From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

August 15, 2015
Vol. 21, Issue 8

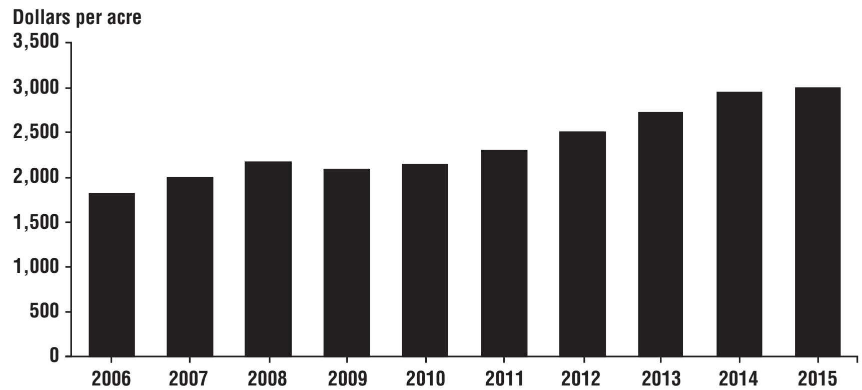
- Claas Continues Push
- Lower Cash Rents?
- New Combine Ready

Farm Balance Sheets Remain Solid, But is That Good Enough?

It would seem that the lackluster pace of U.S. farmers' spending for big ticket items, most notably equipment, during the first half of the year will continue into the second six months of 2015. Nonetheless, USDA is reporting that farmers are expected to continue to maintain solid balance sheets, which is a good sign, for the most part.

While overall farmland values, which remain the asset anchor of producers' balance sheets and give farmers their strongest leverage for borrowing, have held fairly steady, bankers are noting some regional weaknesses. This together with high farm input and cash rent costs could signal another sluggish year for ag machinery sales in 2016. In other words, strong balance sheets may not be enough to keep farmers profitable in the near-term.

Average U.S. Farm Real Estate Value — 2006-15



U.S. farm real estate values averaged $3,020 per acre in 2015, up 2.4% from 2014. Regional changes ranged from a 6.1% increase in the Southern Plains to down 0.3% in the Corn Belt.

Source: USDA - NASS, August 2015

In a note to investors following a mid-July meeting with top management at Titan Machinery, Mircea (Mig) Dobre, analyst with RW Baird, said

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Dealers Cervus & Rocky Mountain Post Mixed 2Q Results

Western Canada's two publicly held farm equipment dealerships, Rocky Mountain Dealerships and Cervus Equipment Corp., reported second-quarter earnings one day apart, and results for both reflect the ongoing sluggishness of farm machinery sales throughout North America. While Cervus fared somewhat better than Rocky overall, both dealer groups noted that increased foreign exchange premiums on equipment manufactured in the U.S. is dampening demand for new ag equipment in western Canada.

Rocky Mountain. Rocky, which posted its earnings for the second quarter on Aug. 11, saw new equipment sales continue to struggle, but other segments of its retail business were in the black for the quarter vs. the same period a year ago. New equipment sales fell by 28.3% to $95.4 million from $133.1 million in the second quarter. Sales of used equipment, on the other hand, increased by 6.9% to $75.5 million from $70.6 million. Overall inventory fell by $30.2 million, or 5.7%. Rocky is Case IH's largest Canadian retailer.

"We view the shift in demand from new to used agriculture equipment as a positive development as it pertains to reduction of inventory," said Garrett Ganden, Rocky's president and CEO. "To the extent that our customers' demand is met with units already on hand, we are able to reduce procurement and consequently, overall inventory levels. The reduction of our overall inventory levels and deleveraging of our balance sheet continue to be top priority for us."

In his analysis, Ben Cherniavsky, analyst for Raymond James Canada, said, "Organic ag sales fell 16% year-over-year, led by a 33% decline in new equipment sales as Tier 4 price increases, a declining Canadian dollar and dry weather reduced overall demand. Due to the former two factors, buyers are migrating to the used channel, which affected 3% year-over-year organic growth in Rocky's used ag sales."

He added, "Despite a favorable

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Cervus & Rocky Mountain Post Mixed 2Q Results Continued from page 1

year-over-year shift to higher margin aftermarket revenues (19.4% vs. 15.6%), gross margin fell 20 bps as the headwinds, combined with the ongoing efforts to reduce inventory, culminated in an inventory write-down and broad margin pressure on used sales. While inventories (net of acquisitions) fell $30 million, Rocky's balance sheet remains leveraged, with net debt-to-capital of 65%, equal to the same period of 2014, and up from 63% for the first quarter of 2015."

Cervus Equipment. "Our diversification strategy was evident in the quarter, with our Ontario transportation operations generating its first post-acquisition quarterly profit, while the results of our agriculture segment remained consistent with the second quarter of 2014," said Graham Drake, president and CEO of Cervus, on Aug. 12.

While farm machinery makes up nearly two-thirds of Cervus's total revenues, it was a strong showing in its transportation business (Peterbilt trucks) that helped keep the company in the black. Cervus is John Deere's largest Canadian farm equipment dealer group.

The company generated adjusted earnings of $2.9 million for the 3 months ended June 30. Revenues increased $65.5 million and gross profit dollars increased $10 million compared to the 3 months ended June 30, 2014.

Acquisitions contributed $1.3 million of income from operating activities in the second quarter. Same-store EBITDA was $9.5 million. Ag EBITDA for the period was even with the same period of 2014.

Overall, consolidated revenue of $303 million was up 27.6% year-over-year on growth in ag (+13%) and transportation (+174%), offset by a 19% decline in its construction and industrial segment. On an organic basis, consolidated revenues fell 12% year-over-year due to the 4% and 39% respective declines in ag and transportation, according to Cherniavsky.

"Consolidated gross margin of 18.2% was lower than our 18.5% forecast and down 90 basis points year-over-year. Declining volumes and increased competition also compressed EBIT margins year-over-year, which fell below our estimates. Accordingly, the company has implemented some cost saving measures to reduce SG&A. Savings to-date equal $3.2 million," Cherniavsky said in a note to investors.

He added, "Inventories remain elevated, rising organically by $38 million year-over-year. The increase in Cervus' working capital, combined with recent acquisitions, has pushed up the company's debt, although additional credit remains at its disposal." **AEI**

Rocky Mountain Dealerships — 2Q15 Selected Financial Information
(in thousands of Canadian $)

Consolidated Sales	2Q 2015	2Q 2014	% Change	6 Months 2015	6 Months 2014	% Change
New Units	95,393	133,086	–28%	207,141	257,355	–20%
Used Units	75,487	70,621	7%	159,272	121,372	31%
Parts	31,989	29,216	9%	48,977	44,734	9%
Service	9,387	8,478	11%	16,440	15,454	6%
Other	1,204	953	26%	2,053	1,605	28%
Total Sales	213,460	242,354	–12%	433,883	440,520	–2%
Net Income	2,029	5,896	–66%	2,361	6,500	–64%
Gross Margin	15.4%	15.6%	—	14.8%	15.2%	—

Source: Rocky Mountain Dealerships Inc., Raymond James Ltd.

Cervus Equipment Corp. — 2Q15 Selected Financial Information
(in thousands of Canadian $)

Revenue	2Q 2015	2Q 2014	% Change	6 Months 2015	6 Months 2014	% Change
Equipment Sales	223,822	184,903	21.0%	391,032	305,694	27.9%
Parts	52,887	32,646	62.0%	99,930	60,767	64.4%
Service	21,101	16,418	28.5%	40,168	31,407	27.9%
Rentals and other	5,178	3,521	47.1%	10,280	6,509	57.9%
Total Revenue	302,988	237,488	27.6%	541,410	404,377	33.9%
Net Earnings (Loss)	–32,189	5,618	–673.0%	–35,164	4,861	–823.4%
Gross Margin	18.2%	19.1%	—	18.4%	19.4%	—

Source: Cervus Equipment Corp., Raymond James Ltd.

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Claas Restructures U.S. Management Organization

The creation of six global regions for Claas sales and service has brought about management changes at its Omaha offices now that Leif Magnusson, formerly president, has taken charge of three sales regions made up of Claas of America, Claas Argentina and Claas Latin America.

"In the past 5 years, Claas has seen dramatic growth around the world," says Magnusson, "from new acquisitions in Asia and expanding new markets in India and Eastern Europe to unprecedented growth right here in the breadbasket of the world."

In Russia, Claas is completing a big investment that will double the size of its Krasnodar combine factory, which will be ready for production in January. Meanwhile a new support center in Brazil will back the introduction of the Claas Jaguar self-propelled harvester range in the country, along with the tractors when they are launched there in the future.

As for the privately-held group's financial prospects, Claas is quietly confident of achieving revenues similar to those rung up in the past 2 years when its financial year ends this month (*Ag Equipment Intelligence, January 2015*). This optimistic outlook comes despite market downturns in the U.S. and parts of Europe and in contrast to the declines reported by global competitors.

> ***"In the past 5 years, Claas has seen dramatic growth around the world …"***

As a result of Leif Magnusson's new responsibilities, Eric Raby has joined Claas of America from another manufacturer as the new president and general manager-sales. Tom Conrad will look after sales logistics and the financial management and its retail operations, which John Buse will oversee.

Holger Krumel, vice president of finance and CFO for the past 4 years ended his posting with Claas of America at the end of July and has moved to the Claas Tractor division in France. "Holger played a big role in the development, growth and profitability of our business through his leadership on the North American management team," says Magnusson. **AEI**

FARM MACHINERY TICKER (AS OF 8/12/15)

MANUFACTURERS	Symbol	8/12/15 Price	7/13/15 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$43.65	$44.70	$57.99	$41.45	N/A	38,273	625.4M
AGCO	AGCO	$54.93	$54.64	$57.90	$41.56	17.73	1,035,530	4.79B
AgJunction Inc.	AJX	$0.48	$0.51	$0.84	$0.41	N/A	170,759	34.71M
Alamo	ALG	$50.73	$53.44	$64.45	$37.93	14.12	47,088	579.44M
Art's Way Mfg.	ARTW	$4.45	$4.70	$7.08	$4.27	13.44	18,139	18.07M
Blount Int'l.	BLT	$7.37	$8.99	$17.97	$6.73	N/A	305,522	358.39M
Buhler Industries	BUI	$6.00	$5.55	$6.50	$4.44	31.58	2,702	150M
Caterpillar	CAT	$78.92	$83.63	$109.73	$74.77	13.47	5,066,150	47.56B
CNH Industrial	CNHI	$9.04	$9.51	$9.72	$7.35	21.17	1,404,380	12.3B
Deere & Co.	DE	$93.64	$96.28	$98.23	$78.88	12.78	2,778,450	31.26B
Kubota	KUBTY	$85.18	$83.34	$88.21	$68.40	17.97	10,461	21.2B
Lindsay	LNN	$84.49	$84.74	$91.93	$73.01	25.21	113,123	966.82M
Raven Industries	RAVN	$19.04	$18.97	$30.74	$16.91	27.80	193,677	719.73M
Titan Int'l.	TWI	$9.56	$9.83	$15.00	$8.41	N/A	440,927	514.39M
Trimble Navigation	TRMB	$19.51	$23.59	$34.43	$19.01	39.90	1,761,530	5.06B
Valmont Industries	VMI	$112.53	$119.62	$145.91	$110.33	22.37	231,167	2.62B
RETAILERS								
Cervus Equipment	CVL	$14.75	$15.85	$22.28	$13.60	14.53	13,933	228.76M
Rocky Mountain Equipment	RME	$8.03	$9.00	$11.53	$7.99	7.93	29,230	155.65M
Titan Machinery	TITN	$14.05	$15.38	$16.99	$10.69	N/A	159,325	296.06M
Tractor Supply	TSCO	$92.76	$92.52	$96.28	$55.95	31.99	756,866	12.6B

Equipment Dealers are Competing with Farm Cash Rents for Sales

Lower farm commodity prices aren't the only thing that determines whether or not North American farmers will increase equipment spending during the remainder of 2015 and into next year. Surveys have typically shown that in years when farm prices are down, growers would reduce or put off equipment purchases before they'll cut back on farm inputs in an effort to produce positive returns. Of all their major production costs involved in farming, cash rent is the one that currently requires the most scrutiny.

The 2015 growing season is too far along to expect any significant shift in production costs that could affect farm profitability. But looking ahead, Gary Schnitkey, ag economist at the University of Illinois at Urbana-Champaign, cites three factors that will need to take place to produce positive returns for farmers in 2016, and incentivize them to increase capital expenditures.

"First, cashflows will need to be reduced even if corn prices are above $4 per bushel," he says. "Two, cash rent reductions of about 30% from average 2014 levels are needed to generate farmer returns roughly the same as from 2000-2005. Third, keys to watch will be announcements of 2016 input prices by seed, fertilizer and chemical input manufacturers. If these prices are at 2015 levels, adjustments to lower commodity prices must predominately come by lowering returns to farmers and landowners."

It appears that some progress is being made in reducing cash rents. In the August edition of its *Agricultural Finance Monitor*, the Federal Reserve Bank of St. Louis noted the largest recorded decline in cash rents for quality farmland since the bank initiated its ag survey in the second quarter of 2012. Quality farmland rents fell 6.4% during the second quarter of 2015, compared with a year earlier. Cash rents for ranch or pastureland also declined 5.2%, compared with a year earlier.

"The decline in cash rents could stem from the recent softening in farmland values and commodity prices," the report said.

Looking ahead, proportionately more bankers expect to see continued cash rent declines for quality farmland in the third quarter, while most expect ranch or pastureland rents to remain unchanged.

Projected Costs & Returns. In his July 7 report, "Projected 2016 Crop Returns: Continuing Need to Adjust to Lower Returns," Schnitkey, projected $4.20 per bushel price for corn and $10 for soybeans, which he called "relatively optimistic."

Fertilizer costs for corn in 2016 are projected at $138 per acre, down somewhat from the $148 level projected for 2015. "At this point, fertilizer prices for 2016 have not been released. The cost decrease is based on two assumptions. First, there will be some softness in fertilizer prices. Two, farmers will cut back on fertilizer consumption due to projected low returns," Schnitkey explained.

He projected seed costs for corn in 2016 at $123 per acre, down $1 per acre from 2015 estimated levels. Likewise, he noted that seed prices for 2016 have not been released. "The cost decrease is based on the assumptions of relatively stable seed prices and farmers switching to lower cost hybrids and varieties and reducing seeding rates."

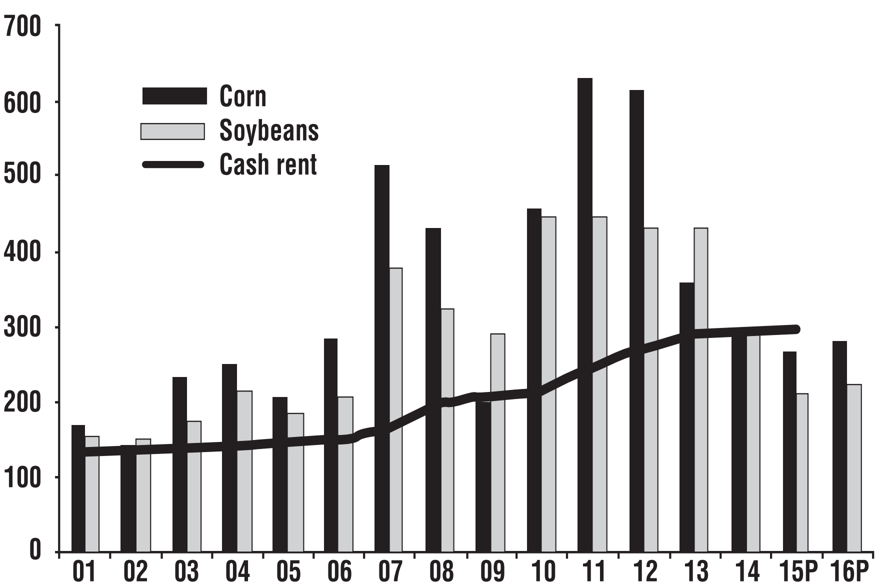
Need Lower Rents. Based on these assumptions, Schnitkey says operator and land returns in 2016 are projected at $280 per acre for corn and $223 per acre for soybeans.

He adds, "If 2016 returns hold as projected, farmers will have a third-straight year of losses on farmland that is cash rented at average levels. In 2014, operator and land returns were below average cash rents by small amounts. In 2015, operator and land returns are projected below cash rents, indicating that farmers will have losses on cash rent farmland when rent levels are near average. Cash rent negotiations for 2016 rents will play a large part in determining farmer returns for 2016."

With this scenario, Schnitkey expects machinery depreciation for corn in 2015 to hold constant at $69 per acre. "Stable depreciation assumes that farmers reduce machinery purchases in 2015, leading to a non-decrease in machinery depreciation in 2016," he said. AEI

Operator & Land Returns & Avg. Cash Rent — 2001-16P

(Central Illinois High Productivity Farmland)



If 2016 returns hold as projected, farmers will have a third-straight year of losses on farmland that is cash rented at average levels.

Source: Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, July 2015

Tribine Combine Takes Steps Toward Full-Scale Production

Production of the first new combine brand in years moved a significant step closer to reality when Newton City Commission approved support for a manufacturing facility to house the ambitious Tribine project.

The 4.7-acre site on Newton Industrial Park in Kansas is expected to be completed in time for production to start early next year. Tribine Harvester LLC will lease the premises from RAW Investments Inc., which will acquire the land from Newton City, reportedly at a preferential value.

Production start-up will realize the ambition of Ben Dillon, an Indiana farmer and president of the new venture, to see his vision of a combine with unique features making it into harvest fields. He previously has sought a production partnership with an established manufacturer.

The Tribine is largely a conventional rotary up-front, but an articulated chassis carries a mammoth 1,000 bushel (about 27 tons) capacity grain tank out back — twice the size of the biggest current combine.

Straw and chaff are directed to both sides from the machine's midpoint between the two halves, while clean grain is transported by flexible auger from the threshing and separation system to the grain bin.

The articulated layout permits the same large size wheels and tires at the back as at the front, as well as permanent hydraulic four-wheel drive. A steering rear axle adds to the combine's center pivot maneuverability and allows a degree of 'crab steering' so that all four wheels run on fresh ground instead of the rears compounding the wheelings laid by the front pair.

Newton City Commission unanimously approved the support plan for the 12,600 square foot facility, which will house engineering and administration offices, as well as shop space for final assembly, testing and shipping, and includes scope for future expansion.

The company opened a design center in Newton City earlier this year, led by Robert Matousek, vice president of engineering, who previously has managed combine design projects for two of the global manufacturers.

Matousek says field testing in corn, soybeans and wheat with a prototype first shown at Ag Connect in January 2013 has provided the knowledge and data needed to complete a production design, which will be tested next year.

Tribine's unique layout and features are claimed to give farmers a return on investment through reduced capital expenditure, lower labor costs and fuel savings, while having the least negative impact on the soil of any grain and corn harvester. AEI

Argo, SDF Report Strong Results Despite Ag Headwinds

Italian tractor makers Argo — the group behind Landini and McCormick — and the Same Deutz-Fahr Group weathered the past year's market headwinds better than some, judging by their 2014 financial results.

Argo Group. Argo reported a 2.5%, or €12 million ($13 million), drop in revenues to €465 million ($508 million) for the year compared with 2013, with sales in North America, Africa, Latin America and Asia offsetting declines elsewhere.

Cost-savings through various efficiency initiatives — not least a reorganization of production and assembly processes according to Kaizen principles — are having an impact on the group's financial results.

Although EBITDA was down 5%, pre-tax earnings increased 16% at €25.1 million ($27.4 million) and the operating result or net profit was up by more than 20% to €15.8 million ($17.3 million) — a figure almost double that of 4 years ago.

"This satisfactory result shows how operational management was able to create value at a time when several new families of low, medium and high-range open field tractors were launched," says Group Chairman, Valerio Morra. "We will continue to invest in the development of new products, to strengthen our distribution network and increase our productivity to ensure that not only are our results able to grow but also those of our dealers and importers, fundamental business partners of Argo throughout the world."

Same Deutz-Fahr Group. SDF fared even better, recording a €1,210 million ($1,324 million) turnover figure from tractor sales worldwide plus combine harvester and telehandler sales in Europe, to match the year prior figure, despite European ag equipment markets being 10% down.

"The year 2014 was important for us," says Lodovico Bussolati, SDF CEO. "We managed to keep our turnover and profitability on target despite the falling European market, which was possible by the returns of the investment plan we began in 2010 focused on development of new models and international expansion at industrial and commercial levels."

Pre-tax profits were down from €83 million ($90.8 million) in 2013 to €75 million ($82 million), largely as a result of an increase in the value of depreciation resulting from a high investment program, say SDF managers.

"Investment grew from €67.3 to €97.5 million ($73.6 to $106.7 million) last year due primarily to the expansion and renewal of the product range and increased participation in our Chinese joint venture," says Bussolati.

SDF currently has eight production plants and 13 commercial branches. Last year, it opened two assembly plants in China with 50/50 partner Shandong Changlin Agricultural Equipment Co. to produce tractors from 26-170 horsepower and locally assembled Deutz-Fahr models up to 270 horsepower.

In total, the group supplied 33,000 tractors worldwide in 2014, with the Deutz-Fahr brand accounting for more than two-thirds of revenues. AEI

Exel Reports Sprayer Sales Decline is Slowing

Crop sprayer manufacturer Exel Industries has reported some easing of the sharpest drop in sales it has experienced since 1991. Revenues from sprayer sales in the group's March-to-May third quarter were still off 6.4%, but look more encouraging than the 17% rolling shortfall for the 12 months to the end of May.

Some improvement in the figures was anticipated for the agricultural sprayer sector — which encompasses international players such as Berthoud, Hardi and Tecnoma — because a larger proportion of sales are recorded in the second half of the group's financial year to the end of August.

"The drop in sales was lower in the third quarter as the market began to bottom out, but we do not expect a return to growth for another 12 months," says CEO, Geurric Ballu. "Unfavourable economic and political contexts in our main markets, lower grain and potato crop revenues, grower uncertainty and tight credit led to the continued sales decline, particularly in France, Central Independent States (CIS) and the USA."

Selling sprayers is big business for Exel Industries; it accounted for 45% of the €775 million ($852 million) revenues rung up by the group in its 2014 financial year.The rest came from industrial spraying technology (24%) and domestic spraying and watering (13%), and by the newly expanded sugar beet harvesting sector, which accounted for 18% of group revenues last year.

In the beet sector, which includes the European manufacturers Agrifac, Holmer and Matrot, there are also signs of recovery, with revenues up 5% in Exel's third quarter vs. a year-to-May drop of almost 11%.

These market conditions translated into half-year revenues of €126.7 million ($138 million) from agricultural sprayers — down almost 24% or €40 million ($43 million) — and €43.6 million ($47 million) from sugar beet harvesters, down almost 16% or €8.3 million ($9 million).

Manufacturing operations have been adjusted in light of current market conditions but investment continues.

For example, a $2.1 million expansion of facilities and staff at Hardi North America Inc. in Davenport, Iowa, has been completed and focused on production resources for Saritor, Presidio and future self-propelled sprayers. The U.S. business expects to double its sales volume over 5 years.

In Germany, sugar beet manufacturer Holmer, acquired by Exel 2 years ago and represented in the U.S. by Holmer Americas Inc., Ruth, Mich., is consolidating operations across three sites into one new location. It will become a major manufacturing and parts distribution hub for Exel Group's beet harvester activities, which are also located in France and The Netherlands. AEI

Kongskilde Still 'Restructuring;' Expands U.S. Facilities

As Kongskilde prepares to cut costs by closing a factory in Denmark, its U.S. operation will showcase newly expanded facilities at an open house event next month.

Hans Rasmussen, president of Kongskilde Industries Inc., will preside over a ribbon cutting ceremony Sept. 1 at the Hudson, Ill., works that were acquired with Progressive Farm Products in 2010.

As reported in the April 2015 issue of *Ag Equipment Intelligence*, Kongskilde and its parent — a Danish farmer-owned co-operative — earmarked $7.5 million for the Hudson refit in response to strong demand for its tillage and fertilizer placement products and a growing dealer network.

An enlarged and more efficient plant layout, new manufacturing facilities and a new blast and powder paint system should double available capacity and result in higher levels of quality and customer service, says the company.

In contrast, the group's European operations are being put through the mill as efforts to make the business profitable and ripe for sale next year are accelerated in view of the current falling demand in agricultural machinery markets worldwide.

Having previously announced a clutch of redundancies at its Sonderborg factory, which was acquired when Kongskilde rescued JF-Stoll from bankruptcy in 2011, managers have now decided to close the plant with the loss of more than 200 jobs. Production of JF-Stoll hay tools and cattle feeders will be moved to the group's more modern factory in Poland.

"We have come far in the turnaround process but see a significant opportunity for improvement by shifting production to Poland, where we have a more modern factory and the possibility of lean production," says Ole Gade, Kongskilde CEO.

Between 2009 and 2012, investment in the Kutno plant amounted to €12.2 million ($13.3 million at current exchange rates) for expansion and new production equipment, half contributed by the EU Structural Funds used to assist poorer areas of Europe.

Managers are also simplifying the group's product image and marketing by ditching the heritage brands accumulated over many years and focusing on 'Kongskilde' alone.

"The One Brand Strategy expresses our move toward a more visible brand creating solutions and products that improve the bottom line for our customers — the farmers and distributors — and underlines a long-term dedication to build an independent and strong brand," says Gade.

Lars Sorensen, chairman of Kongskilde and deputy CEO and CFO of the DLG co-operative adds: "We have previously communicated that Kongskilde has to be profitable in 2016, and this remains our expectation. The business has a strong brand with products of an international standard, as well as strong competences, but to reach its full potential we need a strong partner or buyer that can drive the business forward." AEI

Equipment Sales Slump Continues

North American large ag equipment sales declines continued in July. 4WD tractors lead the dropoff with sales down 30.1% year-over-year, followed by row-crop tractors at down 22.9% and combines sales declined 22% vs. the same period last year, according to the latest unit sales figures released by the Assn. of Equipment Manufacturers on Aug. 11.

Mid-range tractor sales provided some good news at up 19.6% following a 1.1% increase the previous month, while compact tractor sales had an impressive 27.5% year-over-year increase.

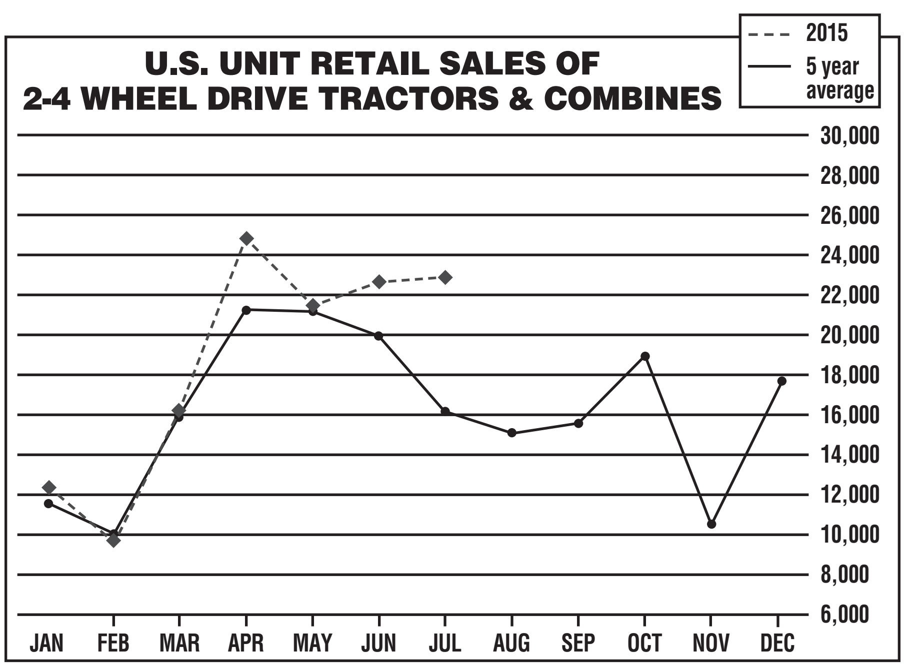
- U.S. and Canada large tractor and combine sales decreased 23% year-over-year in July, down from a 19% drop in June. U.S. sales were down 27%, while Canadian sales were down just 3%.
- Combine sales declined by 22%, which was an improvement from the nearly 40% decrease reported in June. U.S. combine inventories were 28.8% lower year-over-year in June vs. down 30.8% in May. July is typically an above-average month for combine sales, accounting for 10.4% of annual sales over the last 5 years.
- Row-crop tractor sales posted a 22.9% decline in July, deteriorating from the 11.8% decrease observed in June. U.S. row-crop tractor inventories were down 10.3% in June vs. a 0.3% decrease in May. July is typically a slightly above-average month for row-crop tractor sales, accounting for 8.9% of annual sales over the last 5 years.
- 4WD tractor sales experienced a 30.1% year-over-year decline in July, down from the 26.5% decrease experienced in June. U.S. dealer inventories of 4WD tractors decreased 37% in June.
- Mid-range tractor sales demonstrated some improvement at up 19.6% year-over-year compared to up 1.1% last month.
- Compact tractor sales, meanwhile, improved as well at up 27.5% year-over-year, up from the 2.7% increase last month. AEI

JULY U.S. UNIT RETAIL SALES

Equipment	July 2015	July 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	June 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	13,040	9,954	31.0	75,292	69,458	8.4	67,424
40-100 HP	6,534	5,379	21.5	35,161	34,364	2.3	32,293
100 HP Plus	2,100	2,768	–24.1	14,964	18,401	–18.7	10,575
Total-2WD	21,674	18,101	19.7	125,417	122,223	2.6	110,292
Total-4WD	232	351	–33.9	1,798	3,178	–43.4	1,061
Total Tractors	21,906	18,452	18.7	127,215	125,401	1.4	111,353
SP Combines	511	777	–34.2	2,840	4,772	–40.5	1,411

JULY CANADIAN UNIT RETAIL SALES

Equipment	July 2015	July 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	June 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,302	1,291	0.9	7,910	8,212	–3.7	8,862
40-100 HP	563	555	1.4	3,132	3,561	–12.0	4,291
100 HP Plus	373	438	–14.8	2,670	3,099	–13.8	2,431
Total-2WD	2,238	2,284	–2.0	13,712	14,872	–7.8	15,584
Total-4WD	40	38	5.3	530	699	–24.2	355
Total Tractors	2,278	2,322	–1.9	14,242	15,571	–8.5	15,939
SP Combines	296	257	15.2	940	1,013	–7.2	865



— Assn. of Equipment Manufacturers

when it comes to equipment financing, bankers are looking for more than healthy balance sheets.

"Management pointed out that while farmers' balance sheets remain very healthy, lenders' decisions in financing new equipment are primarily focused on P&L and cashflow dynamics, noting that customers with solid balance sheets have actually been turned down for equipment financing," said Dobre. "This is particularly relevant in financing used equipment, a key goal for dealers given excess inventories. This underscores the importance of commodity prices going forward as a key driver of stabilization and improvement in equipment demand."

Land Value Trends. With commodity prices still "iffy" at best, farmers are looking to land values as their main lever in short-term financing. According to USDA, real estate holdings comprise about 80% of farmers' total assets. This has slipped about 2% recently, from 82.6% in 2013 to 80.7% in 2015.

In their second quarter 2015 reports, Federal Reserve Banks in Chicago, St. Louis and Kansas City showed growth in farmland values has slowed somewhat following low growth in 2014.

According to the "Land Values 2015 Summary" issued earlier this month by the USDA, National Agricultural Statistics Service, U.S. farm real estate value, a measurement of the value of all land and buildings on farms, averaged $3,020 per acre for 2015, up 2.4% from 2014 values. Regional changes in the average value of farm real estate ranged from a 6.1% increase in the Southern Plains region to a 0.3% decrease in the Corn Belt region. The highest farm real estate values were in the Corn Belt region at $6,350 per acre. The Mountain region had the lowest farm real estate value at $1,100 per acre.

The value of U.S. cropland increased by $30 per acre, or by 0.7%, to $4,130 per acre from the previous year. In the Southern Plains region, the average cropland value increased 9.2% from the previous year. However, in the Corn Belt region, cropland values decreased by 2.3%. U.S. pasture values increased to $1,330 per acre, or 2.3% above 2014. The Southeast region was unchanged from 2014. The Lake States region had the highest increase at 15.4%.

Chicago Fed. Bankers in the major agricultural areas of the Midwest are paying close attention to the prevailing trends in farmland values. The August *Agricultural Newsletter* from the Federal Reserve Bank of Chicago (7th District) reported, farmland values were 3% lower than a year ago. "The downward trends in agricultural product prices seemed to have translated into lower farmland values. After seeing a quarterly uptick in the prior quarter, District farmland values decreased 1% in the second quarter of 2015 relative to the first quarter; only Indiana saw a quarterly increase in farmland values in the second quarter."

"Real estate holdings comprise 80% of U.S. farmers' assets..."

The newsletter goes on to say that 59% of responding bankers anticipated stable farmland values in the third quarter of 2015. "However, the majority of the survey respondents may have been influenced by the summer rally in crop prices, which waned as survey responses were being collected. In addition, with only 1% of responding bankers expecting farmland values to increase in the third quarter of 2015 and 40% expecting them to decrease, the survey results, on the whole, indicated ongoing weakness in farmland values."

St. Louis Fed. According to the latest *Agricultural Finance Monitor* published by the Federal Reserve Bank of St. Louis (8th District), during the second quarter of 2015, bankers reported that quality farmland values were virtually unchanged compared with a year ago, while the value of ranch or pastureland rose 3.2%. "This is a notable reversal of the substantial decline in quality farmland and ranch or pastureland values recorded in the previous survey," according to the report. However, the report noted that the majority of lenders surveyed expect quality farmland to decline in the third quarter, while they were evenly split on whether ranch or pastureland values would rise or fall.

Kansas City Fed. In its quarterly *Survey of Agricultural Credit Conditions*, the Federal Reserve Bank of Kansas City (10th District) reported that with lower farm income and expectations that crop prices may not improve significantly, cropland values continued to soften. Non-irrigated cropland values declined nearly 3%, on average, from last year. From the first quarter to the second, non-irrigated cropland values declined more than 4%. While irrigated cropland values remained steady on a quarter-over-quarter basis, irrigated cropland values were 3.6% lower in the second quarter when compared with the previous year.

"In contrast, ranchland values posted modest gains due to continued profitability in the cow-calf sector. Although bankers expected non-irrigated and irrigated cropland values to decline further, they also expected ranchland values to moderate in the coming months," said the Kansas City Fed.

In assessing the current situation confronting farmers, the 10th District newsletter added, "As in 2013, weaker farm income was not the only factor driving farmland values in the second quarter of 2015.

"Similar to two years ago, District bankers reported the overall wealth of the farm sector, the current interest rate environment and a lack of alternative investment options have had significant effects on farmland values. But unlike two years ago, more agrilenders cited farm income expectations for next year as a primary contributor to recent developments in farmland values."

In other words, maintaining a strong balance sheet is important for the longer-term health of the industry. But in the short term, "profit and loss and cashflow dynamics" are the metrics that lenders are watching closely. In addition to commodity prices, input costs, particularly cash rents will bear close scrutiny. *(See Equipment Dealers Compete with Farm Cash Rents for Sales, p. 4.)* AEI

Sluggish Ag Equipment Sales Continue in First Half 2015

Headwinds created by lower commodity prices and a strong U.S. dollar continued to challenge ag equipment manufacturers through the first half of this year. This was reflected in their quarterly earning reports that were issued over the past few weeks.

While industry outlook picked up when corn crossed the $4 per bushel line last month and soybeans topped $10 per bushel, USDA's Aug. 12 World Agricultural Supply and Demand Estimates report, brought that sentiment to a screeching halt. In that report, the ag agency took the industry off guard as it unexpectedly increased corn production for 2015-16 by nearly 3% more than pre-report expectations.

For the week ended on Aug. 10, just prior to the WASDE report, September futures for corn closed at $3.90 per bushel, a 6.6% increase from the previous week, according to Farmland Forecast. September soybeans ended at $10.08, a 6.7% increase from a week earlier, and September wheat ended the week at $5.25, a 5.2% increase from the previous week. At that point, year-over-year corn prices were up 9.6%, soybeans were down 9%,and wheat was down 3.8%.

The most recent WASDE report saw these prices decline. USDA's outlook for corn for the 2015-16 marketing year was projected at $3.35-3.95, soybeans dropped to $8.40-9.90 per bushel, and wheat prices fell to $4.65-5.55 per bushel.

For 2015-16, analysts are projecting major crop cash receipts to be $97.3 billion, down 7% year-over-year from $97.9 billion, or –6% year-over-year from last month. Adjusted for the calendar year, other crops as well as livestock-related expectations, overall farmer cash receipts are forecast to be down 6% in 2015 (including –12% for major crops).

Following is a rundown of the most recent earnings results from several ag equipment companies. John Deere will be releasing its third-quarter financials for fiscal 2015 on Friday, Aug. 21.

With No Pick Up in Sight, AGCO to Continue Reducing Production

AGCO Corp. isn't looking for a turnaround any time soon in the sales of its farm equipment, so the company says it will continue its efforts to control expenses. It says it will do this by continuing planned production cutbacks and minimizing product inventory. At the same time, AGCO management says it is also planning a price hike of 1.5-2% to offset costs associated with the introduction of its new Tier 4 engines.

On July 28, AGCO reported its second quarter net sales declined 24.8%, to $2.1 billion from $2.8 billion in the same period of 2014. Net sales for the first 6 months of 2015 were about $3.8 billion, a drop of 25.8% vs. the first half of last year.

North American net sales for the second quarter were down 17.9% year-over-year. South America saw the biggest decline for the quarter with net sales down 36.3% in the region. Europe, Africa and Middle East sales were down 25.3% and Asia/Pacific saw a 12.8% decline in net sales for the second quarter.

The company says it expects its third quarter 2015 sales and earnings to be "significantly lower" compared to the third quarter of 2014 as a result of lower sales and production levels.

AGCO reports it expects sales for 2015 to be down 19-21% between $7.7-$7.9 billion year-over-year, but says this could be partially offset by pricing and modest market share gains.

"Last year, we saw pricing soften on used equipment and this year it could be down 10-15%, depending on the market and which products we're looking at," Greg Peterson, director of investor relations for AGCO, said in a call to analysts. "It's been our major focus to support our dealers as they continue to work down their inventory levels, both new and used. As we look at 2015 compared to 2014, our dealers' new and used equipment inventory is down to high single digits or low double digits, so, we are making progress."

AGCO Regional Net Sales — 2014 vs. 2015
(in millions $)

	6 Months Ended June 30			Change due to currency translation	
	2015	2014	% Change from 2014	$	%
North America	1,035.6	1,333.7	–22.4	–25.4	–1.9
South America	529.3	793.8	–33.3	–151.2	–19.0
Europe/Africa/ Middle East	2,045.1	2,757.8	–25.8	–454.9	–16.5
Asia/Pacific	161.9	198.4	–18.4	–21.8	–11.0
Total	3,771.9	5,083.7	–25.8	–653.3	–12.9

Source: company report

CNH Industrial 2Q15 Ag Equipment Net Sales Decline 32%

CNH Industrial plans to continue to adjust production as it enters the second half of 2015 after second quarter revenues were reported at down 22% vs. the same period in 2014 in its earnings report on July 29. Ag equipment net sales were also down nearly 32% compared to the second quarter of 2014.

CNHI says its key product segments in NAFTA for ag equipment, over 140 horsepower tractors, as well as combines, were down 31%, while under 40 horsepower tractors were up 5% and 40-100 horsepower tractors were up 2% in the region for the quarter. EMEA markets were down 7% for tractors and 9% for combines. The LATAM region saw the steepest declines with tractors down 26% and combines down 19%. APAC markets saw 3% decreases for tractors and 17% for combines.

Unit production for ag equipment in the second quarter was 14% below retail sales and the company says finished goods inventory for CNHI and its dealers has declined $700 million year-over-year. The company reports that current production levels are expected to further drive down inventory levels for the rest of 2015.

CNHI's revenue outlook for 2015 remains unchanged at $26-$27 billion.

CNH Industrial 2Q 2015 Selected Financial Information
(in millions $)

	2Q 2015	2Q 2014	% Change
Net Sales	6,634	8,564	–22.5%
Total Revenue	6,958	8,911	–21.9%
Segment Revenue			
Ag Equipment	3,035	4,436	–31.6%
Const. Equipment	740	931	–20.5%
Com. Vehicles	2,470	2,704	–8.7%
Powertrain	947	1,250	–24.2%
Net Income	122	358	–65.9%

Source: company report

Trimble 2Q15 Total Revenues Down 9%, Ag Field Solutions Slide 24%

Trimble reported its earnings results for the second quarter on Aug. 4. Total revenues were down 9% vs. the same period last year. The company's Field Solutions segment, which includes its ag products and services, saw a 24% decrease in revenues this quarter.

Commenting on Trimble's performance, president and CEO Steven Berglund said, "Our agriculture revenue was pressured in the quarter, particularly because of continued performance issues among the OEMs.

"Although, this OEM performance shortfall caused us to add more conservatism to the third quarter estimate, we continue to model more stability late in the year and continue to see flat to potentially up slightly year-to-year revenues, starting in the fourth quarter. The volatility in the ag market remains unprecedented and this outlook represents our best effort view of it."

Looking ahead to 2016, Berglund says Trimble appears to be outperforming other suppliers in the market. The company expects ag related revenues to be flat in 2016. Berglund says this should allow them to begin to demonstrate the impact of the new emerging product categories and avoid being a drag on the rest of the company.

Trimble 2Q15 Selected Financial Information
(in millions $)

	2Q 2015	2Q 2014	First Two Quarters 2015	First Two Quarters 2014
Revenues				
Product	394.6	468.9	795.2	911.5
Service	105.7	100.1	206.6	193.4
Subscription	85.5	73.2	166.6	142.0
Total Revenues	**585.8**	**642.2**	**1,168.4**	**1,246.9**
Gross Margin	303.9	354.6	611.1	681.5
Gross Margin (%)	51.9%	55.2%	52.3%	54.7%
Operating Income	36.0	97.2	75.5	172.2
Net Income	**25.8**	**78.1**	**59.8**	**146.2**
		2015	**2014**	**% Change**
Field Solutions		$87.1	$114.4	–24%
Total Revenues		$585.8	$642.2	–9%

Source: company report

Alamo's Ag Division Holding Up Better Than Industry; Sales Slip Only 1%

Alamo Group issued its second quarter earnings on Aug. 5. The company reported net sales of $215.7 million, a 4% increase from the same period of 2014. These results include the effect of the acquisition of Specialized Industries, completed in May 2014, and Herder in Brazil, completed in March 2015. These two acquisitions added $16 million in sales in the second quarter, but also took $9.8 million in currency translation effect.

Alamo's Agricultural Division reported net sales of $53 million in the second quarter, a 1% decrease year-over-year. While the company expects the ag market to remain soft for the rest of 2015, it says, the division's results are holding up much better than the overall agricultural market.

Ron Robinson, Alamo Group's president and CEO, said in the earnings report, "While we did not have as much growth in the second quarter as we had hoped, all in all we felt it was a good quarter given the circumstances that include the weak agricultural conditions."

Looking ahead, Robinson said in the earnings report, "The company in total ended the quarter with a record backlog of over $162 million. This healthy level is above both last quarter and the same period last year. This, plus our margin improvement and continued stability in our various sectors, gives us confidence in the outlook for the balance of the year. While we feel headwinds such as the weak agricultural market and the strong U.S. dollar will continue to impact our results, we believe Alamo is well positioned for long term growth as we have demonstrated during the last decade or more."

Alamo 2Q15 Selected Financial Information
(in millions $)

	2015	2014	% Change
Total Net Sales	215.7	207.8	3.8%
Segment Sales			
Industrial	118.5	105.5	11%
Agricultural	53.0	53.6	–1%
European	44.2	48.6	–9.1%
Net Income	9.7	9.2	5.4%

Source: company report

Titan International's Sales Fall 28%; Looking to Expand Presence in Turkey & Brazil

Titan International issued its earnings report for the second quarter on July 30. Sales for the quarter were down 28.2% year-over-year to $376.1 million.

Despite this drop, Maurice Taylor, CEO and chairman of Titan International, said in the report, "This past quarter, like the first, proves that what the management team has done in 2014 and thus far in 2015 is paying off. Titan's agriculture, mining, construction and consumer businesses are all down. Overall sales are off over 25% year-over-year, yet we have been able to improve our operating margin rate performance. Titan's liquidity remained stable during the quarter, with both cash and debt balances similar to the first quarter. This demonstrates we are on the right track."

Looking ahead, Titan reports it will continue to push its LSW tire technology and believes it will gain more popularity in the future.

"While our markets remain soft and our customers seek greater efficiencies, LSW will become a more prominent solution of choice," Taylor said. The company is currently in discussions with equipment dealers to develop a program in which traditional tires can be exchanged for new LSW tires and wheels."

"We are exploring plans to expand our wheel plant in Turkey; and establish a new wheel presence in Brazil to accompany our existing tire business," Taylor added. "Equipment is being shipped and construction has begun in the oil sands for Titan Tire Reclamation. We expect to be operating by April 1, 2016."

Titan International 2Q15 Selected Financial Information
(in millions $)

	2Q 2015	2Q 2014	% Change
Net Sales	376.1	523.7	28.2%
Gross Profit	51.1	20.8	145.7%

Source: company report

Agribank's Net Income Declines 9.3% in First Half; Credit Quality 'Steadily Improving'

AgriBank, one of the largest banks within the national Farm Credit System, reported its second quarter earnings on Aug. 7. Net income for the 6 months ended June 30 decreased by 9.3% to $241.7 million. AgriBank says this is a "relatively stable" number and the decrease was primarily driven by lower mineral leasing activity.

Acceptable loans were at 99.7% in the second quarter and AgriBank says, "Credit quality has been steadily improving since 2009 and remains consistent with Dec. 31, 2014, however, these strong positions are expected to revert to more normal levels over time as the commodity price outlook remains challenging."

Total loans declined slightly to $77.5 billion and cash and investments fell to $15.9 billion vs. $16.4 billion 6 months prior. Liquidity was 173 days at the end of the second quarter.

In its earnings report, AgriBank says the USDA Economic Research Service projects U.S. aggregate net farm income to decline from the forecasted $108 billion in 2014 to $73.6 billion in 2015 due to the expected decline in crop prices and a normalizing of livestock and dairy prices from the record prices of 2014.

Buhler's 3Q15 Revenues Up 2.6%, But Net Earnings Slip Less 1%

Buhler Industries reported its third quarter earnings Aug. 12, with revenues for the quarter up 2.6% year-over-year to $79.1 million. For the first 9 months of the year, however, sales dropped 18.7% from year-ago levels to $203.9 million. Buhler says this overall decline can be attributed to lower demand for ag equipment as a result of lower commodity prices.

Net earnings also saw a decline at $0.3 million for the third quarter compared to $1.1 million at the same time in 2014.

Looking forward, Buhler expects the demand for large ag equipment, especially tractors and sprayers, will remain low and will continue to impact the company's sales. Buhler has adjusted its workforce as a result and has reduced production levels. This has led to improved cashflow and reduced debt and the company says it expects inventory levels to continue to decline through the rest of 2015.

Buhler reports gross and operating margins are also expected to be lower because of lower sales and production volumes, but expects the increased strength of the U.S. dollar will help alleviate some of the declining margins. **AEI**

Buhler Industries 3Q15 Selected Financial Information
(in millions $)

	3Q 2015	3Q 2014	% Change	9 Months 2015	9 Months 2014	% Change
Revenue	79.1	77.1	2.6%	203.9	250.7	18.7%
Net Profit	0.3	1.1	–72.7%	2.2	10.8	–79.6%

Source: company report