities of the equipment operations, including intercompany cash flows, in the first three months of 2017 was $746 million. This resulted primarily from a seasonal increase in inventories and a decrease in accounts payable and accrued expenses. Partially offsetting these operating cash outflows were cash inflows from net income adjusted for non-cash provisions, a decrease in trade receivables held by the equipment operations, and a change in net retirement benefits. Cash and cash equivalents decreased $473 million in the first three months of 2017.

Trade receivables held by the equipment operations increased $175 million during the first three months and increased $514 million from a year ago. The increase in both periods was due primarily to the Wirtgen acquisition. The equipment operations sell a significant portion of their trade receivables to financial services. See the previous consolidated discussion of trade receivables.

Inventories increased by $2,710 million during the first three months, primarily due to the Wirtgen acquisition and a seasonal increase. Inventories increased $2,655 million, compared to a year ago, primarily due to the Wirtgen acquisition and higher production volumes based on increased demand. Most of these inventories are valued on the last-in, first-out (LIFO) method. The ratios of inventories on a first-in, first-out (FIFO) basis (see Note 12), which approximates current cost, to the last 12 months' cost of sales were 39 percent at January 28, 2018, compared to 27 percent at October 29, 2017 and 30 percent at January 29, 2017.

Total interest-bearing debt of the equipment operations was $6,557 million at January 28, 2018, compared with $5,866 million at October 29, 2017 and $4,804 million at January 29, 2017. The ratios of debt to total capital (total interest-bearing debt and stockholders' equity) were 41 percent, 38 percent, and 41 percent at January 28, 2018, October 29, 2017, and January 29, 2017, respectively.

Property and equipment cash expenditures for the equipment operations in the first three months of 2018 were $176 million, compared with $155 million in the same period last year. Capital expenditures for the equipment operations in

2018 are estimated to be approximately $925 million.

Financial Services

The financial services operations rely on their ability to raise substantial amounts of funds to finance their receivable and lease portfolios. Their primary sources of funds for this purpose are a combination of commercial paper, term debt, securitization of retail notes, equity capital, and borrowings from Deere & Company.

During the first three months of 2018, the cash provided by operating and investing activities was used for financing activities. Cash flows provided by operating activities, including intercompany cash flows, were $430 million in the first three months of 2018. Cash provided by investing activities totaled $399 million in the first three months of

2018 primarily due to the collection of receivables (excluding trade and wholesale) and proceeds from sales of equipment on operating leases exceeding the cost of receivables and equipment on operating leases acquired by $1,019 million, partially offset by an increase in trade and wholesale receivables of $602 million. Cash used for financing activities totaled $723 million, resulting primarily from a decrease in borrowings from Deere & Company of $388 million, a decrease in external borrowings of $287 million, and dividends paid to Deere & Company of $38 million. Cash and cash equivalents increased $132 million in the first three months of 2018.

During the first three months of 2017, the cash provided by operating and investing activities was used for financing activities. Cash flows provided by operating activities, including intercompany cash flows, were $425 million in the first three months of 2017. Cash provided by investing activities totaled $869 million in the first three months of 2017 primarily due to the collection of receivables (excluding trade and wholesale) and proceeds from sales of equipment on operating leases exceeding the cost of receivables and equipment on operating leases acquired by $1,094 million, partially offset by an increase in trade and wholesale receivables of $214 million. Cash used for financing activities totaled $1,267 million, resulting primarily from a decrease in external borrowings of $804 million, a decrease in borrowings from Deere & Company of $317 million, and dividends paid to Deere & Company of $140 million. Cash and cash equivalents increased $27 million in the first three months of 2017.

Receivables and leases held by the financial services operations consist of retail notes originated in connection with retail sales of new and used equipment by dealers of John Deere products, retail notes from non-Deere equipment customers, trade receivables, wholesale notes, revolving charge accounts, credit enhanced international export financing generally involving John Deere products, and financing and operating leases. Total receivables and leases decreased $311 million during the first quarter of 2018 and increased $2,786 million in the past 12 months. Acquisition volumes of receivables (excluding trade and wholesale) and leases were 12 percent higher in the first three months of 2018, compared with the same period last year, as volumes of retail notes, revolving charge accounts, financing leases, and operating leases were higher. The amount of total trade receivables and wholesale notes increased compared to October 29, 2017 and increased compared to January 29, 2017. Total receivables and leases administered by the financial services operations, which include receivables administered but not owned, amounted to $39,690 million at January 28, 2018, compared with $40,001 million at October 29, 2017 and $36,908 million at January 29, 2017. At January 28, 2018, the unpaid balance of all receivables administered, but not owned, was $10 million, compared with $10 million at October 29, 2017 and $15 million at January 29, 2017.

Total external interest-bearing debt of the financial services operations was $34,037 million at January 28, 2018, compared with $34,179 million at October 29, 2017 and $29,775 million at January 29, 2017. Total external borrowings have changed generally corresponding with the level of receivable and lease portfolio, the level of cash and cash equivalents, the change in payables owed to Deere & Company, and the change in investment from Deere & Company. The financial services operations' ratio of interest-bearing debt to stockholder's equity was 6.8 to 1 at January 28, 2018, compared with 7.6 to 1 at October 29, 2017 and 7.3 to 1 at January 29, 2017.

Capital Corporation has a revolving credit agreement to utilize bank conduit facilities to securitize retail notes (see Note 11). During November 2017, the agreement was renewed with a total capacity, or "financing limit," of $3,500 million of secured financings at any time. After a two-year revolving period, unless the banks and Capital Corporation agree to renew, Capital Corporation would liquidate the secured borrowings over time as payments on the retail notes are collected. At January 28, 2018, $2,211 million of secured short-term borrowings was outstanding under the agreement.

In the first three months of 2018, the financial services operations issued $986 million and retired $803 million of retail note securitization borrowings. In addition, during the first three months of 2018, the financial services operations issued $2,184 million and retired $1,803 million of long-term borrowings, which were primarily medium-term notes.

Dividends and Other Events

The Company's Board of Directors at its meeting on February 28, 2018 declared a quarterly dividend of $.60 per share payable May 1, 2018, to stockholders of record on March 29, 2018.

In February 2018, the Company's financial services operations entered into a retail note securitization transaction, which resulted in $753 million of secured borrowings.

PART II. OTHER INFORMATION

Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification

31.2 Rule 13a-14(a)/15d-14(a) Certification

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEERE & COMPANY

Date: March 2, 2018 By: /s/ R. Kalathur
R. Kalathur
Senior Vice President and Chief Financial Officer