

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Titan Posts a 'Beat'
- Fendt Fills U.S. Niche
- Kubota Still Investing

Seigfreid Bingham Cites Top 4 Changes, Concerns in CNH's New Dealer Agreement

As *Ag Equipment Intelligence* reported in the Sept. 11 "On the Record" broadcast, new dealer contracts are on the way from CNH, with the intent to get all of its dealers on the revised agreements by the end of 2016.

CNH announced a new agreement in July for each of its dealer networks — Case IH Agriculture and Case Construction Equipment — that dealers say gives the OEM a lot more teeth in the agreements with dealers carrying the CNH brands.

Lance Formwalt and Dave Shay of Seigfreid Bingham, the legal counsel that represents Western Equipment Dealers Assn. and the NAEDA Industry Relations Task Force, received notice to review the agreement and provid-

ed feedback but noted the new agreement represents several significant departures from current contracts. Because Case dealers have not signed new forms of agreements since the mid-1990s, Formwalt and Shay say the changes are more dramatic for Case ag and construction dealers than for New Holland dealers.

Seigfreid Bingham's Formwalt and Shay issued a memo on Aug. 10 to CNH dealers that summarized the top changes appearing in the new dealer agreement. Following is a synopsis of 4 items they say will most affect farm equipment dealers carrying the CNH brands.

1. Future Replacement of Dealer Agreements — A new provision may give CNH the right to require deal-

ers to sign any new form of dealer agreement introduced in the future. "This is important because its effect is to make the dealer choose between signing the new agreement or be faced with termination — even in states or provinces where good cause is required," say Formwalt and Shay.

2. Separation of Facilities/Personnel — CNH is reserving the right to require separate facilities and/or personnel if a dealer is engaged with another business that requires a "considerable commitment" of a dealer's resources or efforts. "We believe that CNH may attempt to use this provision in connection with dealers that carry product lines that

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Early Orders for 2016 Decline Significantly vs. 2015 Levels

The level of early orders in late summer and early fall for farm machinery is considered a reliable indicator for farmers' buying intentions for the coming year. That being the case, 2016 doesn't look particularly promising.

Preliminary results from *Ag Equipment Intelligence's* 2016 Dealer Business Outlook & Trends survey indicate that early orders for farm machinery dealers are down again, following the trend from a year ago.

Nearly 300 dealers participated in the survey. They were asked, "How do your early order presells this year compare with early orders last year at this time?"

Overall, only 5.8% of dealers report-

ed that their early orders for new 2016 equipment were up compared with a year ago. None said their presells at this point were up more than 10% (vs.

1.1% in 2015 and 0.0% in 2014). Only 1% said they were up 6-10% (vs. 1.8% in 2015 and 7.2% in 2014). A little less than 5% reported that early orders for

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Farm Equipment Early Order Levels 2016 vs. 2015 vs. 2014			
	2016	2015	2014
Up more than 10%	0.0%	1.1%	0.0%
Up 6-10%	1.0%	1.8%	7.2%
Up 1-5%	4.8%	7.5%	20.0%
Same as last year	25.9%	31.3%	45.0%
Down 1-5%	11.5%	13.9%	16.7%
Down 6-10%	15.4%	16.0%	11.1%
Down more than 10%	41.4%	28.4%	0.0%
Source: <i>Ag Equipment Intelligence 2016 Dealer Business Outlook & Trends survey</i>			

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are viewed as competitive with Case or New Holland," Formwalt and Shay say. CNH also included language about display area size requirements for its brands relevant to other products in the dealership.

3. Removal of Locations from Dealer Agreements & Removal of Product Lines — Case IH and Case Construction want to add the ability to terminate a single branch location (vs. the entire agreement) as remedy for dealer violations. It is significant "because dealers may not be able to use the dealer protection laws to protect against termination," say Formwalt and Shay, because dealer protection laws address the entire dealer agreement, not specific locations. The remedy already exists in the New Holland contract.

Additionally, each of the new agreements gives the OEM the authority to remove CNH products from the list of equipment a dealer is authorized to sell. "This is especially concerning since this remedy can be used even if a dealer is complying with the terms of the agreement, including market share," they say.

4. Minimum Ordering

Requirements — The new agreement requires dealers to maintain an inventory "at the level deemed necessary to meet dealer's equipment sales obligations." Formwalt and Shay say this standard "puts significantly more discretion in the hands of CNH than in the current agreement where the dealer's inventory must be 'adequate in relation to the sales

***"Dealers say
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and service potential.'" CNH is also reserving the right to require dealers to order inventory in minimum specified quantities.

One dealer *Ag Equipment Intelligence* contacted, who had not yet looked at the contract, said that state law is paramount when it comes to termination language and, thus, the

effect of contracts will vary depending on locations. In states with strong dealer protection laws, the concern is not as great, he says.

With regard to enforcement of the new agreement (which CNH wants to get all dealers onto by December of 2016), Formwalt and Shay say, "In general, if you request permission from CNH to add territory, product lines or locations, CNH will likely be able to require you to sign the new dealer agreement as a condition of that approval. If a dealer requests permission from CNH to approve an ownership transfer (including transfers between existing owners or for a sale/merger transaction), CNH's ability to condition the approval of the transfer on signing a new dealer agreement may be limited by the dealer protection law. Formwalt and Shay are encouraging affected dealers to contact their state and regional dealer associations with questions.

Ag Equipment Intelligence learned that the Case IH Dealer Advisory Board, chaired by Steve Hunt, H&R Agri-Power, a Case IH group doing business in 5 states, would be reviewing the issue further later this month. **AEI**

Industry Consultants Following Dealers Consolidation Lead

It was just a matter of time before long-time industry consultants got on the consolidation bandwagon that's been running for more than a decade for farm equipment dealers.

Earlier this summer several consultants and consulting groups got together to form the Machinery Advisors Consortium (MAC). And on Sept. 14, Spader Business Management (SBM) and Jerkins Creative Consulting (JCC) announced they had signed a Letter of Intent for SBM to acquire JCC.

Advisory Group. According to George Russell, the MAC "is as a collaboration among companies and

individuals who know the retail business and who decided to work together for their mutual benefit as well as that of their clients."

The founding members of MAC form an experienced cadre of advisors and trainers with well over 200 years of combined experience assisting farm, construction and other dealers of capital goods. The group includes Russell, who is the prime mover behind MAC and executive partner with Currie Management Consultants, Rob Park of Capistar Group, Erik Thompson of Thompson Leadership Development, Daniel Surprenant of Formation Future, Larry Cole of Cole

Enterprises, Bob and Michelle Currie of Currie Management Consultants, and John Cronheimer and Bill Hoeg of WMH Consulting.

The focus of MAC is the capital goods industry where machines are used by end users to make a living, and where aftersales service is vital. These industries include farm equipment, construction equipment, industrial trucks and lift trucks.

JCC-SBM LOI. In announcing its intent to acquire JCC, SBM President John Spader explained, "We see JCC as offering complementary products and services and we believe this is an opportunity to further enhance the

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offerings we've been providing for nearly 40 years."

Floyd Jerkins said, "Business continuation was an important factor for me, but the main thrust was to achieve a more scalable business model. As the market consolidates, the needs of these organizations also change. Both SBM and JCC want to be in position to bring even more value to the clients we serve. The synergy between us is remarkable."

Jerkins Creative Consulting, located in Benton, Ill., has offered industry-

specific curriculum-based education, on-site consulting, merger and acquisition services and peer groups in the farm equipment industry since 1991.

Spader Business Management has been providing 20 groups, training, consulting and other business development products and services for multiple industries since 1976. SBM is headquartered in Sioux Falls, S.D.

While they aren't quite ready to hang it up totally, they're not considering merging or acquiring any other businesses, other long time industry consultants have told *Ag Equipment Intelligence* that they're beginning to "wind down." Among these are John Walker of After Market Services Consulting Co., and Stan Jackson, Jackson Consulting.

Dr. Jim Weber, Weber Consulting, will cease to be a regular columnist for *Farm Equipment* magazine with its October/November 2015 issue. He said he wants to undertake "some projects that I have been putting off for some time."

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2016 were up 1-5% (vs. 7.5% in 2015 and 20% in 2014).

About 26% of dealers say that their early orders for new equipment were at about the same level as a year ago. This compares with 31.3% last year and 45% in 2014.

Overall, 68.3% of dealers reported their level of presold equipment for 2016 was down, with the largest percentage (41.4%) saying their early orders are down more than 10% (15.4% down 6-10%, 11.5% down 1-5%). This compares with year-ago results when 58.3% of the dealers said that early orders were down compared with the previous year. For 2014, only 27.8% of dealers were reporting that presold equipment levels were lower than those of the previous year.

A summary of results of the 2016 survey will appear in the October issue of *Ag Equipment Intelligence*. The final report will be released to subscribers in mid-October.

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FARM MACHINERY TICKER (AS OF 9/11/15)

MANUFACTURERS	Symbol	9/11/15 Price	8/12/15 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	\$37.50	\$43.65	\$57.99	\$32.76	N/A	47,502	537.83M
AGCO	AGCO	\$47.41	\$54.93	\$57.90	\$41.56	15.30	1,184,820	4.13B
AgJunction Inc.	AJX	\$0.57	\$0.48	\$0.84	\$0.40	N/A	171,552	40.5M
Alamo	ALG	\$47.86	\$50.73	\$64.45	\$37.93	13.32	53,847	546.68M
Art's Way Mfg.	ARTW	\$3.86	\$4.45	\$7.08	\$3.85	11.63	9,800	15.63M
Blount Int'l.	BLT	\$6.48	\$7.37	\$17.97	\$6.14	N/A	350,078	312.67M
Buhler Industries	BUI	\$5.95	\$6.00	\$6.50	\$4.44	37.90	2,662	148.75M
Caterpillar	CAT	\$72.62	\$78.92	\$107.12	\$70.23	12.40	6,276,890	43.76B
CNH Industrial	CNHI	\$7.44	\$9.04	\$9.72	\$7.31	17.41	1,589,330	10.12B
Deere & Co.	DE	\$79.24	\$93.64	\$98.23	\$76.76	12.18	3,125,060	26.01B
Kubota	KUBTY	\$74.50	\$85.18	\$88.21	\$68.61	15.08	6,214	18.54B
Lindsay	LNN	\$74.04	\$84.49	\$91.93	\$72.25	22.09	119,734	847.24M
Raven Industries	RAVN	\$17.47	\$19.04	\$27.24	\$16.30	29.86	206,734	651.69M
Titan Int'l.	TWI	\$7.73	\$9.56	\$13.90	\$7.68	N/A	474,664	415.659M
Trimble Navigation	TRMB	\$17.72	\$19.51	\$32.91	\$16.99	36.24	2,067,740	4.55B
Valmont Industries	VMI	\$103.39	\$112.53	\$139.77	\$101.05	20.55	232,459	2.40B
RETAILERS								
Cervus Equipment	CVL	\$13.37	\$14.75	\$20.84	\$12.71	N/A	12,718	207.61M
Rocky Mountain Equipment	RME	\$6.80	\$8.03	\$11.13	\$5.82	9.01	38,803	131.81M
Titan Machinery	TITN	\$13.74	\$14.05	\$16.99	\$10.01	N/A	170,758	289.53M
Tractor Supply	TSCO	\$87.96	\$92.76	\$96.28	\$55.95	30.33	924,643	11.95B

Reducing Costs & Inventory Pays Off for Titan Machinery in FY2Q16

While total revenues remain decidedly below year-ago levels, Titan Machinery registered a slight win in its fiscal second quarter ended July 31 — at least with analysts. Consensus for the period was for an adjusted loss of \$0.03 per share, but Titan managed to eke out a breakeven EPS of \$0.00. This was the second consecutive quarter that the dealership group beat analysts' consensus for EPS.

The beat was driven by a lower cost structure as a result of reducing headcount, modifying compensation programs and closing some locations earlier in the year. Operating expenses decreased \$12.4 million or 18.3% for the fiscal second quarter of 2016.

For this same period of Titan's fiscal 2016, revenue came in at \$334 million vs. \$451 million in the second quarter last year. Equipment sales were \$221 million compared to \$320 million a year ago. Parts sales were \$62 million for the second quarter of fiscal 2016 vs. \$71 million, and revenue generated from service was \$33 million for the period compared to \$38 million in the same quarter of fiscal 2015. Revenue from rental and other declined to \$18 million from \$22 million in the second quarter last year. Adjusted EBITDA for the period was \$9.8 million. Agriculture revenue decreased 32% year-over-year during the period with same-store sales down 30%.

Lower Inventories. According to Titan's CFO, Mark Kalvoda, the dealer group remains on track with its plan to reduce equipment inventories. He told *Ag Equipment Intelligence*, "In total, we're down \$222 million compared with last year's second quarter. Most of this is on the new side, or about \$209 million. So used was down about \$13-14 million. By the end of the fourth quarter of our fiscal year compared to the fourth quarter of last year we're aiming to be down \$150 million, so we're still on target to reach that goal."

Going along with the inventory reduction is deleveraging the balance sheet, says Kalvoda, "where we're taking the total liabilities to tangible net worth down. A year ago it was at 3.3 and at the end of the second quarter it is down to 2.5 and we're expecting to be down to 1.9 by taking interest-bearing floorplan debt off the books." Titan reported that at the end of July it had \$622 million outstanding on its \$1 billion floorplan lines of credit.

Kalvoda also noted that Titan's international operations were profitable in the quarter. "We made about \$1 million. This was another area of improvement for the period."

Improved margins also contributed better than expected results. The company managed to increase its profit margin to 18.6%, from 17.7% in the same period last year.

Commenting on the dealer's ongoing efforts, David Meyer, Titan Machinery's chairman and CEO, said, "We have substantially completed our previously outlined realignment plan, which is

expected to generate approximately \$20 million in cost savings, and contributed to the \$12.4 million reduction in operating expenses during the second quarter of this year compared to the second quarter last year. In addition, we remain on track to achieve our \$150 million equipment inventory reduction goal in fiscal 2016. Based on our year-to-date results and outlook for the back half of the year, we are updating our annual revenue modeling assumptions and continue to anticipate achieving positive adjusted income/earnings per share."

Looking Ahead. With little change in the overall outlook for agriculture for the remainder of the current calendar year, Titan left its previous forecast largely unchanged. It offered the following modeling assumptions for the second half of its fiscal year: Agriculture same store sales down 20-25%; Construction same store sales flat to down 5%; International same store sales flat to down 5%; and Equipment margins between 7.7-8.3% **AEI**

Titan Machinery — FY2Q16 Selected Financial Data (in millions \$)			
	2Q 2016	2Q 2015	% Change
Equipment Sales	221.0	320.1	-31%
Year/Year Change	-31%	-11%	—
Equipment Gross Income	17.9	27.2	-34%
Gross Margin	8.1%	8.5%	(40 bp)
Parts Sales	62.1	70.5	-12%
Year/Year Change	-12%	0%	—
Parts Gross Income	18.7	20.8	-10%
Gross Margin	30.1%	29.5%	60 bp
Service Sales	32.8	38.4	-15%
Year/Year Change	-15%	-4%	—
Service Gross Income	20.5	24.9	-18%
Gross Margin	62.5%	64.8%	(230 bp)
Other (including rental) Sales	18.3	21.9	-17%
Year/Year Change	-17%	14%	—
Other Gross Income	5.0	6.7	-26%
Gross Margin	27.3%	30.7%	(340 bp)
Total Sales	334.2	451.0	-25.9
Year/Year Change	-25.9%	-7.6%	—
Total Gross Income	62.1	79.7	-22%
Gross Margin	18.6%	17.7%	90 bp
SG&A Expense	55.4	67.8	-18%
Floorplan Interest Expense	4.7	5.3	-11%
Total Adjusted Operating Income	1.9	6.5	-70%
Adjusted Operating Margin	0.6%	1.5%	(90 bp)

Source: Titan Machinery reports, Baird estimates

Kubota's Resources Paying Dividends for Kverneland

Being acquired by Kubota 3 years ago is proving positive across the board for hay and tillage implement manufacturer Kverneland, according to senior managers.

Financing for production resources and new product development is available at more competitive rates than when the business had to rely on the bond markets. Placing Kubota executives into key management roles is also helping the group adapt to being part of the Kubota family.

Among them is new Kverneland Group CEO, Dai Watanabe, who previously held positions at Kubota Tractor Corp. in the U.S., the international planning department of the Farm & Industrial Machinery division at headquarters in Japan, and most recently was president of Kubota Europe.

During a European media preview of new products being unveiled by Kverneland Group at Germany's Agritechnica Show in November, Arild Gjerde, Kverneland vice president for sales & marketing, acknowledged Kubota's constructive drive to help the implement manufacturing arm become a better company.

"Kubota is a solid owner that understands the industry and has a long-term view of our business, which was not the case with previous investors," he said. "Much of the focus of Kubota's ownership so far has been on improving the supply chain by developing a masterplan for investment in our factories.

"Kubota is bringing a new dimension to our production techniques, including Kaizen principles for lean production, and showing us how to effectively introduce these principles, especially through training for our production teams," said Gjerde.

Kverneland Group operates a network of 10 factories throughout Europe as a result of numerous acquisitions made by the original plow-making business in earlier years.

The factory in Norway alone is receiving €30 million (\$33.5 million) of investment to improve plow production and increase capacity. In recent years, the factory has been unable to meet customer demand.

In Denmark, new manufacturing tools and painting facilities, a production line for mower cutterbars and

a new assembly area for hay tools is benefitting through productivity improvements and finish quality. Reorganization of the round baler plant in Italy is also having an impact.

Selected products from these factories — disc mowers and mower-conditioners, hay tedders and rakes, round balers and wrappers — have become available in Kubota colors to the company's dealer network in North America. In just 2 years, the group claims to have secured close to 10% of the U.S. tractor mower market.

Exploiting the Kubota distribution network in North America and parts of Europe in this way has helped Kverneland Group sustain net sales of around €500 million (\$558 million) over the past 2 years at a time of market decline, an achievement that Gjerde said will be difficult, but not impossible, to repeat in 2015.

"I anticipate a further decline in the market this year and in the first 6 months of 2016 before we see a recovery," he said. "The low investment in past months eventually brings a need for farmers to invest again in new machinery." **AEI**

AGCO's Fendt Line Targets U.S. Tractor Niche

AGCO Corp.'s premium tractor unit, Fendt, believes it has identified a niche in the market that will be filled by a new range featuring a number of first-time technologies.

The Fendt 1000 Series tractor will have engine power from 380-500 horsepower, but is packaged in a conventional row-crop format rather than as an equal-wheel 4WD, and it will run on tires rather than tracks.

According to a report in the UK's *Farmers Guardian* newspaper, Fendt estimates the worldwide market for tractors of 400-500 horsepower at around 2,500 a year, with half of them sold in North America. But while 4WD and track tractors are dedicated to just one or two tasks in big fields, and lack the ability to shed much weight, the 1000 Series is designed for greater versatility, says the company.

Though big by conventional stan-

dards, the tractor is small enough to handle highway transport duties, says Fendt, and while it can weigh in at a relatively modest 14 tons for top work, ballasting will take it to 21 tons for heavy pulling and tillage applications.

New 46 inch radial tires from Michelin and Trelleborg will help the new tractor make use of its prodigious power, together with in-cab adjustable tire pressure control and optimum inflation pressure guidance available through a touchscreen terminal.

Other ground breaking technologies include a German-built 12.4-liter MAN engine tuned for a rated speed of just 1,700 rpm rather than the more usual 2,200 rpm, and generating up to 1.770 foot-pounds (2,400 Nm) of torque between 1,000-1,500 rpm.

A new Vario infinitely variable transmission works in much the same way as Fendt's current transmissions but

can automatically distribute torque between the front and rear axles for the first time on an agricultural tractor. The primary aim of this feature is to optimize traction; but it will also avoid transmission wind-up, reduce friction losses, cut tire wear and help achieve a tight turning radius.

Fendt has been described as the jewel in the crown of AGCO's portfolio because of the pioneering technologies developed for the tractors it builds at the Marktoberdorf factory in Bavaria, southern Germany.

After increasing from 12,500 units in 2010 to 14,500 in 2012, sales of Fendt tractors worldwide jumped to 17,800 units in 2013, before returning to prior year levels in 2014. But as growing sales in markets beyond Europe testify, Fendt's high-spec, high-cost but high-performance formula appears to be winning over more converts. **AEI**

Analyst Spots 3 of the Majors' Major Trends at Farm Progress Show

While attending the Farm Progress Show in Decatur, Ill., on Sept. 1-3, Morningstar equity analyst Kwame Webb said during his visits with the three major equipment manufacturers, three major trends emerged. These included substantial investments in telematics, less emphasis on high horsepower equipment, and an ongoing push to reduce their own and dealer inventories.

Following meetings with top managers at AGCO, Deere and CNH Industrial, Webb said, "We think overall sentiment is on par with recent company reports of oversupply in the farm equipment market. In North America, new and used equipment inventories remain high, and an anticipated sales decline of 25-30% in 2015 is likely to weigh on 2016 sales unless there is a weather abnormality that improves farm economics."

Telematics Tech. Telematics remains a key area of investment for the major tractor makers, according to Webb. "Everyone appears to be making substantial telematics investments, albeit no one could quantify the expected economic benefit."

He said during a recent earnings call, he was surprised when Deere revealed that its telematics research and development spending is equivalent to what it is spending on large tractor

R&D. "This is noteworthy, as Deere's large tractors are traditionally its highest margin products. Additionally, market share leaders like Deere and Case appear to be pursuing strategies that are more proprietary in an attempt to keep incumbent product buyers in their product ecosystems."

"AGCO, the global number three player, is more heavily emphasizing an open solution in an attempt to latch on to more brand-agnostic buyers. It is also emphasizing grain storage and processing technologies as it is the only global tractor maker that is also highly active in those markets. Longer term, we believe equipment buyers will embrace telematics and the Big Data approach to creating crop production efficiencies."

Flexible Use Products. Webb said he noticed there was less emphasis on expensive high horsepower equipment and more emphasis on value-oriented and flexible-use products at the show.

"Near term, cost-conscious buyers were able to see many value-oriented products at this year's show," Webb said. "Most operators highlighted that they have launched certified used equipment programs in the past 12-18 months to help reduce excess used inventory at dealers. The show spotlighted middle-of-the-line

equipment or multi-use equipment, acknowledging that in an environment of largely depressed farm economics, farmers are less focused on buying top-of-line and highly specialized equipment unless it offers a compelling value trade-off. All of the manufacturers made it clear that their dealers had a product for price-sensitive buyers."

Lower Inventories. The third trend among the majors, according to Webb, was the ongoing efforts to reduce dealer and manufacturer inventory levels, which remains a key priority. "During our meetings, all manufacturers reminded investors that their current production levels are below retail sales volume as they attempt to liquidate excess inventory and improve free cashflow."

He pointed out that each of the three largest tractor manufacturers continued to emphasize that they've reduced production volume below end-market demand to improve their 2015 free cashflow outlook as well as to reduce overall dealer inventory levels. "In another bid to improve dealer inventory levels, CNH Industrial mentioned that traditional dealer incentives that were 15% dedicated to used products have now grown to 50% of incentives in the current marketplace," said Webb. **AEI**

Pöttinger U.S. Post 15% Sales Growth in FY2014-15

Austrian machinery manufacturer Pöttinger reported another year of record sales as its U.S. arm exhibited at the 2015 Farm Progress Show for the first time.

Pöttinger U.S. Inc., recorded a near 15% increase in sales from its Valparaiso, Ind., base during the 2014-15 financial year, helping the group as a whole to a turnover of \$357 million.

This 2% increase over the prior year is the group's fifth successive year of growth since figures dipped to a low of \$203 million in 2009-10. It marks a doubling of turnover in the past 10 years.

While the U.S. was the fifth fastest-growing market for sales outside Austria, which now account for 86%

of sales, or \$308 million, the longer-established markets of Germany and France are the group's biggest export destinations. Together with the Czech Republic, Switzerland, Poland and Austria, these countries account for 65% of sales.

But then Pöttinger is a relative newcomer to North America, establishing its first subsidiary in Canada just 10 years ago.

Today, Pöttinger U.S. Inc., headed by area sales manager Marco Otten, supplies hay tools such as disc mower-conditioners, hay tedders and rakes and self-loading forage wagons from a range that remains the group's biggest earner, accounting for 61% of turnover.

Growth in tillage product sales have reduced that percentage over the years, however, the moldboard plows, power harrows, disc and tine cultivators, and seed drills now account for around 25% of group sales, with original parts — up 10% during its most recent fiscal year — accounting for much of the rest.

Heinz and Klaus Pöttinger said: "We are the world leaders in the loader wagon segment. We play a pioneering role in mowing and mulch drilling technology and have developed a strong range of tillage products over the past 40 years. We want to continue on course for success together with our customers and dealerships." **AEI**

Equipment Sales Decline Accelerates

North American large ag equipment sales declines accelerated in August. 4WD tractors sales saw the biggest decline at down 54.7% year-over-year (down 30.1% last month), combines sales dropped 28.1% (down 22% last month) and row-crop tractor sales declined 30.9% vs. the same period last year (down 22.9% last month), according to the latest unit sales figures released by the Assn. of Equipment Manufacturers on Sept. 10.

Mid-range tractor sales decreased 5.6% year-over-year following a 19.6% increase the previous month, and compact tractor sales decreased 0.2% year-over-year after a 27.5% increase in July.

- U.S. and Canada large tractor and combine sales decreased 32% year-over-year in August, down from a 23% drop in July. U.S. sales were down 33%, while Canadian sales were down 32%.

- Combine sales declined by 28.1% year-over-year following a 22% drop in July. U.S. combine inventories were 28.7% lower year-over-year in July vs. down 28.8% in June. August is typically an above average month for combine sales, accounting for 10.7% of annual sales over the last 5 years.

- Row-crop tractor sales posted a 30.9% year-over-year decline in August, deteriorating from the 22.9% decrease seen in July. U.S. row-crop tractor inventories were down 15.9% in July vs. a 10.3% decrease in June. August is typically a slightly below-average month for row-crop tractor sales, accounting for 6.8% of annual sales over the last 5 years.

- 4WD tractor sales experienced a 54.7% year-over-year decline in August, down from the 30.1% decrease experienced in July. U.S. dealer inventories of 4WD tractors decreased 34.3% in July.

- Mid-range tractors sales decreased 5.6% year-over-year after a 19.6% increase last month.

- Compact tractor sales, meanwhile, decreased 0.2% year-over-year, down from the 27.5% increase last month.

AEI

AUGUST U.S. UNIT RETAIL SALES



Equipment	August 2015	August 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	July 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	8,802	8,694	1.2	84,102	78,150	7.6	64,229
40-100 HP	4,833	4,990	-3.1	39,967	39,352	1.6	30,933
100 HP Plus	1,567	2,248	-30.3	16,528	20,648	-20.0	10,161
Total-2WD	15,202	15,932	-4.6	140,597	138,150	1.8	105,323
Total-4WD	160	331	-51.7	1,958	3,509	-44.2	1,023
Total Tractors	15,362	16,263	-5.5	142,555	141,659	0.6	106,346
SP Combines	501	728	-31.2	3,339	5,500	-39.3	1,481

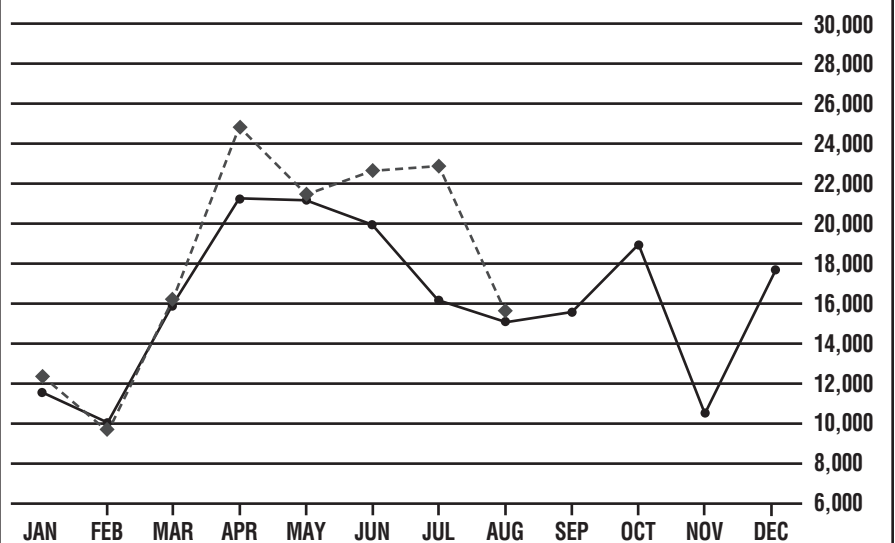
AUGUST CANADIAN UNIT RETAIL SALES



Equipment	August 2015	August 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	July 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	886	1,012	-12.5	8,802	9,224	-4.6	8,647
40-100 HP	287	432	-33.6	3,408	3,993	-14.7	4,299
100 HP Plus	204	314	-35.0	2,875	3,413	-15.8	2,346
Total-2WD	1,377	1,758	-21.7	15,085	16,630	-9.3	15,292
Total-4WD	7	38	-81.6	533	737	-27.7	331
Total Tractors	1,384	1,796	-22.9	15,618	17,367	-10.1	15,623
SP Combines	178	216	-17.6	1,118	1,229	-9.0	737

U.S. UNIT RETAIL SALES OF 2-4 WHEEL DRIVE TRACTORS & COMBINES

--- 2015
— 5 year average



— Assn. of Equipment Manufacturers

Answers to Questions About Farmland Ownership & Cropland

Following the release of our August 2015 issue, *Ag Equipment Intelligence* editors received some questions regarding the articles, "Equipment Dealers are Competing with Farm Cash Rents for Sales" and "Farm Balance Sheets Remain Solid, But is That Good Enough?" Specifically, a subscriber asked about how much of current farmland is actually used for crops and how much is owned by non-operating landowners?

The following data was developed and published by USDA. It should be pointed out that cropland and farmland are two entirely different measures. Cropland represents only those acres devoted to harvested crops. Farmland, on the other hand, includes cropland and grazing and pastureland, as well as other acres not elsewhere classified by USDA.

This also differs from farm real estate, which includes land and buildings. For the record, with a value of \$2.38 trillion, farm real estate accounted for 81% of the total value of U.S. farm sector assets in 2014. Because it comprises such a significant portion of the U.S. farm sector's asset base, change in the value of farm real estate is a critical barometer of the farm sector's financial performance, which impacts farmers' spending on ag equipment.

On average, U.S. (excluding Alaska and Hawaii) farm real estate values increased 2.4% (in nominal terms) to \$3,020 per acre over the 12 months ending June 1, 2015.

Farmland Ownership. Non-operating landlords own 31% of all U.S. farmland. Of the 911 million acres of land in farms in the continental U.S., the landowner, according to the 2014 Tenure Ownership and Transition of Agricultural Land (TOTAL) survey, operates 61%. Another 8% (70 million acres) of land in farms is rented from other farm operators. The remaining land in farms, 31% or 283 million acres, is rented from "non-operating landlords," or landlord entities that are not currently farmer operators.

The majority of acres owned by these non-operating landlords is held by individuals or in partnerships (191 million acres or 21% of land in farms). Corporations, trusts or other ownership arrangements also rent out 92 million

acres, about 10% of land in farms, to operators.

According to USDA, even though some agricultural land is owned by non-operating landlords, many of these landlords have prior farming experience. Of the 191 million acres owned in non-operator individual or partnership arrangements, nearly half were held by a retired farmer or rancher in 2014. About 6% of the acres owned in individual and partnership arrangements by non-operating landlord entities had a principal landlord that reported spending greater than 5% of their work time in farm or ranch work, but not as a farm operator.

Cropland Acres. In 2014 (the most recent estimate), the total area of cropland used for crops was 340 million acres, up 4 million acres from the 2013 estimate but in line with the 30 year average.

The Economic Research Service Major Land Uses (MLU) series estimates land in various uses, including the acres devoted to crop production in a given year. These acres, collectively referred to as cropland used for crops, include acres of cropland harvested, acres on which crops failed and cultivated summer fallow.

In 2014, cropland harvested increased by 2% (6 million acres) over the previous year. The 317 million acres of cropland harvested represents the highest harvested acreage since 1997, when cropland harvested was 321 million acres. The area of double-cropped land from which two or more crops were harvested declined by 1 million acres, a 10% decline from the 2013 double-cropped area of 10 million acres.

Acres on which crops failed declined by 25% over the past year to 9 million acres, the lowest level since 2010. Cultivated summer fallow, which primarily occurs as part of wheat rotations in the semiarid West, has remained relatively stable over the last 10 years, although its use has been declining since the late 1960s.

Larger historical fluctuations seen in cropland used for crops are largely attributable to Federal cropland acreage reduction programs.

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