From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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Analysis: Canada's Highly Fragmented Dealer Network Needs to Consolidate

In a special report produced for investors, Ben Cherniavsky, analyst for Raymond James, takes a "deep dive" into the current structure of Canada's equipment dealer networks and concludes that the distribution channels for farm and construction machinery needs to be streamlined.

"Most OEMs still rely on a highly fragmented dealer network to get their product to market. In Canada alone, according to our analysis, there are more than 500 dealers representing over 25 different brands in 1,350 branches across the country," says Cherniavsky.

"We believe this represents a highly inefficient distribution channel that is bound to consolidate in the future. Some of the contributing forces behind this trend include ageing demographics, increasing capital/technical requirements and a softer macro backdrop that will force the industry to reconsider M&A as a primary growth driver," he adds.

Ag Equipment Intelligence has been compiling data consolidation trends of North American farm equipment dealers since 2009, and began issuing annual "Big Dealer" reports on the subject in 2011. The data shows that in 2009, there were slightly over 150 dealer groups that operated five or more retail locations. By early 2015, this number had grown to nearly 190 dealership groups with five or more stores.

As for Canadian farm equipment dealers, the "Big Dealer" report shows that in 2011, the 25 dealers with five or more locations operated 234 total retail locations, with 206 of these focused on ag machinery sales. By 2015, the "Big Dealer" group grew to 35 dealers operating 357 total locations, 311 of which are farm equipment stores.

M&A Commentary. In his report, Cherniavsky discusses in detail what he calls "a challenge that is rather unique to the consolidation of the equipment dealer business: the influence of the OEM."

In the ag equipment space, no OEM has pursued dealer consolidation more aggressively than John Deere.

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Kubota's FY2015 Revenues Rise 5.2%; Continues Its Push into Big Ag

On the heels of a 5.2% increase in revenues during its fiscal year 2015, Kubota Corp. says it plans to push ahead with further expansion into the large ag machinery market.

The company reported its fiscal 2015 year-end results May 12 and surpassed its revenue outlook for both total and overseas markets for the farm and industrial machinery segment. Total revenues for the year were up 5.2% year-over year to $13 billion, almost 3 percentage points higher than the company outlook from the same time in 2014, when it projected that revenues would rise 2.7% during its fiscal year ending March 31, 2015.

While domestic revenues for the company decreased 12.1% to $4.7 billion in fiscal 2015, overseas revenues increased nearly 18% to $8.5 billion year-over-year. Kubota says the increase in revenues in overseas markets along with the effect of yen depreciation overcame the negative impact of lower domestic revenues. This resulted in a steady operating income year-over-year at up almost 1%.

For the fiscal year, revenues from farm equipment and industrial machinery accounted for 65.2% of total revenues, in line with fiscal 2014, while construction machinery contributed 11.4%, up from 9.9% during the same period last year. Of the 76.6% of revenues attributed to farm and industrial machinery, 60.4% was attributable to overseas markets. That's up just over than 5% from fiscal year 2014.

Farm & Industrial Machinery. Revenues from Kubota's Farm & Industrial Machinery segment, which is comprised of ag equipment, engines and construction machinery, increased 5.4% from the prior year to $10 billion.

Overseas revenues for the segment increased 16.7% to $7.9 billion from fiscal 2014, which is more than 10 percentage points higher than the company projected for fiscal 2015 at this time last year. Domestic revenues decreased 22.6% to just over $2 billion in this segment, and the company says this is due to an adverse reaction

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Kubota's FY2015 Revenues Rise 5.2%; Continues Its Push into Big Ag....Continued from page 1

to special demand prior to Japan's consumption tax hike in fiscal 2014 and the decline of rice prices.

2016 Outlook. This year, Kubota is changing its reporting from a fiscal to a calendar year and will now use Dec. 31, as its year end instead of March 31, 2016. The company forecasts consolidated revues will increase 9.2% in the 9-month term from April 1, 2015 to Dec. 31, 2015. A 10.5% increase in operating income is projected as a result of expected increases in both domestic and overseas markets.

Expanding Farm Machinery. Known for its lower horsepower equipment, over the last 3 years, Kubota has taken steps to build a full line of broadacre equipment. In 2012, the manufacturer acquired the European-based implement manufacturer Kvernland. With that acquisition, the company said it was "taking its first major step toward becoming a comprehensive manufacturer of agricultural machinery."

In its most recent earnings report, Kubota reiterated its plan to develop its business activities by "expanding its presence in the farm machinery market for upland farming as the core of its growth strategy. In the European and North American markets, the company has thus far pursued a number of measures to reach this objective. These have included the development of large-scale products that can take their place along with the products of the world's leading manufacturers of farm equipment, expansion of its sales and service network and acquisition of an upland farming implement manufacturer."

It added, "The company is launching large-scale, 170 horsepower tractors and will make a full-scale entry into the farm machinery market for upland farming.

"With this as the beginning, the company is further expanding its product lineup and taking initiatives to ensure product quality, cost and delivery that will surpass other companies in the field and thereby position it as one of the major players in the farm equipment business." **AEI**

Kubota Corp. FY2015 Earnings Analysis*

	Year Ended March 31, 2015		Year Ended March 31, 2014		Change	
(in millions $)	Amount	%	Amount	%	Amount	%
Revenues	13,161.82	100	12,506.38	100	649.42	5.2
Operating Income	1,690.83	12.9	1,676.20	13.4	14.19	0.8
Income before income taxes	1,748.19	13.3	1,748.76	14.0	0.28	0.0
Net Income	1,158.32	8.8	1,089.52	8.7	69.16	6.3
Farm Equipment & Engines	8,571.24	65.2	8,308.37	66.5	263.04	3.2
Domestic	1,782.11		2,417.11		634.80	–26.3
Overseas	6,788.46		5,891.19		897.55	15.2
Construction Machinery	1,492.56	11.4	1,243.29	9.9	249.39	20.1
Domestic	351.39		338.03		13.27	3.9
Overseas	1,140.63		904.85		236.08	26.1
Farm & Industrial Machinery	10,057.37	76.6	9,544.96	76.4	512.30	5.4
Domestic	2,132.93	16.2	2,754.21	22.0	621.18	–22.6
Overseas	7,927.01	60.4	6,794.07	54.4	1,133.51	16.7
Water & Environment	2,841.07	21.6	2700.04	21.6	141.27	5.2
Other	237.60	1.8	242.55	2.0	5.00	2.1
Total	13,145.08	100	12,496.72	100	649.33	5.2
Domestic	4650.28	35.4	5290.32	42.3	638.89	–12.1
Overseas	8497.84	64.6	7210.52	57.7	1288.89	17.9

**Converted from yen to U.S. dollar at exchange rates as of July 10*

Source: Kubota Corp.

Rise in Ethanol Production Sustained by 'Mini-Harvest'

U.S. ethanol production in mid-June set a record and is poised for new all-time highs, as strong demand and the prospect of a "mini harvest" of corn is supporting margins, according to a report in agrimoney.com.

An official report in June showed U.S. ethanol production rose by 14,000 barrels a day to hit 994,000 barrels a day, the highest level going back to 2010. The rise in output came despite margins that have been pressed by the recovery in corn prices.

Agrimoney.com quotes Jerrod Kitt at Chicago-based broker Linn Group as saying an increase in production was sustainable, in part thanks to the prospect of ready supplies of corn, as farmers sell stocks left over from last year's record harvest. Kitt says "a lot of producers are sitting on a lot of corn," with many growers holding out for higher prices, a strategy which has proved successful for many in recent years.

The boost to supplies as growers bring crop to market, to clear storage space for the next crop, will be akin to a "mini harvest," with the potential for pressure on prices.

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Ag Equipment Makers Produce Solid Returns Through First Half of 2015

To begin the second half of 2015, equity research analysts' views for the stocks of major farm equipment manufacturers shift to neutral with most taking "hold" positions on AGCO, Deere and CNH Industrial stocks.

Through the end of June, Global Hunter Securities Industrial Universe (GIU) coverage lists show that the nine companies that comprise its agricultural equipment group returned an average of 3.2% for shareholders. This compares to building materials, which returned 16.4%, the highest returns of all of the 20 industrial groups that make up the GIU. The rail transportation group was down 16.5% year-to-date through the first 6 months of the year, the worst performing group in the GIU.

Overall, considering the significant plunge in sales of ag equipment through the first half of the year (see our report on p. 7), the share value of the three majors has held up remarkably well. Last year at this time, AGCO stocks were at $53.29, CNH Industrial stock was $9.37 and Deere stocks were $88.12. All three are comparable this year, and analysts are expecting Deere and AGCO stocks to be up slightly.

AGCO Notes. The average recommendation on AGCO stock among 13 rating analysts covering the company was "hold." Four analysts rated the stock as a "sell," seven recommended "hold" and one took a "buy" position. This comes after the company's earnings per share, last reported on April 28, beat analysts' consensus estimate by $0.14. AGCO's earnings per share for the quarter were down $0.60 from the same quarter of 2014, however, and analysts expect the company will post $2.92 earnings per share for the current fiscal year.

Analysts at JP Morgan upgraded shares of AGCO from an "underweight" rating to a "neutral" rating in a note on June 22 and raised their target price for the stock by $10 to $55. Analysts at Zacks, on the other hand, downgraded shares of AGCO from "buy" to "hold" on June 12.

Global Hunter Securities GIU showed a year-to-date return of 24.6%.

Deere & Co. Notes. A July 7 report from analysts at Zacks reports a "hold" position on Deere & Co. stock. The analysts have a mean short-term price target of $87.27 per share for the company, with the higher price target estimate at $106 and the lower price target at $72.

Zacks reports Deere & Co. shares have risen 6.12% from its one-year high price, registered on June 30, 2015 at $98.23. The one-year low was seen on Oct. 8, 2014, at $78.88. Deere produced returns of 9%, according to Global Hunter.

CNH Industrial Notes. Market Beat reported July 9 that the consensus rating for CNH Industrial stocks is "hold" and the consensus price target is $8.67, down 4.45%.

CNH Industrial's return through the first six months of the year was 15.9% according to Global Hunter's GIU. **AEI**

FARM MACHINERY TICKER (AS OF 7/13/15)

MANUFACTURERS	Symbol	7/13/15 Price	6/11/15 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$44.70	$49.90	$57.99	$41.45	N/A	34,616	640.15M
AGCO	AGCO	$54.64	$51.41	$57.26	$41.56	14.77	1,110,480	4.81B
AgJunction Inc.	AJX	$0.51	$0.60	$0.84	$0.41	N/A	86,341	36.88M
Alamo	ALG	$53.44	$55.10	$64.45	$37.93	15.33	52,124	608.41M
Art's Way Mfg.	ARTW	$4.70	$5.27	$7.08	$4.27	14.44	33,205	19.41M
Blount Int'l.	BLT	$8.99	$11.29	$17.97	$8.81	12.84	294,459	437.16M
Buhler Industries	BUI	$5.55	$4.70	$6.50	$4.44	29.21	2,119	138.75M
Caterpillar	CAT	$83.63	$88.17	$111.46	$78.19	13.39	4,620,480	50.48B
CNH Industrial	CNHI	$9.51	$9.02	$9.75	$7.35	16.15	1,643,710	12.94B
Deere & Co.	DE	$96.28	$93.22	$98.23	$78.88	13.14	2,786,090	32.15B
Kubota	KUBTY	$83.34	$81.47	$84.15	$63.70	18.10	14,610	20.76B
Lindsay	LNN	$84.74	$81.28	$91.93	$73.01	25.27	125,108	969.45M
Raven Industries	RAVN	$18.97	$20.49	$31.73	$16.91	27.75	188,997	718.6M
Titan Int'l.	TWI	$9.83	$11.11	$16.00	$8.77	N/A	547,589	542.86M
Trimble Navigation	TRMB	$23.59	$23.10	$34.43	$22.28	34.72	1,633,420	6.13B
Valmont Industries	VMI	$119.62	$123.65	$150.30	$116.36	19.01	246,146	2.82B
RETAILERS								
Cervus Equipment	CVL	$15.85	$16.31	$22.69	$15.66	15.63	14,158	245.96M
Rocky Mountain Equipment	RME	$9.00	$9.20	$11.55	$8.20	8.89	19,897	174.46M
Titan Machinery	TITN	$15.38	$14.58	$16.49	$10.69	N/A	158,744	324.09M
Tractor Supply	TSCO	$92.52	$90.12	$93.99	$55.95	33.80	751,800	12.62B

Claas Ends OEM Deal with Kramer, Forms Partnership with Liebherr to Build Telehandlers

Claas will turn to the $9.9 billion earthmoving, mining and construction machinery giant Liebherr for its next generation of agricultural telescopic handlers following mutual agreement to end an existing OEM partnership.

The deal will spur development of a bigger range of telehandlers by Liebherr, which has industrial operations in Texas, Florida, Virginia and Michigan. Liebherr currently offers just three telescopic handler models for industrial and construction markets in certain European countries.

The move ends a successful 10-year relationship in which Claas has supplied farmers and custom operators in agriculture with telehandlers built by Kramer-Werke of Germany — an approach that will continue with Liebherr starting in 2018.

It appears to stem from plans by Kramer's parent company Wacker Neuson to strengthen the group's position in agriculture using its own distribution channels — partly through Kramer's "green line" dealers but more specifically through Wacker Neuson's Weidemann subsidiary.

Hoftrac articulated compact wheeled loaders for the farm market have been Weidemann's stock in trade. But beyond 2018, it will be free to adopt the full range of modern Kramer-built telescopic handlers with lift capacities up to 5.5 metric tons and lift heights to nearly 30 feet previously sold by Claas.

In the U.S., Wacker Neuson supplies selected Kramer and Weidemann wheel loaders and telehandlers under its own name from its North American headquarters in Menomonee Falls, Wis.

The use of telescopic handlers on farms in the U.S. is slowly gaining ground, with JCB and Manitou among the market leaders. But Europe remains the biggest market worldwide, with machines on livestock and tillage farms alike often clocking more hours than tractors.

A wide diversity of telehandler sizes now exists — from ultra-compact models lifting less than a metric ton to heavy duty bulk handling models with capacities of 6 metric tons and high-reach versions lifting beyond 33 feet. Productivity and the loading and placement versatility that comes from the single telescopic boom are principal attractions for European farmers.

Claas first entered the market by acquiring a UK-based telescopic handler pioneer but in 2000 it sold the operation and designs to Caterpillar. A supply agreement between the two parties ended in 2005 when Claas forged its current partnership with Kramer-Werke, a company best known for its four-wheel steer compact loaders. AEI

Is Finning the Model for North American Equipment Dealerships of the Future?

With Finning International's acquisition of Kramer Ltd. this past May, the fraternity of Caterpillar construction equipment dealerships in Canada became even more elite. This move leaves only eight CAT dealers operating 100 locations throughout the entire country. Nearly all of these are owned and operated by only three dealers, Finning and Toromont, both of which are publically held, as well as Hewitt Equipment.

Is what's happening in Canada with the consolidation of CAT's dealers — often referred to as the "CAT Model" — a foreshadowing of what lies ahead for farm equipment dealers in North America?

Kramer, which had all of the CAT and Claas business in Saskatchewan, began its exit from the equipment business last year when it announced it would no longer carry Claas farm machinery. The dealer group made the announcement in the spring 2014 issue of *Kramer News*. "After 2015, Kramer Ltd. will no longer distribute Lexion combines, Challenger tractors, RoGator and TerraGator application equipment and Bourgault seeding and tillage equipment through our dealership network," it said. The company had carried ag equipment for 15 years. Its decision forced Claas to open its own stores in the province of Saskatchewan, which it announced in June 2014.

This proved to be only a prelude to Kramer's complete exit from the equipment business. With its sale of its five CAT locations to Finning, Kramer ended its 70 years of selling and servicing construction equipment. Finning paid about $230 million for Kramer, which was generating about $275 million in annual revenue in recent years with 475 employees. The dealership group has parts, sales and service locations in Estevan, Kindersley, Battleford, Regina, Saskatoon, Swift Current and Tisdale in addition to CAT rental stores in Regina and Saskatoon.

Fewer & Fewer. According to a Canada Research report produced by Raymond James Ltd., last December, before the acquisition, Finning had 51 Canadian locations: 23 in Alberta, 25 in British Columbia, 2 in the Northwest Territories and 1 in the Yukon. Toromont had 24 locations: 5 in Manitoba, 3 in Newfoundland and Labrador and 16 in Ontario. Hewitt Equipment had 2 in New Brunswick, 3 in Nova Scotia, 2 in Prince Edward Island and 9 in Quebec. The remaining 5 dealers, including Kramer, operated only 9 locations.

In his Canada Research report, Ben Cherniavsky, analyst for Raymond James, asked, "why there couldn't eventually be just one CAT dealer for all of Canada? In other words, could Finning one day — presumably after they consolidate the West and Toromont consolidates the East —

buy Toromont? Or could Toromont possibly one day buy Finning? Speculation about this kind of blockbuster transaction goes back as long as we can remember (i.e., to at least the late 1990s)."

While speculating about a possible scenario that would lead to a single dealer handling all of the CAT business in Canada, Cherniavsky finds the possibility highly unlikely. While there are plenty of precedents for a country the size of Canada to be covered by one CAT dealer (Zeppelin, for example, has all of Germany), the important question to ask about this particular proposition is," says Cherniavsky, "What's in it for CAT?"

The scenario would involve folding Hewitt into Toromont and Kramer into Finning, which the analyst says may facilitate economies of scale and resolve some succession issues, "But putting together Finning and Toromont — two public dealers that already rank among CAT's largest distributors — is a very different matter.

"We think CAT would be very reluctant to see this happen unless the performance of one of these two dealers fell completely off the rails, and CAT needed the expertise of the other dealer to resolve the problems. Given its historical track record, this sort of rescue scenario seems very unlikely for Toromont, in our view. As for Finning, it seems a lot less likely today than it did a few years ago, but again this highlights the importance of management's 'operational excellence' agenda," says Cherniavsky.

It's also highly unlikely that the farm equipment industry will follow such a dramatic path even though consolidation of dealers continues at a fairly brisk pace. While construction sites tend to move from site to site, farm fields don't. As a result, farmers tend to be more sensitive to their dealers' location. But, then again, you never know. AEI

July WASDE Produces Uptick in Crop Prices

The ag equipment industry has been looking for any bit of good news it can find lately and it seems that June and July's poor growing weather may have provided just that — at least temporarily.

USDA's July World Agricultural Supply and Demand Estimates report lowered stocks-to-use forecasts for corn and soybeans and raised it for wheat, which had the effect of raising price forecasts for all three crops. Analysts are now projecting cash receipts for the 2015-16 marketing year to be just under $98 billion, down 6% year-over-year. This compares to the previous outlook that called for crop receipts to come in at about $95 billion, which would be down 9% year-over-year.

Since last August, projected crop receipts have ranged from –17% in November and December to –16% for January through April of 2015. The crop receipts outlook improved to –9% in May and June. The current –6% is the best the industry has seen for well over a year.

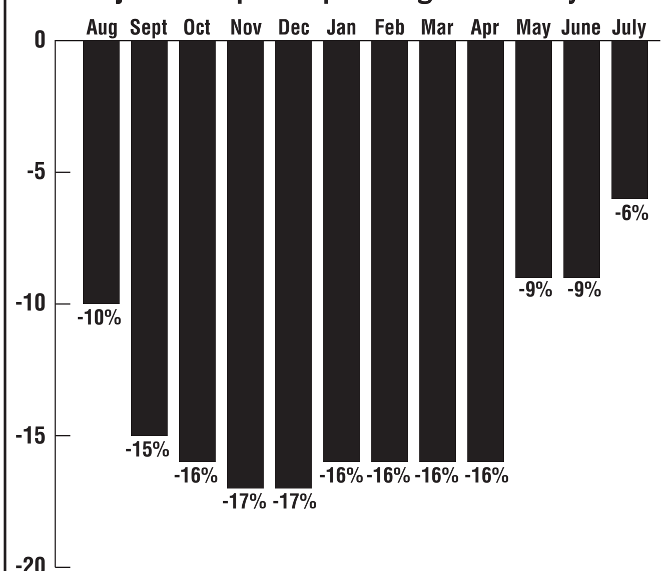
Weather conditions throughout the Midwest in the last several weeks have been too wet in some areas, while other areas in the region were seeing little or no moisture. Despite this, USDA left corn yield forecast at previous forecast levels of 166.8 bushels per acre. This compares with 171 bushels per acre a year ago. The agency's forecasted price range for corn was raised to $3.45-$4.05, up from $3.20-$3.80 in the previous month and up from $3.60-$3.80 in the prior year.

Soybean yields were projected to be 46 bushels per acre, down from 47.8 bushels last year. USDA's forecasted price range is $8.50-$10.00, up from $8.25-$9.75 in the prior month, but down from $10.05 in the prior year.

For wheat, yields were adjusted only slightly to 44.3 bushels per acre from 44.2 bushels in the previous WASDE report. The projected price range for wheat is now $4.75-$5.75, up from $4.50-$5.40 last month.

All in all, the latest report was enough to improve futures prices. According to *Farmland Forecast* from Colvin & Co., September futures for corn closed the week ended July 10 at $4.40 per bushel, a 3.3% increase from the previous week. September soybeans ended the week at $10.29, a 1.4% increase from the week prior, and September wheat ended the week at $5.75, a 3.4% decrease from a week earlier. AEI

U.S. Projected Crop Receipts – Aug. 2014 – July 2015



The outlook for crop receipts have improved significantly since April. After hitting a low point in November and December of –17% year-over-year, the outlook now calls for a decline of only 6%.

Ag Equipment Sales Remain Flat to Down in Eastern Europe

Data on Eastern European agriculture and ag equipment sales is less frequently reported on than other areas of the world as information coming out many of these countries, is sparse at best. In its "Agricultural Machinery Economic Report 2015," the VDMA Agricultural Machinery Assn. based in Frankfurt, Germany, provided some coverage of the economic and agricultural climates in these countries.

VMDA says the ag business in Eastern Europe is challenging. "In contrast to western and southern European markets, the countries in central and southeastern Europe, among them Romania and also Poland to a limited extent, have stood out through comparatively high stability."

Poland. VDMA reports sales of new tractors in Poland declined 5% to 14,180 units in 2014, with sales decreasing in the segment between 75-130 horsepower. Sales of used tractors rose 2% to 15,421 units.

VDMA reports the decline in Poland's farm machinery market appears to be continuing this year and the mood in the country's ag sector is at its lowest in 5 years. The first quarter of 2015 saw tractor sales decline by 19% vs. the same period of 2014.

Hungary. "No European ag machinery market grew as strongly last year as the Hungarian market," reports VDMA. "Many product groups showed double-digit and in some cases even triple-digit growth."

The association cites funds from the European Agricultural Fund for Rural Development (EAFRD) and subsidized loans at the national level as reasons for the positive market development in Hungary. These funds from EAFRD are dwindling, says VDMA, and new support funds are unlikely to be released before the end of 2015. This has caused farmers in the country to defer purchases."

The percentage of Hungarian farmers willing to invest has been cut in half year-over-year to 9% for tractors, with percentages slightly more stable for harvesting and other equipment.

VDMA is anticipating Hungary's ag machinery market will decline significantly in 2015 to 2013 levels.

Romania. Romanian farmers saw good harvests in 2013 and 2014 and increased prices led to high income, stimulating farm equipment purchases. Imports of farm equipment into the country increased 17% to about $550 million, with Romanian farmers investing in larger equipment from Germany. VDMA says the machinery used in Romania will continue to shift toward Western brands in coming years.

The association expects a stable Romanian farm equipment market for the remainder of 2015 and says, "For the long term, it can be assumed that Romania will establish itself behind Poland as the second largest agricultural machinery market in central and southeastern Europe."

Russia. VDMA reports the mood in Russian agriculture is moderately positive and optimistic, with 90% of VDMA survey respondents considering their current situation stable and planning to maintain or expand their operations in the future.

Russian farmers are producing fewer sugar beets and switching to corn and soybeans. Soybean production for 2014 was up almost 1 million tons from 2013. The Russian tractor market decreased 4% in 2014 to 43,850 units and the share of new imported tractors increased from 26% to 39%. The combine market declined 2% to 5,787 units in 2014.

The Assn. of Equipment Manufacturers (AEM) reported Russia's unit sales for 2015 are trending significantly behind 2014. Year -to-date sales were down across the board for tractors and combines compared to 2014. Sales of tractors under 40 horsepower are down 35.3% to 4,362 units from the same period in 2014. Mid-range tractors between 40-100 horsepower fell 48.4% to 3,908 units vs. a year earlier and 100 horsepower and up tractors saw the biggest decline at down 53.2% to 1,787 units. 4WD farm tractor sales saw the smallest decline compared to 2014 at down 15.6% to 475 units. Self-propelled combines were down 37.5% year-over-year to 1,246 units.

Imports from Western equipment brands to Russia dropped from 747 to 210 units, due mainly to the imposed import quota of 424 units and the "rigid allocation of issuing import licenses only after the harvest season," VDMA says.

Ukraine. Despite inflation and the sharp decline of the country's national currency against the euro, which produced a 60% drop, VDMA says Ukraine's agriculture sector is still relatively healthy. VDMA reports Ukrainian farmers had a very good harvest of grain and oilseed in 2014 and while domestic consumption is down, exports of these crops are up.

For farm machinery, imports are declining with those from Germany down 39% in 2014. Imports of tractors and combines dropped by 60% and farm implement imports were down between 15-30%.

Czech Republic. 2014 tractor sales in the Czech Republic were steady at up 1% from 2013 to 2,613 units. This is up 40% from 2010 levels. AEI

Ag Machinery in Selected Eastern European Countries
(in units)

Country	Production				Exports				Imports				Market Volume			
	2012	2013	2014	% Change	2012	2013	2014	% Change	2012	2013	2014	% Change	2012	2013	2014	% Change
Poland	1,158	1,192	1,152	–3%	818	950	933	–2%	1,531	1,321	1,318	0%	1,871	1,562	1,537	–2%
Hungary	604	591	615	4%	518	498	494	–1%	449	483	660	37%	535	575	781	36%
Czech Republic	705	717	673	–6%	665	640	611	–5%	680	648	683	6%	726	732	753	3%
Romania	67	70	81	16%	78	90	121	34%	515	491	572	17%	503	471	534	13%

Source: VDMA Agricultural Machinery Economic Report 2015

Weak Ag Equipment Sales Continue

North American large ag equipment declines continued in June, with 4WD tractor sales down 26.5% year-over-year, combine sales down 39.7% and row-crop tractors down 11.8%, according to the latest report released by the Assn. of Equipment Manufacturers. There was some positive news, however. Mid-range and compact tractor sales both saw an increase at 1.1% and 2.7% year-over-year respectively.

- U.S. and Canadian large tractor and combine sales decreased 19% year-over-year in June, which was an improvement from the 29% decrease the previous month. U.S. sales were down 20% year-over-year, while Canadian sales were down 15%.
- Combine sales saw the largest drop in June, down 39.7%. This compares to a 17.9% decrease in May. Last three month sales (L3M) declined 31.3% on a year-over-year basis following a 34.4% drop the previous month. U.S. combine inventories were 30.8% lower year-over-year in May vs. down 19.7% in April.

June is typically a below-average month for combine sales, accounting for 7.4% of annual sales over the last 5 years.

- Row-crop tractor sales posted an 11.8% year-over-year decline, better than the 31.9% decrease observed in May. L3M sales were down 19.9%. U.S. row-crop tractor inventories were down 0.3% year-over-year in May vs. up 2.1% in April.

June is typically a below-average month for row-crop tractor sales, accounting for 7.4% of annual sales over the last 5 years.

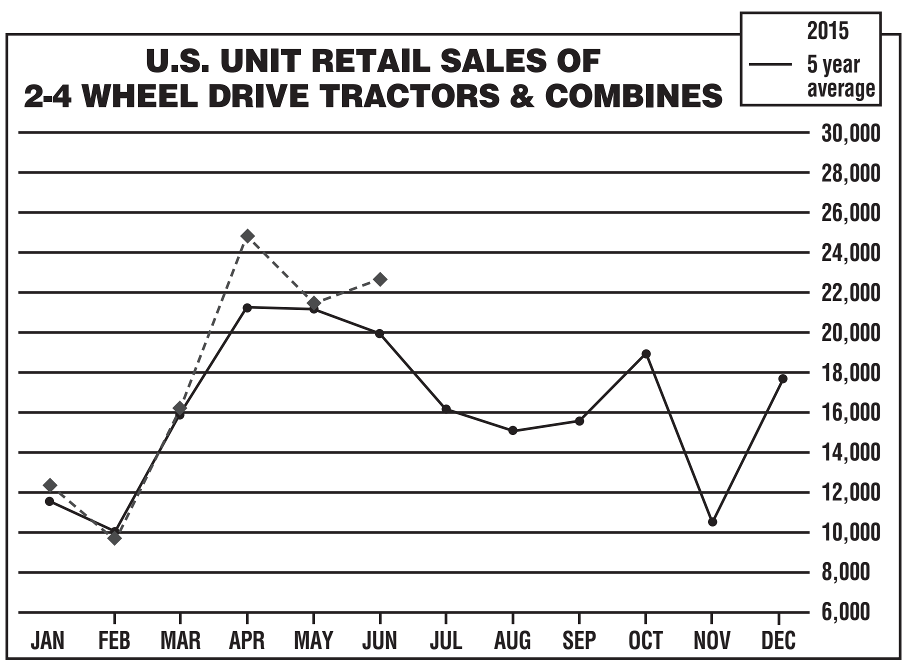
- 4WD tractor sales decreased 26.5% in June vs. the same period last year, an improvement from the 30.5% drop in sales during May. U.S. dealer inventories were down 36.9% year-over-year in May.
- Mid-range tractor sales saw a small increase in June, up 1.1% year-over-year after a 14.3% decrease the previous month. Compact tractor sales were up as well, at 2.7% year-over-year vs. a 4.8% decrease in May. **AEI**

JUNE U.S. UNIT RETAIL SALES

Equipment	June 2015	June 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	May 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	14,038	13,354	5.1	62,140	59,505	4.4	69,840
40-100 HP	6,071	5,863	3.5	28,603	28,985	–1.3	32,766
100 HP Plus	2,062	2,270	–9.2	12,861	15,633	–17.7	10,721
Total-2WD	22,171	21,487	3.2	103,604	104,123	–0.5	113,327
Total-4WD	251	352	–28.7	1,566	2,827	–44.6	1,041
Total Tractors	22,422	21,839	2.7	105,170	106,950	–1.7	114,368
SP Combines	351	703	–50.1	2,330	3,995	–41.7	1,269

JUNE CANADIAN UNIT RETAIL SALES

Equipment	June 2015	June 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	May 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,626	1,891	–14.0	6,616	6,921	–4.4	9,040
40-100 HP	487	625	–22.1	2,577	3,006	–14.3	4,271
100 HP Plus	349	463	–24.6	2,281	2,661	–14.3	2,456
Total-2WD	2,462	2,979	–17.4	11,474	12,588	–8.8	15,767
Total-4WD	49	56	–12.5	490	661	–25.9	359
Total Tractors	2,511	3,035	–17.3	11,964	13,249	–9.7	16,126
SP Combines	154	134	14.9	643	756	–14.9	789



— Assn. of Equipment Manufacturers

According to the data developed by *Ag Equipment Intelligence*, in 2011 only about 14% of Deere dealers owned and operated five or more locations. By 2015, this number had grown to more than 70% of Deere dealers operating from five or more retail locations.

While a large percentage of farm equipment dealership consolidation over the past decade or more resulted from mergers and/or acquisition, Cherniavsky advises his clients that they should not consider acquisitions to be a panacea for increasing shareholder value.

"On the contrary, the history of this business is littered with transactions that went awry and failed to deliver their full potential. History has also demonstrated that it can take many years for a dealer to extract significant economies of scale from buying other dealers," says Cherniavsky.

Economies of Scale. Among the major variables that are driving industry consolidation, the Raymond James analyst says is the increasing benefits related to economies of scale.

As farm machinery has grown more complex and sophisticated, increasing demands for more investment in hardware, software and tech training are putting additional capital requirements on dealers. "Amidst these industry trends, it has become increasingly evident that bigger, well-capitalized dealers are generally better dealers," says Cherniavsky.

"Even though few of them will state it explicitly, most OEMs are beginning to see that the benefits of a more concentrated distribution channel outweigh the drawbacks of putting more power into the hands of fewer dealers."

2 + 2 = 5. Cherniavsky points to Caterpillar as the prime example of an OEM strategically consolidating its dealer network. "Even CAT, which already boasts the strongest and most concentrated dealer network in the world, has been permitting — if not encouraging — slow but steady dealer consolidation over time. Deere has been even more aggressive at encouraging its highly fragmented dealer network to merge together.

"In our view, any of the OEMs that still resist this trend — in the name of limiting a dealer's influence and preventing the tail from wagging the dog — will eventually fall into line as they slowly lose market share to the competitors that boast a bigger and better distribution channel."

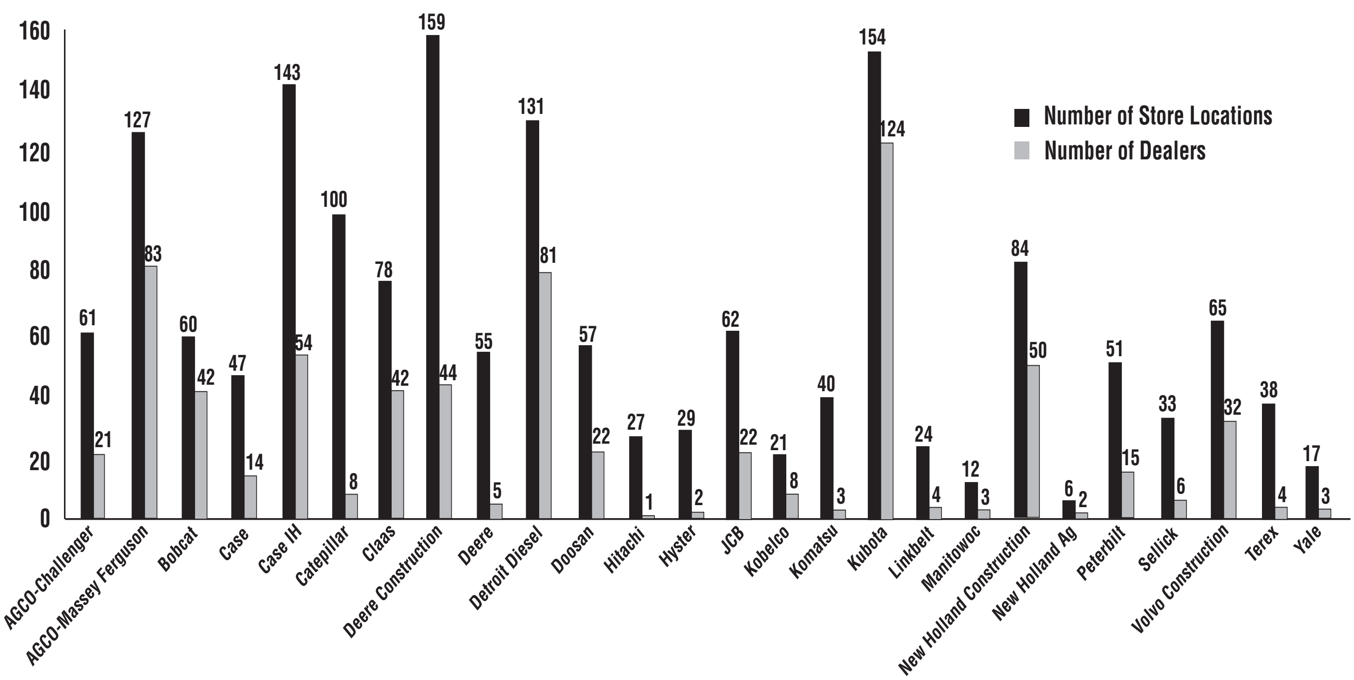
Cherniavsky says that a successful dealer roll-up is not a matter of "auspicious timing and good luck," but requires a great deal of meticulous integration work and solid management practices behind the scenes.

Among the factors that contribute to profitable M&As are:

- effective rationalization of overheads and back-office functions;
- systems integration; facility upgrades, where necessary;
- alignment of incentive structures for salespeople and branch managers;
- adopting best practices for service quotes, billing, warranties, etc.;
- marketing and rebranding efforts;
- consolidated parts procurement and inventory management;
- technician training;
- retention of key employees;
- severance of underperformers;
- overall cultural integration.

"In our view," he says, "when this sort of 'blocking and tackling' is done right, there is an opportunity for a dealer consolidator to benefit from economies of scale and prove, over the long-run, that two plus two can equal five." **AEI**

Heavy Equipment Dealers in Canada



According to research by Raymond James Ltd, in Canada there are more than 500 dealers representing over 25 different brands in 1,350 branches across the country. The equity research firm says this represents a highly inefficient distribution channel that is bound to consolidate in the future.

Source: Company Reports, Raymond James Ltd.