

Caterpillar

Basic Information/Company Description

Caterpillar Inc. manufactures and sells construction and mining equipment, diesel and natural gas engines, industrial gas turbines, and diesel-electric locomotives worldwide. The company's Construction Industries segment offers backhoe, small wheel, skid steer, multi-terrain, compact track, medium and compact wheel, and track-type loaders; mini, wheel, and track excavators; track-type tractors; and select work tools, motor graders, telehandlers, soil compactors, and pipelayers, as well as its related parts for the heavy and general construction, rental, mining and quarry, and aggregates markets. Its Resource Industries segment provides electric rope and hydraulic shovels; draglines; drills; highwall and longwall miners; hard rock vehicles; articulated, large mining, and off-highway trucks; large wheel loaders; wheel tractor scrapers; wheel dozers; machinery components; hard rock continuous mining systems; electronics and control systems; and select work tools for use in mining and quarry applications. The company's Energy & Transportation segment offers reciprocating engines, generator sets, marine propulsion systems, gas turbines and turbine-related services, diesel-electric locomotives, and other rail-related products and services. Its Financial Products segment provides retail and wholesale financing for Caterpillar equipment, machinery, and engines; offers property, casualty, life, accident, and health insurance; insurance brokerage services; and purchases short-term trade receivables. The company's All Other segments remanufactures Cat engines and components, and provides remanufacturing services for other companies; offers business strategy, and development, management, manufacturing, marketing, and support primarily for paving, forestry, industrial, waste, and Cat products. The company was formerly known as Caterpillar Tractor Co. and changed its name to Caterpillar Inc. in 1986. The company was founded in 1925 and is headquartered in Peoria, Illinois.-- Yahoo Finance

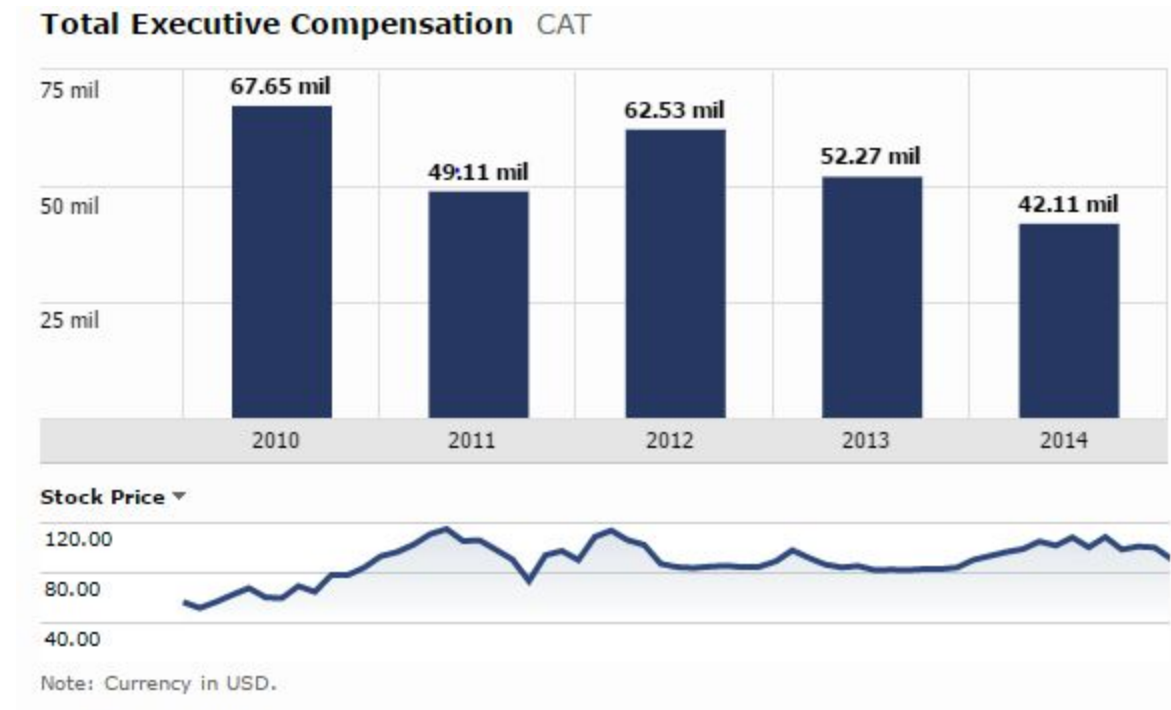
Investment Summary

We have determined Caterpillar Inc.'s price target to be \$70.34. From the current stock price of \$64.52, the targeted appreciation would be 9.18%. As we used many different models to find these estimates, we had to then look at the estimated numbers in relation. Removing some outliers within our valuation was necessary to get a realistic approach. Although this company still has room for appreciation, we believe that this is not a good investment. We believe that the stock is too volatile and is not a suitable investment for our portfolio compared to others within the market.

Business Description and Management

As stated above, Caterpillar is in the construction, and mining equipment selling industry. They are also into other sectors such as energy and transportation. Their Chairman and CEO is Mr. Douglas R. Oberhelman. He has been with the CEO since 2010, and before then held various

management positions throughout the company. Since CAT has been seeing a decline in revenue, they have been paying their executives lesser amounts each year.



Source: Morningstar

Industry Overview and Competitive Positioning

The overall construction machinery industry had revenue of \$44.3 billion in the last year. And CAT took 23.1% of the market share in this industry. The next leading competitor in this industry is Deere & Co. with 9.7%. The construction industry is expected to grow the next 5 years, with a total growth rate estimate of 2.8%. Competition is high in this industry, and the current trend says that it is still increasing. Also with Caterpillar being in a mature stage of growth, it is unlikely that Caterpillar will be able to see any outstanding increase in profits, but should be able to maintain their position as a leader in the construction industry.

Source: IbisWorld

Valuation

Financial Analysis

Investment Risks

Deere & Company (DE)

Basic Information/Company Description

"Deere & Company, together with its subsidiaries, manufactures and distributes agriculture and turf, and construction and forestry equipment worldwide. The company's Agriculture and Turf segment provides agriculture and turf equipment, and related service parts, including large, medium, and utility tractors; loaders; combines, corn pickers, cotton and sugarcane harvesters, and related front-end equipment and sugarcane loaders; and tillage, seeding, and application equipment, including sprayers, nutrient management, and soil preparation machinery. This segment also provides hay and forage equipment comprising self-propelled forage harvesters and attachments, balers, and mowers; turf and utility equipment, including riding lawn equipment and walk-behind mowers, golf course equipment, utility vehicles, and commercial mowing equipment, as well as associated implements; integrated agricultural management systems technology and solutions; and other outdoor power products. Its Construction and Forestry segment provides backhoe loaders; crawler dozers and loaders; four-wheel-drive loaders; excavators; motor graders; articulated dump trucks; landscape loaders; skid-steer loaders; and log skidders, feller bunchers, log loaders, log forwarders, log harvesters, and related attachments that are used in construction, earthmoving, material handling, and timber harvesting applications. The company's Financial Services segment finances sales and leases of new and used agriculture and turf equipment, and construction and forestry equipment. This segment also provides wholesale financing to dealers of the foregoing equipment; finances retail revolving charge accounts; and offers extended equipment warranties. The company markets its products primarily through independent retail dealer networks and retail outlets. Deere & Company was founded in 1837 and is headquartered in Moline, Illinois." - Yahoo Finance

Investment Summary

We have given Deere & Co. a price target of \$91.23, with a target appreciation of 16.26%. Using several models we feel that Deere & Co. is undervalued at this time and are recommending a buy. Although there are risks to investing in this type of company, as stated below, we believe that with this company there is potential for future growth in the company as well as in the stock price. Not just a short term investment but a long term investment would be a wise decision.



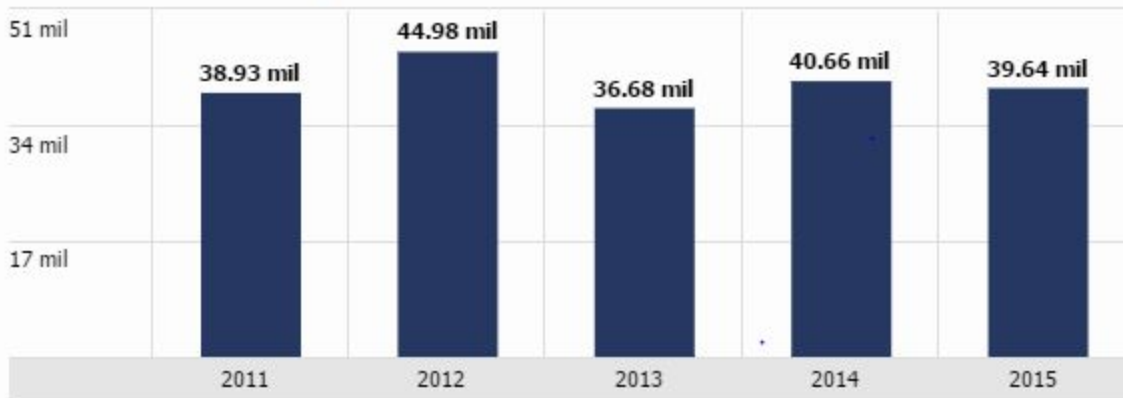
Source: Morningstar

Deere was hit hard in 2015 and lost about 8% of its sales revenue, and the price dropped significantly in the same year. But even though it has gone down it leaves much more room for an increase in price and reach our target appreciation.

Business Description and Management

As stated above Deere & Co. is primarily about manufacturing agricultural equipment from corn pickers, to tractors and so on. They also manufacture equipment for forestry and construction. The Chairman of the Board and CEO of the company is Samuel R. Allen. He has been CEO since 2010, and has a positive outlook for the company in the future. The past 2 earnings calls he spoke in showed nothing but a positive future for Deere & Co. despite this year's expected loss of sales.

Total Executive Compensation DE



Stock Price ▼



Note: Currency in USD.

Source: Morningstar

Industry Overview and Competitive Positioning

The overall agricultural industry has brought in over \$34.4 billion dollars in revenue in 2015. While overall annual growth was -3.4%, the future outlook for the industry going to 2021 is up to 0.8% growth. Deere is expected to have an 8% decrease in sales in 2016 but are reported to have said that they expect an increase in sales in the near future. The agriculture(industrial) sector itself is suppose to have an increase in revenue over the next few years. The closest competitor with John Deere in agriculture is CNH Industrial NV. Together these two companies make up 47.4% of the total market share of agricultural equipment. The industry itself is in the mature stage of growth. So a large increase in profits is unlikely in a short amount of time due to its stage on the growth chart.

Source: IbisWorld

Valuation

When using the valuation measures there were a few models that we did not use. We did not use the FCFE 2 Stage Declining model, as well as the FCFF. This is because although Deere has free cash flow, a large portion of their free cash flow goes into paying debts, So we felt that taking

free cash flow into consideration was not a good choice. If we did we got targeted prices of over \$100, and analysts are predicting mid to high 90's. Also we did not use the PEG ratio, mainly because when comparing Deere to Caterpillar, they each had a peg ratio of NEG on the thomson one comparables.

SUMMARY OF DISCOUNTED DIVIDEND / EARNINGS VALUATION MEASURES		yellow cells are inputs	
Model	Intrinsic Value	Use in Estimate? (1 = Yes, 0 = No)	
DDM with PE Terminal Value	\$101.45	1	\$101.45
DDM Gordon Growth Model	\$107.51	1	\$107.51
H Model Earnings	\$ 127.69	1	\$127.69
Average	\$112.21		
SUMMARY OF DISCOUNTED CASHFLOW VALUATION MEASURES			
Model	Intrinsic Value	Use in Estimate? (1 = Yes, 0 = No)	
FCFE Two Stage Model	\$ 109.88	1	\$109.88
FCFE 2 Stage Declining Model	\$ 146.07	0	\$0.00
FCFF	\$ 143.82	0	\$0.00
Average	\$109.88		
SUMMARY OF COMPARABLES (RELATIVE) VALUATION MEASURES			
Model	Intrinsic Value	Use in Estimate? (1 = Yes, 0 = No)	
Industry Ratio Average	\$51.59	1	\$51.59
Industry PEG	\$ (28.20)	0	\$0.00
Average	\$51.59		
OVERALL AVERAGE / PRICE TARGET	\$ 91.23		
Current Stock Price	\$ 78.47		
Target Appreciation	16.26%		

Financial Analysis

Period Ending	Oct 31, 2015	Oct 31, 2014	Oct 31, 2013
Total Revenue	28,862,800	36,066,900	37,795,400
Cost of Revenue	20,143,200	24,775,800	25,667,300
Gross Profit	8,719,600	11,291,100	12,128,100

Although Deere & Co has been a decline in revenue, they are still a very profitable company. These changes in revenues and profits can be linked directly to the poor performance in the markets both locally and globally.

Investment Risks

Deere & Company has been around for generations and knows how to handle ups and downs in the market, and more importantly the agricultural industry. When we were looking into Deere we believe there are several risks that need to be taken into consideration before buying this stock. Deere & Co. is heavily weighted by the oil industry, considering most of their equipment use oil. So if the price of oil is down, it can hurt their revenue. Also Since they are global they also have to worry about foreign exchange rates. But the most important risks is how to deal with weather

situations. Monsoons have been generating losses of revenue for Deere, as well does winter seasons and floods, storms, etc...