Deere pushes to stay on top, despite some slowdowns

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Deere & Co. is so big that it can expand and contract at the same time.

The company is cutting factory workers in Iowa - including temporarily closing its Ottumwa works - and shedding executive staff. At the same time, it has plans to expand in Russia and India.

Deere also is upholding its long-standing reputation as the size leader in equipment, with the rollout of its newest implement: a 48-row planter that is the biggest in the world.

Just four of the "Green Monsters," which Deere makes in conjunction with Bauer Built Manufacturing of Paton, have been made available to farmers before Deere begins marketing in earnest for the 2010 planting season.

Mike Brelsford, who farms about 5,000 acres north of Perry, tried out the planter this spring and was impressed enough to buy one. Deere and Brelsford wouldn't talk cost, but published reports have put the price above $335,000.

"My old 36-row planter could do about 60 acres an hour, this one can do 85 acres an hour," Brelsford said one day after signing for the purchase at the Van Wall Group's Perry dealership.

The 48-row planter is symbolic of how Deere has followed the growth of agriculture. Since the 1950s, Deere's planters have expanded from the four- to six-row planters that were standard then to the 36-row planter in 2003 and now the 48-row planter that has a 240-foot span.

The big new planter and expanded multinational operations could seem counterintuitive when crop prices and construction markets are falling in the United States and credit has squeezed foreign operations of every multinational company.

At the recent Wachovia Bank conference on heavy machinery, Deere's vice president for investor relations, Marie Ziegler, said lack of credit has had a "chilling effect" on Deere's sales abroad, most of which are down by double digits.

But with $10.6 billion in retained earnings and almost $5 billion in cash, Deere can afford to take the long view.

Moody's Investor Services said in its latest analysis of the company that its "strong liquidity and good internal cash generation make Deere a formidable competitor in the market."

Standard & Poor's said of Deere "the company has long been the strongest agricultural equipment player in North America, with leading market share for large tractors and combines."

But even Deere can't turn back the short-term forces of the ag economy.

"Deere's earnings will be under pressure for the rest of this year because of low commodity prices and serious weakness in foreign markets," said analyst Eli Lustgarten of Longbow Research in Cleveland. "Corn and soybeans are selling for about half of what they brought in U.S cash and futures markets last summer."

Investors tend to play Deere's stock off commodity prices and have shared Lustgarten's concerns.

Deere's stock closed Friday at $42.36, down from a 52-week high of $73.57 last July when corn and soybean prices were close to double what they averaged this year.

Deere's confidence in the agricultural markets was affirmed by its second-quarter results. For the period ended April 30, Deere posted a second-quarter profit of $472 million, down from $783 million in the same quarter last year.

Deere's ag equipment sales held their own, dropping slightly from $4.7 billion to $4.5 billion. Ag division operating profit dipped from $782 million a year ago to $635 million in the most recent quarter.

The decline in market demand for some agriculture products led to layoffs at Deere's Ottumwa and Ankeny works.

The Ottumwa plant makes hay and foraging equipment for the livestock industry. Ankeny makes tillage, planting, spraying and cotton harvesting equipment.

Deere spokesman Ken Golden said the Ottumwa plant will reopen, probably by October, and that employees have been recalled in small numbers at Ankeny.

Deere hasn't reduced the work force at its mainstay tractor plant at Waterloo, where the assembly, engine and foundry works employ more than 5,000 workers.

Deere's biggest problems are in its construction equipment business, which was hit by the massive slowdown in residential and commercial building.

Deere's revenues from sales of bulldozers, backhoes, excavators, loaders, graders and scrapers dropped from $1.3 billion in the second fiscal quarter last year to $600 million this year.

The operating profit for the construction division dropped from $166 million last year to a loss of $66 million in this year's quarter.

Ziegler expects the construction segment's sales and revenues will be down by 42 percent for the remainder of the year, with little improvement expected.

"The construction industry really peaked in 2006, and since then we maintained profits for the division through cost controls," Ziegler said.

The slump in construction led directly to the layoffs at Deere's factories at Dubuque and Davenport. Golden said there is no date set for recalls of those workers.

The construction woes are the prime reason for the drop in second-quarter operating profit at Deere's credit subsidiary, which has assets of $23 billion and employs about 1,000 workers in Johnston.

John Deere Credit's profit fell from $133 million last year to $58 million in the most recent quarter.

Deere has attributed the reduced profit to an increase in charge-offs on loans.

Deere's profit numbers stack up well against prime competitor CNH, owner of the Case and New Holland lines, which reported a $125 million loss for the most recent quarter compared with a $125 million profit for the same period last year.

CNH not only suffered through the same pangs of the construction industry as did Deere but also reported a 12 percent drop in its agricultural equipment sales.

Deere's biggest surprise this year was the sudden advancement of Samuel Allen, 55, a 34-year Deere veteran who had headed the construction division, to the chief executive position held by Robert Lane, 59.

The transition will take place beginning Saturday. Lane will remain as the chairman during a transition period.

Allen, Lane and Deere itself have said little about the change, and Allen has declined to do interviews.

The announcement was met with surprise in the investment community but was a relief to the PGA Tour.

Allen had been the chief negotiator and main company presence at the annual John Deere Classic tournament, held each July at the Deere Run golf course in Silvis, Ill., near Deere's headquarters in Moline