

NEW RISK ALERT: (DE)

John Deere Warns of New Sanctions Risks in Latest 10-K Language Changes

Changes offer clues about possible threats to international sales, civil litigation, and reorganization benefits.

Published December 17, 2020

This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

New Threat Emerges to International Sales

Regarding embargoes, sanctions, and import restrictions, DE removed one country it highlighted in its 2019 as a risk:

*"...including with respect to Russia, Venezuela, **Nicaragua** and Turkey."*

In its 2020 10-K, DE removes Turkey as a risk and adds China:

*"In particular, changing U.S. export controls and sanctions on **China**, as well as other restrictions affecting transactions involving China and Chinese parties..."*

DE also explicitly outlines— which is new in its 2020 10-K— the sales implications:

"...could affect John Deere's ability to collect receivables, provide aftermarket and warranty support for John Deere equipment, sell products, and otherwise impact Deere's reputation and business."

Though mentioned elsewhere in DE's 2019 10-K, the company explicitly signals potential legal risk related to China in its latest annual report:

"...may subject John Deere to civil and criminal sanctions..."

Tension With China Could Have 2nd Order Consequences

The company doesn't break out sales from China, but the geographic segment in which China is included is approximately 10-percent of DE's 2020 revenue, roughly the same as 2019.

But the risk runs deeper.

China is a manufacturing engine for John Deere. Details are scant, but DE has ag, turf, earthmoving equipment manufacturing factories in China. Some of its engine, engine/powertrain, hydraulic, or electronic component factories are also in China. It also has road building equipment plants in China.

It's important as the 2020 10-K hints at potential trouble with DE's Chinese factories. **The footnotes reveal a \$20 million USD impairment charge related to the closure of an agricultural equipment plant in China.**

The company also maintains regional parts depots and distribution centers in China.

Increased Climate Related Civil Litigation Risk Possible

In addition to the impact adverse weather conditions may have on the health of its customers, DE explicitly calls out environmental, climate, and weather risk in its latest report. Though last year's report outlines risk associated with environmental regulation:

"...private civil claims for damages to property or personal injury arising from the environmental, health or safety impacts of John Deere's operations.."

The 2020 annual signals increased risk:

"Further, civil litigation on these subjects continues to increase, primarily in the U.S."

Benefits of Corporate Reorganization Questioned

New in DE's 2020 10-K is a clue about potential personnel issues associated with its reorganization. The company suggests it may not realize the anticipated benefits due to:

"..the adoption of new job types within the Company, changing job responsibilities of employees, the number of layers of management, ability of employees to embrace change, anxiety within the workforce, and temporary inefficiencies.."

Deere Wonders Aloud About Dealer Tech Savvy

The company is increasingly rolling out what it calls precision technology to farmers. In addition to routine warnings surrounding software development risks, DE included language hinting that its dealer network may not be able to service innovative new products:

“The dealer channel’s ability to support and service precision technology solutions may affect customers’ acceptance and adoption rates of these products.”