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# Deere & Co. (DE)

Q2 2025 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to Deere & Company Second Quarter Earnings Conference Call. Your lines have been placed on listen-only until the question-and-answer session of today's conference.

I would now like to turn the call over to Mr. Josh Beal, Director of Investor Relations. Thank you. You may begin.

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**Josh Beal**

*Director, Investor Relations, Deere & Co.*

Hello. Welcome and thank you for joining us on today's call. Joining me on the call today are John May, Chairman and Chief Executive Officer; Josh Jepsen, Chief Financial Officer; and Josh Rohleder, Manager, Investor Communications.

Today, we'll take a closer look at Deere's second quarter earnings and spend some time talking about our markets and our current outlook for fiscal 2025. After that, we'll respond to your questions. Please note that slides are available to complement the call this morning that can be accessed on our website at [johndeere.com/earnings](http://johndeere.com/earnings).

First, a reminder. This call is broadcast live on the internet and recorded for future transmission and use by Deere & Company. Any other use, recording or transmission of any portion this copyrighted broadcast, without the express written consent of Deere, is strictly prohibited. Participants in the call, including the Q&A session, agree that their likeness and remarks in all media may be stored and used as part of the earnings call.

This call includes forward-looking statements concerning the company's plans and projections for future that are subject to uncertainties, risks, changes in circumstances, and other factors that are difficult to predict. Additional information concerning factors that could cause actual results to differ materially is contained in the company's most recent Form 8-K, risk factors in the annual Form 10-K as updated by reports filed with the Securities and Exchange Commission.

This call may also include financial measures that are not in conformance with accounting principles generally accepted in the United States of America, GAAP. Additional information concerning these measures, including reconciliations to comparable GAAP measures, is included in the release and posted on our website at [johndeere.com/earnings](http://johndeere.com/earnings) under Quarterly Earnings and Events.

I will now turn the call over to John May for opening comments before we begin with our formal remarks.

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## John C. May

*Chairman & Chief Executive Officer, Deere & Co.*

Good morning, and thank you for joining us today. This quarter was marked by historic levels of volatility and significant uncertainty across our end markets, given the dynamic global trade backdrop. During times like this, it's important to reflect on and reaffirm our core values and the priorities that drive our teams at John Deere every day, which we've noted on slide 3 of our presentation.

Doing so helps us maintain our focus and resilience, providing a stable foundation that guides our decision-making and actions. Everything that we do at John Deere starts with our customers, who provide food, fuel, clothing, shelter and infrastructure for the world. We're honored to have served them for nearly 200 years, and we will continue to do so for the next 200.

In times of uncertainty, we must remain steadfast in this commitment. Practically speaking, this means being deliberate in every action and keeping customers at the forefront of every decision. We'll continue to honor our commitments from agreed-upon prices to delivering the highest level of uptime and reliability expected from our products. It's in times like these that we have the opportunity to foster new and strengthen existing customer relationships that end up enduring for generations.

Our second priority is our commitment to executing our plan, which involves taking actions to navigate more uncertain markets, while also maintaining investments in value-unlocking products and solutions. Our commitment to our Smart Industrial strategy remains unwavering. The opportunity to make our customers more productive, profitable and sustainable is tremendous, and we never lose sight of that.

In the near term, we'll continue to proactively manage what we can control: cost, production, inventory and quality, to navigate this environment while driving the margins that fuel our investments in the future. Our performance this quarter is a powerful testament to the results that come from this approach. On that note, I'd like to commend our teams for the excellent results they delivered this quarter despite the difficult macro environment we were facing.

Finally, I'd like to reaffirm our investment in the future. A future rooted in innovation that began nearly two centuries ago in a blacksmith shop in Grand Detour, Illinois. Today, that innovative spirit continues with Smart Industrial, our strategy that combines investment in advanced technology with our legacy of manufacturing excellence. We're proud of our storied US history. And with nearly 80% of our US sales and 25% of our international sales built right here in US manufacturing locations, we stand by and continue to embrace our American manufacturing heritage as we deliver value for our customers around the world.

Smart Industrial unlocks value through the integration of cutting-edge technology with premium hard iron equipment. We will continue to robustly invest capital and R&D to bring these integrated solutions to market, enhancing our global competitiveness. I'm proud that this innovative work will build on our American roots and we are prepared to invest \$20 billion in the US over the next decade as we spearhead new product development, cutting-edge technologies and more advanced manufacturing.

These strategic investments are an opportunity to further leverage an already broad base of US assets that include over 60 facilities across 16 states, supported by a highly skilled workforce that has built John Deere into the iconic brand it is today. As we look forward, we're more excited than ever about the opportunities ahead and our ability to drive unparalleled value for our customers worldwide by leveraging our rich heritage. It's a testament to our dedication to innovation, excellence and our customers' success.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, John. We'll now proceed with our remarks on the quarter. John Deere delivered a better-than-expected second quarter with an 18.8% margin for the equipment operations, demonstrating exceptional execution amidst challenging market dynamics.

Notably, margins exceeded projections despite tariff headwinds due to better-than-expected sales and favorable production costs, stemming from efficiency gains in our material sourcing and factory operations. However, as we look to the second half of the year, global uncertainty continues to weigh on customer sentiment across end markets. And while the top end of our fiscal 2025 outlook remains relatively unchanged from prior guidance, a fluid tariff environment has led us to broaden our guidance range as we actively work to mitigate impact to both our customers and Deere.

Slide 4 opens with our results for the second quarter. Net sales and revenues were down 16% to \$12.763 billion, while net sales for the equipment operations were down 18% to \$11.171 billion. Net income attributable to Deere & Company was \$1.804 billion or \$6.64 per diluted share.

Turning to our individual segments. We begin with the production and precision ag business on slide 5. Net sales of \$5.23 billion were down 21% compared to the second quarter last year, primarily due to lower shipment volumes. Price realization was positive, but just under 1 point. Currency translation was negative by roughly 2 points. Operating profit was \$1.148 billion, resulting in a 22% operating margin for this segment. The year-over-year decrease was primarily due to lower shipment volumes and an unfavorable sales mix, coupled with the negative effects of foreign currency exchange. These headwinds were partially offset by lower production costs and price realization.

Moving now to small ag and turf on slide 6. Net sales were down 6%, totaling \$2.994 billion in the second quarter as a result of lower shipment volumes, partially offset by price realization. Price realization was positive by just under 1 point. Currency translation was negative by roughly 0.5 point. Operating profit was approximately flat year-over-year at \$574 million, resulting in a 19.2% operating margin. Lower production costs, lower warranty expenses and price realization were offset by lower shipment volumes and an unfavorable sales mix.

Slide 7 gives our industry outlook for ag and turf markets globally. We continue to expect large ag equipment industry sales in the US and Canada to be down approximately 30% due to pressures from high interest rates, elevated late model used inventory levels and trade uncertainty. These headwinds are slightly mitigated by stable

crop prices, given tighter global stocks and bolstered farm balance sheets, strengthened by the distribution of government funds.

For small ag and turf in the US and Canada, industry demand is now expected to be down between 10% and 15%. While the dairy and livestock segment remains at historically strong levels of profitability and certain high-value crops, like almonds, return to profitability, equipment purchases remained subdued due to prevailing uncertainties and elevated costs. Demand has been further restrained by deterioration in turf and compact utility tractor sales due to consumer confidence and high interest rates weighing on purchase decisions.

Moving to Europe. The industry is still projected to decrease approximately 5%. Sentiment in the region is trending higher given strong dairy and livestock margins and an improving arable outlook. Stabilized commodity prices and input costs, along with improving interest rate environment, should provide more planning certainty despite the low average yields in key markets. In South America, industry sales forecast for tractors and combines remain roughly flat. In Brazil, sentiment continues to improve as crop yields recover and corn and soybean profitability returns.

Additionally, continued high margins in coffee production are driving increased demand for small and mid-sized tractors. However, record crop production levels are likely to put pressure on commodity prices, capping overall growth in farm profitability for the region, while high interest rates continue to temper demand. Industry sales in Asia are now projected to be flat as the outlook for tractor sales in India improves, supported by favorable growing conditions, steady crop acreage and increased availability for agricultural credit.

Next, our segment forecast begins on slide 8. For production and precision ag, our net sales forecast for the full year remains down between 15% and 20%. The forecast now assumes roughly 1 point of positive price realization for the full year, offset by 1.5 points of negative currency translation. Our full year forecast for this segment's operating margin is now between 15.5% and 17%, primarily due to tariff impacts.

Slide 9 shows our forecast for the small ag and turf segment. We now expect net sales to be down between 10% and 15%. The guide includes a 0.5 point of positive price realization and flat currency translation. Reduction from the prior quarter is primarily due to softening demand in the US turf and compact utility tractor segments, partially offset by improved sales projections for mid-sized tractors in Europe and small tractors in India. The segment's operating margin guide is now between 11.5% and 13.5%, primarily due to tariff impacts and the reduction in projected US turf and compact utility tractor shipment volumes.

Shifting over to construction and forestry on slide 10. Net sales for the quarter declined roughly 23% year-over-year to \$2.947 billion due to lower shipment volumes. Price realization was negative by just under 1.5 points. Currency translation was also negative, by roughly less than 0.5 point. Operating profit was down year-over-year at \$379 million, resulting in a 12.9% operating margin due primarily to lower shipment volumes and an unfavorable sales mix as well as negative price realization.

Slide 11 describes our construction and forestry outlook. Industry sales projections for earthmoving equipment in the US and Canada remain unchanged, with construction equipment expected to be down around 10% and compact construction equipment expected to be down around 5%. End-markets continued to see high utilization, as construction backlogs are steady and construction employment remains at all-time highs. However, trade uncertainty and high interest rates are pressuring order activity for both construction and compact construction equipment.

US government infrastructure spending continues to provide support to the industry. However, projections for single-family housing starts are moderating, given macro uncertainty and higher mortgage rates. Similarly, rental sales continue to soften, while high interest rates continue to pressure multifamily and commercial real estate markets.

Global forestry markets are expected to be flat to down 5%, as all global markets remain challenged. Global roadbuilding markets are forecasted to be roughly flat with continued strong end-market demand globally. In particular, record sales at our bauma trade show in April reinforced the uptick we're seeing in sentiment and demand throughout Europe.

Moving on to the construction and forestry segment outlook on slide 12, 2025 net sales remain forecasted to be down between 10% and 15%. Net sales guidance for the year includes 1 point of negative net price realization and flat currency translation. The segment's operating margin is now projected to be between 8.5% and 11.5%, due primarily to tariff impacts and, to a lesser degree, lower price realization.

Now transitioning to our financial services operations on slide 13. Worldwide financial services net income attributable to Deere & Company in the second quarter was \$161 million. Net income was flat due to less favorable financing spreads and a higher provision for credit losses, which were offset by lower SA&G expenses and a reduction in derivative valuation adjustments. For fiscal year 2025, our outlook remains at \$750 million as benefits from a favorable compare to special items related to the sale of Banco John Deere and lower SA&G expenses are partially offset by less favorable financing spreads.

And finally, slide 14 outlines our guidance for net income, effective tax rate and operating cash flow. For fiscal year 2025, our outlook for net income has widened to between \$4.75 billion and \$5.5 billion. Next, our guidance incorporates an effective tax rate between 20% and 22%. And lastly, cash flow from the equipment operations remains projected between \$4.5 billion and \$5.5 billion.

This concludes our formal comments. We'll now shift to a few topics specific to the quarter before we open up the lines to questions from our investors. Let's begin our discussion with Deere's performance in the quarter. We saw net sales increase sequentially, albeit down year-over-year. Additionally, margins were down roughly 2 points year-over-year, but grew sequentially to come in at just under 19% for the quarter. While there are clearly macro headwinds at play, the quarter represents strong operational performance.

So, Josh Beal, can you kick us off with the breakdown of the quarter?

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

Sure, Josh. And I think, John said it best earlier. This quarter was about resilience through uncertainty, despite the macro volatility, we executed to plan and achieved better-than-expected results across all three of our equipment operations segment. Our factories ran well, supporting higher-than-expected sales volumes, particularly in North American large ag.

Additionally, production cost favorability was better than anticipated, reflecting our focus on driving material costs and overheads out of the business as we manage through this downturn. Also, recall that lower net sales in the first quarter reflected a shift of shipments to later in the fiscal year. This quarter, we saw some of those volumes materialize.

Turning to construction and forestry. Our second quarter results reflected a return to seasonal production in line with retail demand across our earthmoving factories, which were shut down for nearly half of the first quarter as we right-sized inventory levels. Sequential sales and margin improvements were partially offset by negative price realization in the quarter. However, our roadbuilding business delivered another quarter of strong margins and a stable global sales, helping support our overall division financials.

Maybe one final point on the quarter. It's important to contextualize that the equipment operations results that we delivered were net of roughly \$100 million in incremental tariff headwinds. All in, we feel really good about what we were able to accomplish across all divisions in Q2.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, Josh. That's a great segue into my next question, which is probably top of mind for everyone, given there's been a lot of fluctuation in trade policy over the last few months. As you noted, we saw roughly \$100 million of tariff headwinds in the second quarter. What should we expect going forward? And what have we incorporated into our guide for the rest of the year?

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

Sure, Josh, as you noted, the trade environment is certainly fluid, evidenced by trade agreements and adjustments to tariff levels announced in this past week. We're monitoring these developments closely, while concurrently planning and executing mitigation strategy.

To provide context on Deere's potential tariff exposure, we provided a geographic breakdown of US complete good and component sourcing in the appendix of today's slide deck. As John noted earlier, nearly 80% of US complete goods sales are from products built at our US manufacturing facilities, with over 75% of the components used at those facilities sourced from US-based suppliers.

The majority of the US complete goods sales sourced outside the US are tied to midsized tractors and roadbuilding equipment from Europe. On the component side, our primary non-US sourcing is from Mexico and Europe.

As it relates to our forecast, we expect a pre-tax tariff impact in fiscal year 2025 of just over \$500 million, should these tariff levels continue throughout the remainder of the fiscal year. This forecast is based on the impact of tariffs in effect as of May 13, including the reductions in reciprocal and retaliatory tariffs between China and the United States announced earlier this week.

Using this baseline assumption as a starting point, we've expanded our guidance range to account for scenarios that may evolve as the year plays out. For context on the split by business unit, we would expect 40% of the costs to impact our construction and forestry operations, with about 35% hitting small ag and turf, and about 25% hitting production and precision ag.

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## Joshua Jepsen

*Senior Vice President & Chief Financial Officer, Deere & Co.*

Hi. This is Jepsen. I'd like to quickly call out a few of the mitigation efforts we're taking to minimize the impact of tariffs on our customers, dealers, and Deere. Teams across the organization are working diligently not only to



understand and quantify risks, as Josh Beal noted, but also to mitigate impacts where there are clear, executable solutions available.

One example is the work we've done to certify eligible products for USMCA and ag use only exemptions for Mexico and Canada. These certifications were not required historically as our products were generally duty-free. In only a few weeks, we've been able to successfully certify complete goods and components that make up the majority of the potential exposure from these countries.

Additionally, our supply management team has been working to optimize our global trade flows, actively moving component sourcing where we see no-regret solutions. Overall, our teams are doing exceptional job to position us well as we navigate the current environment.

Now turning to potential price action. We don't see much opportunity for price mitigation to impact fiscal 2025 given our order books for most product lines are nearly full for the remainder of the year.

That being said, we're contemplating tariff impacts on our cost structure as we look to model year 2026 pricing. However, we are doing so being very mindful of the dynamic environment and the pressures our customers have had to deal with over the past few years.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks for that color, Josh and Josh. Going back to the breakdown on tariff cost by segment, can you walk us through why we're seeing such outsized impact on our C&F business? And then, more broadly, can you give us an update on market commentary and how that's impacting our guide?

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

It's a great call out Josh and an important point to clarify. I'll start by reiterating that the majority of the margin compression seen in our updated C&F guide this quarter was driven by forecasted tariff impact. That exposure is primarily driven by three areas.

First, US sales from our roadbuilding business are exposed to the 10% global tariffs as production is located almost entirely in Germany. Second, we currently operate under supply agreement with our former JV partner for excavators, a product line that makes up roughly 40% of the earthmoving market.

This supply agreement applies to both complete goods sourced from Japan, along with Japanese sourced components, for production in our North Carolina factory. It's important to note, however, that this exposure will reduce over the next few years as we begin to roll out Deere designed and US manufactured excavators.

Finally, the earthmoving market is more exposed to China component sourcing than our ag business, given the robust and mature supply base for construction equipment that developed in that region over the past two decades.

Looking at the C&F industry, utilization of earthmoving equipment in our end markets remains healthy, while current uncertainty has weighed on new equipment replacement demand. Higher levels of price competition are also impacting the earthmoving market, which is reflected in our revised pricing outlook for the year. It's notable,



though, that better-than-expected material favorability is helping to offset some of the margin impact of the additional pricing actions that we're taking.

## Joshua Jepsen

*Senior Vice President & Chief Financial Officer, Deere & Co.*

This is Jepsen. One thing I'd like to add here relates to our roadbuilding business. Just this past month, we were in Munich for bauma, the world's largest construction machinery show held every three years. This is an incredible event for our Wirtgen team. Not only did we see strong sentiment and record orders, but we had the opportunity to showcase the significant strides we're making in tech advancements for the industry, including the launch of the John Deere Operations Center for roadbuilding production systems.

This was on top of the integration of John Deere engines, guidance systems and displays into roadbuilding equipment at the show. Given the significant similarities between large ag and roadbuilding in terms of repeatable jobs and precise execution to define specifications, we can extend the John Deere tech stack to Wirtgen equipment to enable more digitalization, automation and ultimately value for our customers.

## John C. May

*Chairman & Chief Executive Officer, Deere & Co.*

Yeah. This is John. It's important to highlight that the Wirtgen tech story is exactly what we envisioned when we launched our Smart Industrial strategy in 2020. By focusing on the jobs that our customers do in their respective production systems, we can target our development to solve their biggest pain points. Combining that focus with a centralized tech stack, which makes leveraging technology across production systems easier and more efficient, we can bring value-accretive solutions to our customers faster and with greater impact and better capital allocation.

## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, John. It's really exciting to watch as our tech stack expands beyond just our large ag business. Turning now to ag, I'd like to start with farm fundamentals. So, Josh Beal, can you walk us through what our farmers are experiencing as well as what that means for Deere in the back half of the year?

## Josh Beal

*Director, Investor Relations, Deere & Co.*

Yeah. Sure thing, Josh. Trade uncertainty is having an impact on customer sentiment, creating a headwind for the market. However, crop prices have generally stabilized, albeit at lower profitability levels due to tight stocks driven by better-than-expected consumption and lower-than-expected crop production. Notably, excluding China stock, global grain and oilseed stocks-to-use ratios are roughly at 20-year lows. Additionally, input costs have fallen for a third consecutive year, though they remain above long term averages.

Finally, nearly 75% of the \$10 billion in direct US government payments under the Emergency Commodity Assistance Program have been distributed, providing American farmers with liquidity following a challenging 2024-2025 crop year. And so, when excluding tariffs, we've seen some stabilization in the North American ag market, which offers some reassurance, should uncertainty levels abate over the course of the year.

## Joshua Jepsen

*Senior Vice President & Chief Financial Officer, Deere & Co.*

It's also worth noting that as we saw with the trade deal announced last week with the UK, ag commodities and ag-based energy are at the forefront of the US Administration's trade policy agenda. Additional demand and market access for US producers is positive and incremental demand may drive improved prices based on the tight stocks-to-use ratios that Josh mentioned.

## Josh Beal

*Director, Investor Relations, Deere & Co.*

Good point, Josh. Shifting to global markets, we are continuing to see early signs of sentiment shift in South America as Brazilian farmers benefit from improved corn and soybean profitability as crop yields recover amid a weakened real.

While European markets remain at sub-trough levels, we're seeing some green shoots in that region as well. European growers are seeing stability in wheat prices, which, along with a return to trend yields, should support a recovery in key arable crop markets, alongside an already strong dairy and livestock segment.

Turning to order books, availability for both North American produced large tractors and European produced mid tractors is into October. And in Brazil, our order books are full through the third quarter.

It's worth noting that we have less order visibility in turf equipment and compact utility tractors. The reduction in our small ag and turf guide embeds lower demand in these markets, driven by weaker consumer confidence.

## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Perfect. Thanks, Josh. Shifting to inventory, can you unpack what we're seeing over the last quarter for both new and used?

## Josh Beal

*Director, Investor Relations, Deere & Co.*

Yeah, absolutely. The current focus for Deere is centered on used inventory in North America, as actions we took over the prior 18 months helped to right-size new inventory levels in the US and globally. For example, in North America, our new inventory for tractors above 220 horsepower is down over 40% year-over-year on a unit basis, while new combines are down nearly 25%. The story is a little bit different for used inventory, where a higher-than-normal mix of late model year tractors continues to persist in the North American market. While Deere used high horsepower tractors were up slightly quarter-over-quarter, it's important to call out the seasonal build in used that occurs as pre-planting deliveries of new equipment drive a higher level of trade-in. Despite the seasonal increase, we feel confident in our plan to reduce used tractor inventories, as we've seen the impact of similar actions reduce combine inventory by nearly double digits year-over-year to below the 10-year average.

Notably in combine, late model year equipment has declined more significantly than other vintages, helping return used combines to a more normal distribution of equipment age. Through increased contributions to pool funds for dealer development, new financing options that support customer purchases and make incentive dollars go further, and our dealer network working with every customer to understand their individual needs, we're executing our plan to drive down used inventories.

## John C. May

*Chairman & Chief Executive Officer, Deere & Co.*

Yeah, this is John. It's worth emphasizing that we are tightly aligned with our channel and our focus on rightsizing that secondary market that Josh referred to. We have the best dealers in the industry. And together, we're taking the actions needed to bring down tractor inventories. I'm confident that our approach will yield results, and I'm appreciative of our dealers for their support in this effort.

## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, John and Josh. Continuing with large ag, 2025 represents a major milestone in our tech journey, as we not only announced the commercialization of autonomous tillage in model year 2026, but we're also lapping the first-year cohort of tech offerings like See & Spray and Precision Essentials. Can you give us an update on the latest progress across our precision ag solutions?

## Josh Beal

*Director, Investor Relations, Deere & Co.*

Absolutely, Josh, and I think it's important to frame this across three areas: capabilities, adoption and utilization. I'll start with capabilities, which is a part of this tech journey that we don't speak about enough and is underappreciated in terms of its importance. Capabilities are the foundational building blocks, primarily internal to Deere and our dealers, that ensure our customers are maximizing the value of our technology in a seamless and easy to access manner. We've been investing in these capabilities for the last several years and are now beginning to see their benefits come to fruition.

For example, we've implemented and scaled a license management system integrated with the John Deere Operations Center to handle hundreds of thousands of licenses, enhancing the customer experience for purchasing and renewing solutions. We've also built out a customer success function that helps ensure our customers are getting the most out of our technologies. For example, this spring season, we're using automated intervention to ensure that customers are realizing the full value of See & Spray in the field.

Our channels align with us in this work, as our dealers are also investing in capabilities through connected support and precision ag specialist roles that support customers as they integrate new solutions and technologies into their operation. These capabilities are a foundational platform that will continue to build as we progress on our Smart Industrial journey.

Turning to adoption, we're seeing continued growth in customers choosing precision tech as we expand our suite of offerings and bring them into more geographies across the globe. Furthermore, for many of these technologies, our Solutions as a Service business model makes tech more affordable, accessible, and adaptable for our customers. A perfect example is Precision Essentials.

In 2025, we're seeing greater adoption as we expand this solution to additional markets. In fact, in the first half of this fiscal year, we've already received nearly 10,000 orders globally, exceeding the entire fiscal 2024 order count in just six months. Brazil alone accounts for over 3,500 of those 2025 orders and we're seeing strong order activity in North America and Europe as well.

Going forward, success for this and other subscription based technologies will depend heavily on our ability to drive license renewals year-over-year. 2025 marks our first year of renewals for the 2024 Precision Essentials

cohort, where we have a year one goal of 70% renewal. Nearly two-thirds of eligible machines have renewed thus far and we expect that to increase as we continue to engage with our customers in the renewal process.

Finally, the best way to enable technology growth is through utilization. Continued growth in the number of acres covered by Deere's precision offerings is the best indicator that customers are seeing value in the technology and will continue to use it season after season. We're encouraged by the momentum we're seeing in utilization of See & Spray.

As you'll recall, in 2024, we had a few hundred See & Spray units running in North America, with those units ultimately covering 1 million acres during last year's spraying season. In 2025, we have over 1,000 new orders for See & Spray, which significantly increases the population of machines that will be running this year. It's worth highlighting for the customers that ran See & Spray in 2024, we're seeing greater utilization on the same machines in the 2025 season and those same customers have invested in more See & Spray units this year.

Effectively, what we're seeing is a compounding effect, more units with more utilization across more farms. The combination of capabilities, adoption and utilization is continuing to drive more depth and breadth of engagement with Deere precision technologies across the world. Digital engagement is a great proof point for this, represented by the utilization growth we're seeing in the John Deere Operations Center.

Year-over-year, engaged acres grew by nearly 15% to just over 475 million acres, while highly engaged acres grew by over 25% and now represent nearly 30% of total engaged acres. We are encouraged by the trend lines we're seeing as these numbers validate not only the effectiveness of our technology, but also the strategy by which we are bringing them to market.

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## Joshua Jepsen

*Senior Vice President & Chief Financial Officer, Deere & Co.*

This is Jepsen. One point to add here, which we increasingly talk about, is the opportunity to extend these technologies to our Brazilian customers, who are in many cases just beginning their tech journey. In fact, earlier this month, we had our largest product introduction to date at Brazil's Agrishow. Given this immense opportunity and our commitment to investing in Brazil for Brazil, we are also excited to announce our Brazil Investor Day on June 10 in Indaiatuba at our recently opened R&D Center.

As we celebrate our 25th anniversary in Brazil, our livestream event will showcase the incredible opportunity that exists, along with the strong foundation we have built over the past quarter of century, which uniquely positions us to drive differentiated value and sustainable growth for our customers and Deere. Additional information can be found in the quarter's presentation and on our website.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Really exciting news, Josh. Shifting now to our last topic. I'd like to walk through our capital allocation strategy. Josh Jepsen, given the market volatility and uncertainty, what can you share about the actions we're taking to ensure we can support both customers and shareholders during this time?

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## Joshua Jepsen

*Senior Vice President & Chief Financial Officer, Deere & Co.*

Our use of cash policy remains the same. It starts with maintaining a mid-single A or better credit rating to ensure John Deere Financial can continue to provide customers with cost-effective financing. This is even more important in the current environment when many financial institutions are less willing to participate in the ag space.

Our next priority is investing in the business. By focusing on value-accretive projects and solutions at all points in the cycle, we're able to exit downturns with a strong pipeline to deliver growth and competitive differentiation. Ultimately, by driving more value for our customers, we can drive more value for our shareholders, which we'll distribute via dividends and share repurchases.

All this is predicated on prudent cash management for the business and even more so during periods of heightened market volatility. And as we have in the past, we've taken steps to solidify our balance sheet and bolster liquidity. I'm confident in our use of cash policy and ability to proactively plan and strategically execute in any market environment.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, Josh. Great update. And before we open up the line to questions, do you have any final comments you'd like to share?

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## Joshua Jepsen

*Senior Vice President & Chief Financial Officer, Deere & Co.*

Yeah. Thanks, Josh. The second quarter highlighted strong execution across the organization, and I'm proud of what the team has accomplished and the resiliency demonstrated in the face of significant uncertainty. We responded with measured actions to deliver optimal long-term outcomes for all stakeholders.

Our near-term plan is focused on how we navigate this cycle. The actions we've taken continue to yield results and position us well for the future. And we're encouraged by the customer value our long-term strategy is generating. Customers are choosing our production system offerings because they understand the outcomes the Deere solution provides.

We're excited by the opportunities to expand our technology across business units and product lines, leveraging our investments in one business to drive returns in others. We'll continue to explore and invest in opportunities both organic and inorganic that provide strong returns for our customers and Deere.

In closing, we're committed to our customers and focused squarely on driving long-term value for them as we look to mitigate disruptions and volatility in their day-to-day operations. We take seriously the trust our customers place in Deere to ensure they can execute their work. And to do so, we hold ourselves to the highest standards to ensure we can deliver on our promise of providing the highest quality machines, most value-enhancing technologies and best customer service and support in the industry.

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## Joshua Rohleder

*Manager, Investor Communications, Deere & Co.*

Thanks, Josh. Now let's open it up to questions from our investors.

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## Josh Beal

*Director, Investor Relations, Deere & Co.*

We're now ready to begin the Q&A portion of the call. The operator will instruct you on the polling procedure. In consideration of others and to allow more of you to participate in the call, please limit yourself to one question. If you have additional questions, we ask that you rejoin the queue.

Operator, we're ready for the first question.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin our question-and-answer session. [Operator Instructions] Our first question comes from Rob Wertheimer from Melius Research. Your line is open.

**Rob Wertheimer**

*Analyst, Melius Research LLC*

Q

Thanks. And apologies everybody. I'd like to start out with a strategic question, because I thought your comments on the SaaS and the adoption per – the continued rollout on See & Spray were really interesting. Can you kind of talk about how many different SaaS models you kind of have currently? I'm not sure I understand fully what the Precision Essentials cohort – product line is?

And then what does the pipeline look like for that? We obviously all understand your long-term goals. I don't know if you have a bunch of features that you're kind of rolling out this year, next year or the year after? And how many different offerings you're doing in that SaaS world now? I know you've worked hard on getting farmers to sort of see the value of it. I'm curious about your progress. Thank you.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Hey, Rob. Thanks for the question. I can start off. I mean, I think as you think about our SaaS offerings, it's fair to put them in really three buckets. First, think about precision digital technologies, things like Precision Ag Essentials, things like our G5 licenses, many of those are the foundational pieces of the tech stack. So, Precision Essentials again is those core elements of precision, connectivity guidance, onboard compute, that for Precision Essentials, we were offering at a much lower upfront cost, and then an annual license, depending on the level of precision that you have.

So precision technologies, precision is kind of foundational digital elements in one. The second one, I think you broadly call as like sense and ag technologies, things like See & Spray, which are usage based, depending on the savings that you're seeing in the field, things like ExactShot. And then the third, which is forthcoming will be as we progress towards autonomy, again, with the goal of a fully autonomous corn production system by the end of 2030, you'll see many of those autonomous solutions has a SaaS model as well.

**Joshua Jepsen**

*Senior Vice President & Chief Financial Officer, Deere & Co.*

A

Hey, Rob, it's Josh Jepsen. I think one thing to add too is, today, a lot of those are based on the given solution, a single solution that we have. I think, increasingly, as we progress and as we drive outcomes and utilization, I think you'll see some of those come together more in bundles to make that easier from a customer perspective and thinking about how do they do their jobs across the production system, so not just on a given machine, but across multiple. So, I think that will evolve.



I think we're very early in that stage, but I think that will give us opportunities to demonstrate the value that we see that comes from an integrated production system. So from preparing the land all the way through harvest and then leveraging the data across that that we can provide and demonstrate that value in a different way, but early today from where we are. Thank you.

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**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Rob, you had asked about the pipeline, too. So maybe just real quick on that. I mean, it's – think about that in terms of both expanding on additional – expanding on current foundational platforms. I mean, think of See & Spray like a platform, today, we're in corn, soy, cotton in North America. We have the ability over time to expand that to different crop types, expand that to different geographies as well, autonomy as it begins to develop and roll out over the next few years. You saw MTS has taken that autonomous platform beyond large ag to commercial mowing, to orchards, to construction.

And then the ability to continue to build on the digital side as well, both in expanding the production systems. We mentioned that this call where we've taken the Op Center and brought that to roadbuilding as well. So, it's a combination of building our platforms, expanding their capabilities into different production systems and geographies as well. Thanks, Rob.

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**Rob Wertheimer**

*Analyst, Melius Research LLC*

Q

Thank you.

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**Operator:** Thank you. Our next question comes from Tim Thein with Raymond Research – I'm sorry, Raymond James. Your line is open.

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**Tim W. Thein**

*Analyst, Raymond James & Associates, Inc.*

Q

Great. Thank you. Yeah. The question is on the implied profitability in the second half for the PPA segment and basically how we should be or shouldn't be viewing that in the context of kind of a stepping off point heading into 2026. And if I add back, I think, call it, \$100 million is what you outlined in terms of the tariff impact for that segment, you would imply decrements of going to like 80% in the back half versus, I think, something like the mid-30s in the first half.

So, I know that the comparisons get skewed because of just the base of the numbers, especially in fourth quarter when I assume you're expecting to be growing revenues. But maybe Josh Jepsen, just a comment there in terms of what we should be thinking about in terms of the key kind of elements in that implied profitability in the second half? Thank you.

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**Joshua Jepsen**

*Senior Vice President & Chief Financial Officer, Deere & Co.*

A

Yeah. Thanks, Tim. I would say, there's a few things at play there. I mean, certainly, the tariff impact, which you described, which is impactful given what we see there. I think you also have a mix impact there, North American large ag being down, the industry being down where it is, even producing to retail at a much lower level is impactful as it relates to the decremental.



And then I think on top of that, while price is favorable, it's favorable to a less extent than a year ago. So, those things, I think, stacked on top of each other, drive the vast majority of that decremental. And as you noted, a smaller change on the top line just creates the denominator in that math, pushes those numbers a bit higher than what you traditionally see. Thanks, Tim.

**Tim W. Thein**

*Analyst, Raymond James & Associates, Inc.*

Got it. Thank you, Josh.

Q

**Operator:** Thank you. Our next question comes from Jamie Cook with Truist Securities. Your line is open.

**Jamie Cook**

*Analyst, Truist Securities, Inc.*

Hi. Good morning and nice quarter. I guess, my first question or my question is just your – the world we're in with tariffs, et cetera, your approach as we enter in 2026 in terms of the early order program, whether there'll be any change there in pricing?

Q

And then, I guess, Josh, typically for Deere, if we enter a year with flat sales, but we're producing in line with retail demand, that generally means Deere can manufacture earnings growth. Do you still see that as potential, or should we be less optimistic about your ability to fully offset tariffs looking out into 2026? Thank you.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

Yeah. Thanks, Jamie. I mean, first, starting with early order programs and those programs are just getting underway. In fact, we just launched sprayers yesterday and planters will be forthcoming at the June. Yeah, you're right. I mean, the structure of the early order programs will be similar to the past. They will occur in phases over the next several months.

A

I think the beauty of that structure, particularly in an uncertain environment is it gives us some price flexibility phase-by-phase as we see this ever-changing tariff environment play out. And so, we do have structured some optionality in those programs, optionality to wait as we think about the price and discount structure for upcoming phases as tariffs evolve over the next few months. So we've got that built in.

As you think about what that means for next year and building in line with retail, the point I would make is, and we mentioned this in our comments, we've done a lot of work last year and then that continued in the first half of this year in some select geographies to get new inventory to very, very low levels candidly. We've talked about the work we did last year in the US. US is in line with retail this year.

Combines in South America, we had a little more under production to do in the first half of 2025. That's complete now. In fact, the back half of this year in Brazil will actually build a little bit of seasonal inventory as we go into the spring selling season in the region.

And then in Europe as well, we mentioned some green shoots there. Our plan now with mid tractors in Europe is to build in line with retail given some of the pickup there. So, we feel really good about where new inventories are positioned, and that positions us well to be in line with retail in 2026 as well. Thanks for the question, Jamie.

**Operator:** Thank you. Our next question comes from David Raso with Evercore ISI. Your line is open.

**David Raso**

*Analyst, Evercore ISI*

Q

Hi. Thank you. I just wanted to dig into the second half large ag margins again, just so we understand a bit. Again, the implied decrements are – for the whole second half, don't worry about third and fourth quarter, just in aggregate, just seem to be particularly weak. And I'm just making sure I understand, is this pricing that we're price protecting the backlog with retail invoices and that's sort of the pain point?

But I would have thought you would have baked that into the \$100 million number, right, the 25% of the back half of the year, \$400 million total tariff hit. I'm just making sure I understand why the margins would be that low in the second half of the year. It seems – it just strikes me as very conservative. And at the same time, I don't want to be thinking about 2026 that that's really an appropriate low starting point.

Just making sure the mix being – the mix shouldn't be that different than what we've seen already. So, I apologize to sort of beat the dead horse a little bit. But can you help us understand why the margins are that soft in the second half? It just strikes me as very conservative. Thank you.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yeah. Dave, I'll walk through a couple of things here. I mean, I think if you think about, first and foremost, the impact of tariffs, as we said, of which \$500 million for the full year, we incurred \$100 million in the second quarter, so about \$400 million rest of the year.

The full year impact on the equipment operations for those – for that tariff impact of full \$500 million is about 1 point to 1.5 point. But again, being so back end loaded, in the back half margins, that's 2 points to 2.5 points in the back half. So if you account for that, first and foremost, that's a pretty big lift. The decremental math, candidly, gets a little bit funny just because the change in sales is relatively small year-over-year as you look at the second half of 2025 versus the second half of 2024.

So, these changes, these tariff impacts have an outsized impact on the decremental math just given the smaller denominator from a sales change. As we mentioned, little bit less price in the back half as we think about that, a little bit less material favorability. It was really, really strong in the front half of the year, and that pulls back a bit in the back half. We expect production costs, ex tariffs, to continue to be positive. They will be positive for the full year, but to a lesser extent in the back half. So I think between all those elements, Dave, I think that's what's driving a little bit of the compare there. Thanks for the question.

**Operator:** Thank you. Our next question comes from Jerry Revich with Goldman Sachs. Your line is open.

**Jerry Revich**

*Analyst, Goldman Sachs & Co. LLC*

Q

Yes. Hi. Good morning, everyone, and congratulations on the strong quarter. I'm wondering could we just revisit just philosophically the price/cost conversation, and revisit the prepared remarks. I mean, historically, you folks have pushed pricing ahead of inflation with value. And so, you had mentioned for 2026 list prices are under review to see if that can continue.

Can you just expand on that because your competitors are facing the same or worse cost pressures than you and you folks have a really strong track record of pushing through inflation in all forms. So, can you just talk about is there any scenario under which you might be price, tariff cost negative in 2026? Thank you.

**Joshua Jepsen**

*Senior Vice President & Chief Financial Officer, Deere & Co.*

A

Hey, Jerry. It's Josh Jepsen. I guess, I would start and maybe reiterate a little bit of what I said earlier. I think one of the unique components that we face today is just coming through a period of significant inflation. I think we're very mindful of how much price has been pushed through the system as an industry over, call it, the last four, five years. And as a result, I think very mindful of what do we do here as we go forward given where the industry sits today.

So, do we believe we'll get price? Yes. This year, we're doing about 1 point of price in a challenged market. If we look at in production precision ag, some of the early order programs that are out there with prices, we're in the low single-digit range, 2% to 4% price. And as Josh Beal mentioned, we'll continue to evaluate those as we go forward. But we think that's reasonable. We're trying to take a measured approach there as we think about not only the customer dynamics, but what does it mean from a margin perspective as we march forward.

At the same time, we're going to continue to put more and more effort into not only mitigation efforts, but what are we doing on production cost, whether that's material cost, logistics cost, overheads, which have been favorable thus far this year. We're going to keep pressing on those things, which we have control over. And so too early, I think, to predict exactly what 2026 looks like. I think we've got a lot of actions that we can take, but definitely trying to be measured and mindful from a price perspective for customers. Thanks, Jerry.

**Operator:** Thank you. Our next question comes from Chad Dillard with Bernstein. Your line is open.

**Chad Dillard**

*Analyst, Bernstein Institutional Services LLC*

Q

Hey, good morning, guys. So, I guess, just to kind of continue with the tariff conversation, just trying to think through how you guys are thinking about sharing the tariff costs across all the constituents with the vendors, yourselves, dealers, customers, just given that your farmers have seen a lot of price increase over the last several years. I'm sure it's like some combination of all of the above, but just love to get a sense of just your philosophical approach.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yeah. Thanks, Chad. I mean, I think, first and foremost, and we've mentioned this, but it's certainly underscoring the dynamic environment. And through all of this, we're trying to understand what the levels are going to be. And again, as we've seen in the last three or four days, that can change pretty quickly. And so, I think, first and foremost, just reaffirming, we're taking a measured approach in all of this, a measured approach in terms of the decisions that we make, how quickly we react, just because it's changing so quickly.

So with that as a backdrop, certainly, as Josh Jepsen mentioned, we're going to take price. You've seen that in the actions that we've taken thus far on early order programs, again, ranging from 2% to 4% in the programs that are out there thus far. And as I mentioned, we've got some optionality in those phases of the earlier programs to adjust as the environment potentially could change as well.

As it relates to sourcing, we certainly work with our suppliers to make sure we're equally sharing what we're seeing. And at the same time, we're continually looking for the best cost options. We do that in a tariff environment and not in a tariff environment, and that's just a continual good practice, good hygiene that we have to look for those lowest cost options.

We've done a lot of work over the last several years in terms of dual sourcing, in terms of supplier resiliency. And those efforts are still very much in play right now as the environment changes. So, it's a combination of all of the above. And I think short answer is it'll be sharing across all those stakeholders with the actions that we mentioned. Thanks, Chad.

**Operator:** Thank you. Our next question comes from Kristen Owen with Oppenheimer. Your line is open.

**Kristen Owen**

*Analyst, Oppenheimer & Co., Inc.*

Q

Hi. Good morning. Thank you for taking the question. I wanted to come back to your used inventory comments in your prepared remarks and just get a sense of velocity of movement of that used equipment. You did note some of the ECAP dollars that have started to flow. And how you're thinking about how that could influence your net pricing capability, whether that's in the back half or as we get into 2026? Just that influence of the used market would be very helpful. Thank you.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

Yes, Kris, thanks for the question. As we mentioned, in the used market in North America, really have seen good progress on combines over the last year or so. So, the focus here is really around high horsepower tractors in North America. And what we've seen in that segment is some stabilization. The year-over-year increases in high horsepower used are mitigating or moderating, I should say. We saw some seasonal build in the quarter. I think we did see a little bit of a slowdown just over the last three or four weeks of April, just given the volatility in the market.

But I think pace, to your question, Kristen, is still a bit unknown and there's a lot of factors in play. There's some stability in ag fundamentals, albeit at lower levels. You mentioned the economic assistance that's coming through. We view that as a good thing for our customers. And again, we're continuing to put those ingredients in place, keeping new inventories low as well as pool funds that are supporting our dealers as they work on the used market. So, very mindful of the pace. It's very much a focus area and we'll see how it plays out over the back half of the year.

**Joshua Jepsen**

*Senior Vice President & Chief Financial Officer, Deere & Co.*

A

Kristen, maybe a slightly different way to answer that is, I think, there's an underlying question of kind of what unlocks the ag cycle in North America. And I think used is one part of that. As we can move and work through some of that used, I think that's certainly helpful. I think having a farm bill in place would provide some certainty for our customers, which would be supportive.

And then, I think there's given where stocks of the used are, there's a few things that could drive some upside, whether that's trade deals that we talked about, like I mentioned, with UK that are driving ag commodities and ag energy year around, E15, as you think about demand for ethanol. And then certainly, there's always weather impacts that can be impactful. So, I think used is important certainly. And I think there are a couple of other things that we could see that, if occurred, could drive a little bit of a turn in the shape of the cycle where we're at.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

A

We have time for one more question.

**Operator:** Thank you. Our last question comes from Stephen Volkmann with Jefferies. Your line is open.

**Stephen Volkmann**

*Analyst, Jefferies LLC*

Q

Wow. Thank you, guys. Just slid in there. Maybe I'm just going to tug at this thread around tariffs one more way. Is it your ultimate goal to price so that you protect margin? Or is it your ultimate goal to sort of cover the dollars that tariffs might sort of add to your P&L instead?

**Joshua Jepsen**

*Senior Vice President & Chief Financial Officer, Deere & Co.*

A

Hey, Steve. This is Josh Jepsen. It's a great question. We've – and this is something we worked through and wrestled with when we saw some of the inflationary pressures really over the last five plus years, I mean, ultimately, the goal would be to find ways to protect margin. And that's not just price. That's what we're doing from a cost structure perspective and how we can add value.

Now, I think saying that, there's multiple pieces of that and the timelines of those probably vary a little bit. But I think, overall, the view is we want to protect margin, both through activities on cost as well as what we do from a price realization perspective.

**Josh Beal**

*Director, Investor Relations, Deere & Co.*

That's all the time that we have for today. We appreciate everyone's time, and thanks for joining us on our call. Have a great day.

**Operator:** Thank you. That concludes today's conference. Thank you for participating. You may disconnect at this time.

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