From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- **Rocky Posts 4Q Gain**
- **Kuhn Invests $32M**
- **Krone's Sales Slip 3%**

Cervus Equipment's Ag Revenues Rise 7% for Full Year, 9% in 4Q14

Cervus Equipment reported on March 12 that it finished 2014 with a 7% increase in revenues from the sale of farm machinery. Cervus, with 35 dealerships throughout western Canada, Australia and New Zealand, is one of John Deere's largest dealer groups.

Overall, the company reported that its consolidated revenues increased by $118.5 million, or 13.8% in the past year; $43.2 million of that increase came from its agricultural equipment segment. Same store revenue of $854.2 million was nearly flat with 2013 revenue of $861.1 million.

New acquisitions contributed $0.4 million of incremental operating income while $1.2 million was contributed by same store operations, primarily due to profit margin growth. Excluding $0.4 million of acquisition costs, total income from ag operating activities increased $1.9 million, and EBITDA increased $0.6 million.

Same store operating income increased $1.2 million due to a $3.3 million increase in gross profit on sales mix changes, combined with a $1.1 million increase in other income mostly due to manufacturer incentives, partially offset by $3.3 million of increased SG&A.

Sales Mix Shift. In its management remarks, Cervus said grain transportation constraints in the first half of 2014 impacted broad acreage farms, particularly in the company's Saskatchewan geography, while strong cattle prices buoyed the diversified farming which comprises a larger portion of its Alberta market.

These factors shifted sales mix and increased profit margin, as reduced demand for harvest equipment in Saskatchewan was replaced by accelerated demand for 2WD tractors, parts and haying equipment in Alberta. Other income of $1.1 million was primarily due to additional incentive programs from suppliers, while personnel costs contributed to the $3.3 million increase in SG&A.

Acquisitions in its farm equipment segment contributed $51 million of incremental revenue during the year, of which $20.6 million related to fourth quarter acquisitions, and $30.4 million from the inclusion of its Australian business for a full year. Gross profit increased $8.6 million.

For the fourth quarter, income from operating activities in the ag segment increased $2.7 million compared to the same period in 2013, $0.1 million of which was contributed by the Alberta acquisitions, combined with a $2.5 million increase in same store results driven by gross profit margin growth. On a same store basis, income from operating activities increased $2.5 million primarily due

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2014 Most Profitable Year Ever for Ethanol Producers, But Production Will Moderate in Next Decade

While the future of ethanol is facing an uncertain future as the political battles about its usefulness continue, last year most U.S. ethanol producers were swimming in profits like they have never experienced.

According to a March 5 report by Scott Irwin of the University of Illinois' Department of Agricultural and Consumer Economics, "The focus on the changing profit outlook for ethanol producers can obscure the fact that the industry is also coming off the best year it has ever had in terms of profitability." The article, "2014 Really Was an Amazing Year for Ethanol Production Profits," estimates ethanol production profitability in 2014 and compares the profits to those earned over the 2007-13 period.

The politics of ethanol is intensifying with the introduction of the Toomey-Feinstein "Corn Ethanol Mandate Elimination Act" in Congress on Feb. 26. According to reports, a variety of special interests have joined forces against the Renewable Fuel Standard, including, poultry farmers, chain restaurant operators, cattle ranchers and oil companies who insist that the RFS isn't working. At the same time, various industry groups are criticizing Toomey for saying ethanol drives up gas and food prices and Feinstein for her argument that corn ethanol is getting in the way of advanced biofuels.

But while Washington insiders drew battle lines, ethanol producers enjoyed the highest level of profits they've ever seen. According to Irwin, driven by the combination of relatively high ethanol prices and relatively low corn prices, profits averaged a

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to margin growth across all revenue streams. Gross profit margin percentage increased 2.9% due to shifts in sales mix toward higher parts and service sales.

Solid Ag Outlook. Citing upbeat data from Agriculture and Agri-Food Canada (AAFC), Cervus' management expects solid earnings in 2015.

Graham Drake, president and CEO of Cervus, tells *Ag Equipment Intelligence* that for Western Canada, and particularly in Alberta, livestock is a large component of farm receipts — almost half — and the strength in this market segment did play a prominent role in the company's solid earnings in 2014. He expects this solid trend to carry over into 2015.

He adds, "In our agriculture segment the impact of oil prices have been negligible, and may indeed prove beneficial by reducing farm input costs. Western Canadian farmers enter the year in a strong position, buoyed by high livestock prices and a successful 2014 crop. Further, Agriculture and Agri-Food Canada is forecasting a second consecutive year of record Canadian net cash farm income, 10% above the previous record set in 2013. It is also forecasting more seeded acres in 2015 compared to 2014, which drives both equipment demand and utilization. This data support continued strength in the Western Canadian agriculture sector leading in to spring planting."

AAFC estimates Canadian farmer's 2014 net cash farm income will be $14 billion. Of the total 2014 farm income, Saskatchewan generated $4.3 billion, an 11% increase over the prior year, followed by Alberta totaling $2.7 billion, a 16% increase.

Drake says the dealer group's overseas operations also posted good numbers last year. "Our Australian and New Zealand dealerships have benefited from strong dairy and livestock pricing, particularly in the first half of 2014. Recent declines in dairy prices have tempered the agricultural outlook in New Zealand, although some recovery by the end of 2015 is expected. Our Australian outlook remains contingent on precipitation through the 2015-16 crop year, although strength in livestock pricing and lower input costs are positive."

Analysis. "Cervus made several strategic acquisitions in 2014, adding 13 Peterbilt dealerships in Ontario and 6 John Deere dealerships in Alberta, which contributed a total of $125.5 million of incremental revenue for the year.

On this, Ben Cherniavsky, analyst for Raymond James, commented: "Despite prevailing end market headwinds and elevated inventory levels, we expect recent M&A activity to drive both EPS and the stock higher.

"Other than asking when will used inventories finally decline, the most pressing question for us is this: Will all the revenue that Cervus has acquired yield improved profitability and higher ROIC in 2015? Management has committed to putting additional M&A on the backburner this year, focusing instead on internal integration and profit maximization efforts. This provides reason to be encouraged," said Cherniavsky. **AEI**

Cervus Equipment — 2014 4Q & Full Year Analysis
(In thousands C$)

	4Q 2014	4Q 2013	Change	Full Year 2014	Full Year 2013	Change
New Equipment	84,506	76,783	10%	343,473	317,277	8%
Used Equipment	50,648	50,321	1%	182,745	182,306	0%
Total Equipment Revenue	**135,154**	**127,104**	**6%**	**526,218**	**499,583**	**5%**
Parts	16,417	14,144	16%	66,341	56,523	17%
Service	10,082	8,549	18%	34,444	28,467	21%
Rental & Other	2,634	1,570	68%	4,670	3,946	18%
Total Revenue	**164,287**	**151,367**	**9%**	**631,673**	**588,519**	**7%**
Cost of Sales	(132,869)	(126,262)	5%	(524,246)	(493,024)	6%
Gross Profit	31,418	25,105	25%	107,427	95,495	12%
Other Income	1,382	1,700	(19%)	3,609	2,400	50%
SG&A	(23,232)	(19,900)	17%	(84,352)	(72,754)	16%
Income from operating expense	9,568	6,905	39%	26,684	25,141	6%
EBITDA				34,095	33,862	1%
Ratios as a percentage of revenue:						
Gross profit margin	19.1%	16.6%	—	17.0%	16.2%	—
SG&A	14.1%	13.1%	—	13.4%	12.4%	—

Source: company report

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Kuhn Invests $32M to Upgrade Manufacturing Facilities

Substantial investment in the Kuhn manufacturing facility in Brodhead, Wis., will improve internal workflow and processes, expand capacity and bring a new, dedicated powder and wet paint spraying facility to the site.

The high-tech paint plant in particular will be a key factor in the improvement of product quality, manufacturing efficiency and working conditions, says Kuhn, and will allow the coating of larger machines in the future.

The U.S. project is part of a $32 million investment in infrastructure that also majors on a new assembly facility for balers and bale wrapping machinery at Geldrop in The Netherlands. The Dutch factory expansion on land acquired in 2013 is designed to cope with the increasing size and complexity of these products, and anticipated future production volumes.

Kuhn Group's broad product range and participation in both crop and livestock production sectors helped cushion the effects of a downturn in some markets last year, when sales dipped just 2% from the year prior at $1.26 billion.

"Kuhn Group's principal markets declined due to faltering cereal prices, with the market for tillage machinery in North America and Europe particularly affected," says new CEO Thierry Krier. "Demand in France, Europe's biggest market, saw a significant decline but Kuhn Group was able to maintain its business performance thanks to a strong position in dairy and livestock farming with a decline in sales less marked than in the market as a whole."

Krier succeeded Michel Siebert when he retired at the end of September after 35 years in the role and is also a long-serving employee. During his 20 years with Kuhn, Krier led the North American operations, expanding its presence and building sales tenfold to around $400 million to become one of the leading farm equipment providers in the U.S. and Canada.

His outlook for 2015 is that the downward trend will continue after several years of brisk farm investment driven by high prices for agricultural produce. Krier expects sector and regional variations that point to a decline more marked in France, Eastern Europe, Brazil and Japan than in Germany and North America.

With an eye to future automation trends, Kuhn has entered into a partnership with a Norwegian manufacturer of automatic feed distribution equipment that can be operated with a stationary feed mixer.

It's a response to the growing demand for reduced workloads and more user-friendly work processes on dairy farms in western Europe, which can benefit from lower feeding costs through the reduction in labor, increased milk yield from more frequent feeding and more efficient use of the farm's layout. The system will initially be marketed under the Kuhn brand in selected European markets. AEI

FARM MACHINERY TICKER (AS OF 3/12/15)

MANUFACTURERS	Symbol	3/12/15 Price	2/12/15 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$57.22	$51.35	$57.99	$41.45	31.10	25,720	752.39M
AGCO	AGCO	$47.36	$48.81	$59.18	$41.56	10.86	1,311,810	4.187B
AgJunction Inc.	AJX	$0.61	$0.53	$1.09	$0.51	N/A	42,707	44.12M
Alamo	ALG	$57.62	$48.07	$59.66	$37.93	16.85	52,733	652.32M
Art's Way Mfg.	ARTW	$4.60	$4.86	$7.08	$4.51	20.00	5,115	18.62M
Blount Int'l.	BLT	$13.60	$15.74	$17.97	$10.84	38.75	374,727	672.04M
Buhler Ind.	BUI	$5.49	$5.76	$6.95	$4.86	14.84	808	137.25M
Caterpillar	CAT	$80.19	$83.53	$111.46	$78.81	13.64	6,626,560	48.61B
CNH Industrial	CNHI	$7.71	$8.10	$11.84	$7.35	11.39	1,268,950	10.45B
Deere & Co.	DE	$90.18	$89.37	$94.89	$78.88	11.28	2,758,420	30.62B
Kubota	KUBTY	$83.08	$75.68	$83.08	$62.95	19.03	19,667	20.77B
Lindsay	LNN	$79.55	$88.96	$91.60	$73.01	20.68	115,183	955.73M
Raven Industries	RAVN	$19.03	$21.78	$35.31	$16.91	20.68	178,580	723.98M
Titan Int'l.	TWI	$10.20	$9.59	$19.28	$8.87	N/A	597,618	548.44M
Trimble Navigation	TRMB	$26.10	$27.26	$40.14	$23.68	32.22	1,590,250	6.76B
Valmont Industries	VMI	$124.15	$123.22	$163.23	$116.71	17.51	302,018	2.98B
RETAILERS								
Cervus Equipment	CVL	$18.95	$19.20	$24.13	$17.80	15.28	10,842	290.88M
Rocky Mountain Equipment	RME	$8.80	$8.57	$11.86	$8.20	11.43	31,060	170.12M
Titan Machinery	TITN	$12.40	$13.84	$20.40	$10.69	N/A	143,535	260.31M
Tractor Supply	TSCO	$87.35	$83.26	$90.49	$55.95	32.84	1,001,790	11.9B

Rocky Mountain Dealerships Posts 1% 4Q14 Sales Gain; Down 4% for Year

Rocky Mountain Dealerships reported its fourth quarter sales were up 1% compared to the same period a year earlier, but full-year 2014 sales slipped 4% compared with 2013. Case IH's largest dealer group in Canada, with 40 locations, released its earnings on March 10.

At the same time, Rocky announced it had agreed to acquire Chabot Implements' three locations in Manitoba for $6.8 million.

4Q & Full Year. In the fourth quarter, Rocky's sales of new equipment increased by 2%, to $182.6 million from $179.4 million in the last quarter of 2013. For the year, the company said that its total sales fell by 4%, from slightly over $1 billion to $965.4 million. Sales of new equipment were up 2% in the quarter and flat for the year. Used machinery sales fell by 6% in the fourth quarter and were down 15% for all of calendar year 2014.

At the same time, Rocky reported strong product support revenues for both the quarter and the full year. In the fourth quarter, revenues from parts sales increased to $21.3 million, up 18% vs. the same period in 2013. For the year, parts sales rose to $101.6 million, an increase of 10% compared to all of 2013. Revenues from service also experienced a solid increase. In the last quarter of last year, service sales grew to $9.6 million, a 29% jump compared with the fourth quarter of 2013. During the full year, service revenues rose by 19% to $35.1 million.

Analysis. "While Rocky has reported some progress on profitability and integration initiatives, significant end market headwinds, combined with elevated inventory and debt levels, keep us neutral on the stock," Raymond James analyst Ben Cherniavsky said in a note to investors.

"Revenues of $294 million were ahead of our forecasts and up 1% year-over-year. EBIT margin of 4.1% was up from 2.1% last year but fell below our estimate of 5.3% and third quarter 2014 of 5.2%. Despite the growth of high margin after-market revenues, gross margin was shy of our estimate as the company was not able to pass on price increases to customers resulting from currency exchange pressures (i.e. rapidly depreciating C$) as well as the finalization of Tier 4," Cherniavsky said.

"For the year ahead, we expect lower commodity prices combined with higher equipment pricing will continue to present a challenging environment for revenue growth. It is for these reasons, as well as our concerns over the company's leverage and inventory levels that we remain on the sidelines," he added.

Acquisition Trail. Rocky got back on the acquisition trail for the first time in 2 years. With the purchase of Chabot Implements' 3 Manitoba locations, Garrett Ganden, Rocky's new president and CEO says, "The acquisition of Chabot Implements represents a significant achievement for Rocky and will be immediately accretive to earnings. This acquisition illustrates our continued intention to execute on our strategy of consolidating independent CNH dealers in the Canadian Prairies, where we continue to see opportunity."

For its most recent fiscal year ending Dec. 31, 2014, Chabot had consolidated top-line revenues of approximately $68 million. AEI

Rocky Mountain Dealerships — 2014 4Q & Full Year Analysis
(In thousands C$)

	4Q 2014	4Q 2013	Change	Full Year 2014	Full Year 2013	Change
New Units Sales	182,555	179,359	2%	521,747	523,522	0%
Used Unit Sales	79,810	84,925	-6%	303,536	358,861	-15%
Parts	21,320	18,099	18%	101,622	92,599	10%
Service	9,569	7,403	29%	35,064	29,421	19%
Other	838	795	5%	3,438	3,359	2%
Total Sales	**294,092**	**290,581**	**1%**	**965,407**	**1,007,762**	**-4%**
Cost of Sales	254,623	257,329	-1%	819,785	867,356	-5%
Gross Profit	39,469	33,252	19%	145,622	140,406	4%
Expenses:						
SG&A	27,548	27,249	1%	105,756	105,450	0%
Interest short-term debt	2,956	2,802	5%	11,483	11,696	-2%
Interest long-term debt	524	572	-8%	2,182	2,233	-2%
Total Expenses	**31,028**	**30,623**	**1%**	**26,201**	**21,027**	**25%**
Earnings Before Tax	8,441	2,629	221%	26,201	21,027	25%
Subtotal Taxes	2,220	563	294%	7,276	5,714	27%
Net Income (loss)	**6,221**	**2,066**	**201%**	**18,925**	**15,313**	**24%**

Source: company report

Mitas Starts Phase Out of Continental Ag Tire Brand

Czech tire maker Mitas has started to phase out the Continental brand on its agricultural products.

Starting in January, the higher-spec products coming out of Mitas factories in Europe and the U.S. will be supplied to OEMs carrying "Mitas Premium" identification. Tires produced for the replacement market will change over progressively ahead of the 2019 expiry of the license to use the Continental brand.

"Our strategy is to build equity in a single brand, namely 'Mitas,'" says CEO Jaroslav Čechura. "From January 2015, all tractors and harvesters produced by major OEMs that were previously equipped with Continental-brand tires will be fitted with 'Mitas Premium' tires, which have the same premium quality and technical characteristics."

Mitas has negotiated deliveries of the newly rebranded tires to key agricultural machinery manufacturers, including AGCO, Argo Tractors, Claas, CNH Industrial, John Deere and Same Deutz-Fahr. Since October of last year, newly manufactured Claas combines and tractors have been equipped with tires from the Mitas Premium product line.

"We have been manufacturing Continental tires since 2004 and are confident that Mitas Premium has the same premium quality," Čechura says.

Mitas is strongly investing in its own research and development and has introduced several new products solely designed and manufactured under the Mitas brand for the Improved Flexion (IF) category and the higher-performance Very High Flexion (VF) category for high power tractors and new generation combines.

The VF HC 1000 range has been launched with the high aspect-ratio VF 380/90 R46 for sprayers and the VF HC 2000 design in sizes VF 380/95 R38 and VF 480/95 R50; and in VF 600/70 R30 and VF 710/70 R42. A range of VF HC 3000 tires for harvesting are being introduced in the first quarter of 2015, says Pavel Kott, agriculture tires products manager.

In the U.S., the Charles City, Iowa, plant opened in 2012, where annual production capacity is now 13,500 metric tons, recently launched the 1250/50 R32 SFT for grain carts and combines using a prototype curing press because of its size.

"Our ability to manufacture one of the world's largest agricultural tires proves our ability to produce the most demanding and complex off-road products," says Andrew Mabin, Mitas group marketing and sales director.

The new tire weighs 555 kg, contains 76.5 cubic meters of cord, has an air volume of 2.3 cubic meters and stands 2.02 meters tall. AEI

Amazone Bringing Back the Moldboard Plow

German implement manufacturer Amazone moved backward to progress forward last year, becoming the first manufacturer in a long while to start building moldboard plows at a time when soil conserving, non-inversion minimum tillage techniques are all the rage. The move involved not only designing and developing the new product range but also putting up a new building for assembly work and wearing parts heat treatment.

There is a historical context to the plow introduction, however, in that the manufacturing site near Leipzig, Germany, produced millions of one-way plows from the mid-1800s to the late 1990s. Production only ceased when Amazone acquired the BBG business for its heavy duty tine cultivators. The decision to resume production of a modern plow brought together a team of four engineers with more than 77 years of development experience, including technicians from the original BBG factory.

"We wanted our own product that combined Amazone's characteristically high build quality with attributes such as a new beam structure and other features to make our product suited to modern needs," says joint managing director Dr. Justus Dreyer.

At present, the range is limited to 5- and 6-furrow fully mounted implements. They are only available in Europe, but that may change in the future as Amazone continues to roll out more of its range into the North American market.

The Cayron plow family will contribute to exports that accounted for 80% of sales revenues last year, which amounted to €468 million ($508 million), the second-best turnover figure in the company's history.

The 9% drop from the previous year's €515 million ($559 million) materialized despite sales continuing to rise in a number of markets because of a slowdown in France — Amazone's most important export market — following two boom years and a substantial drop in confidence and investment sentiment in Ukraine.

Amazone continued to invest 5% of turnover in R&D and spent €15 million ($16 million) on fixed assets to improve production capacity and efficiency. Most plants gained new facilities, including a new technology center for the R&D team.

Seed drill production lines and final assembly of rotary harrow and cultivator products were moved to the new Altmoorhausen factory, which has progressively been expanded since the first production halls were opened 4 years ago. The final stage, installing a new paint shop this year, will be the company's biggest-ever individual investment. AEI

Ex-Im Bank Reauthorization Critical to Smaller Equipment Manufacturers

For the past 80 years, the Export-Import Bank, official export credit agency of the U.S., has helped U.S. businesses, especially small businesses, increase their exports. However, with reauthorization on the horizon for the lender come June 30, 2015, the future of the bank is in question. The Assn. of Equipment Manufacturers is pushing for reauthorization insisting it is critical for exports of farm machinery, particularly as domestic sales have slowed in the past year and U.S. manufacturers look to overseas markets to maintain their business levels.

The Ex-Im Bank assumes credit and country risks that the private sector is often unable or unwilling to accept. It also helps level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters.

Ex-Im Bank Chairman and President, Fred P. Hochberg has visited Ace Pump Corp. in Memphis, Tenn., as part of a 28-city tour to garner support. Ace Pump manufactures pumps for a variety of applications including agricultural spraying and fertilizer. Andy Randle, president of Ace Pump, says, "The Bank insures our receivables so we can supply our export customers and be confident we'll be paid. It also allows us to offer competitive terms of up to 120 days, which can be crucial due to the lengthy shipping times with overseas orders. We plan on continuing to increase our export sales by using the bank's programs to further develop our international markets."

Ace Pump has been working with the Ex-Im bank since 2000 and its programs have allowed the company to enter higher risk markets, like Argentina and Ukraine. Since 2008, they've increased their exports from 10% to 16% of their total sales.

Randle says, "Depending on the size of the customer, we're able to extend a $100,000-$200,000 credit limit with 90-day or up to 120-day terms. This really helps us to be competitive and works particularly well in some of these markets where it takes 3 months for our products to arrive by ocean freight.

"It definitely helps to have the backing of the U.S. government behind you as the collection agency if they don't pay on time. It's given us a level of comfort in going into some of these markets," he says.

To get the same level of coverage through a private insurance agency, Randle says the company would have to have $7 million a year in export credit sales and pay up to $15,000 in annual premiums. "For a business our size, that's just not attainable," he says.

The bank won a reprieve from Congress when its charter was extended in September to June 2015. The bank reauthorization was included in a bill funding the federal government, which easily passed.

However, come June, the reauthorization of the Ex-Im Bank will be in a separate bill, which *Bloomberg Businessweek* reports could likely imperil the lender. "Setting the vote for June allows the Ex-Im Bank to have its own stand-alone moment, and that's never a good thing," said Henrietta Treyz, an analyst with Height Analytics.

The *Wall Street Journal* says, "Reauthorizing the bank through June gives conservative Republicans more time to prepare their case against the bank."

Randle says, "We are concerned that the bank won't be reauthorized. We're too small to get private insurance, so we'd have to go with some other form of payment or assurance, like a letter of credit. And some markets just aren't stable enough to do that." AEI

Krone's 2014 Equipment Sales Slip 3%

The steady upward trajectory of hay equipment sales by Krone has been interrupted by a 3% dip in revenues for its 2014 financial year.

At €548 million ($589 million), revenues from the agricultural division are still the second best recorded by the business, which over the past decade has seen net sales increase more than threefold from €172 million ($185 million) recorded in 2004.

The agricultural division, which manufactures forage harvesters, balers, mowers, silage wagons, hay rakes and hay tedders, contributed 34% of Krone Group's €1.6 billion ($1.72 billion) revenues. The balance came from the commercial truck trailers division, which gained nearly 17% on its 2014 performance, which lifted group revenues by almost 9%.

"The past year was an exhausting but also a successful one for us," says CEO Bernard Krone. "We have fulfilled our responsibilities and done our homework thoroughly."

Markets outside Europe represented a quarter of Krone's agricultural business, with developments in the U.S. focused on improving and expanding facilities for product training and after-sales support in the west with a new facility twice the size of the previous one in Reno, Nev. (*Ag Equipment Intelligence*, *January 2015*.)

At its headquarters in Germany, Krone completed a new R&D technology center, invested heavily in data management and took on almost 50% more apprentices than in the year prior to meet future employment needs.

"It is not only in terms of production technology that we lead the way; we have also consolidated our position as a complete service provider for all our machinery and trailers," says Bernard Krone. "This is a solid foundation on which we can build in the next few years and continue to grow in markets old and new."

His father, Dr. Bernard Krone, stepped down as chair of the group's advisory board in February but remains an honorary member. AEI

Drop in Ag Equipment Sales Continues

North American large ag equipment sales continued to decline in February, but did see a slight improvement in some categories compared to the previous month, according to the Assn. of Equipment Manufacturers. Sales of 4WD tractor were down 39.5% year-over-year vs. down 65.1% last month and combine sales were down 24.1% (down 53.4% last month). Row-crop tractor sales declined further, decreasing 19.3% vs. down 5.4% in January. "Perhaps more concerning, mid-range tractor sales fell by 10.8% year-over-year after an 8.5% increase in January and bears watching given the expectation for relative strength in this category due to stronger livestock farmer fundamental," says Mircea (Mig) Dobre, analyst with RW Baird.

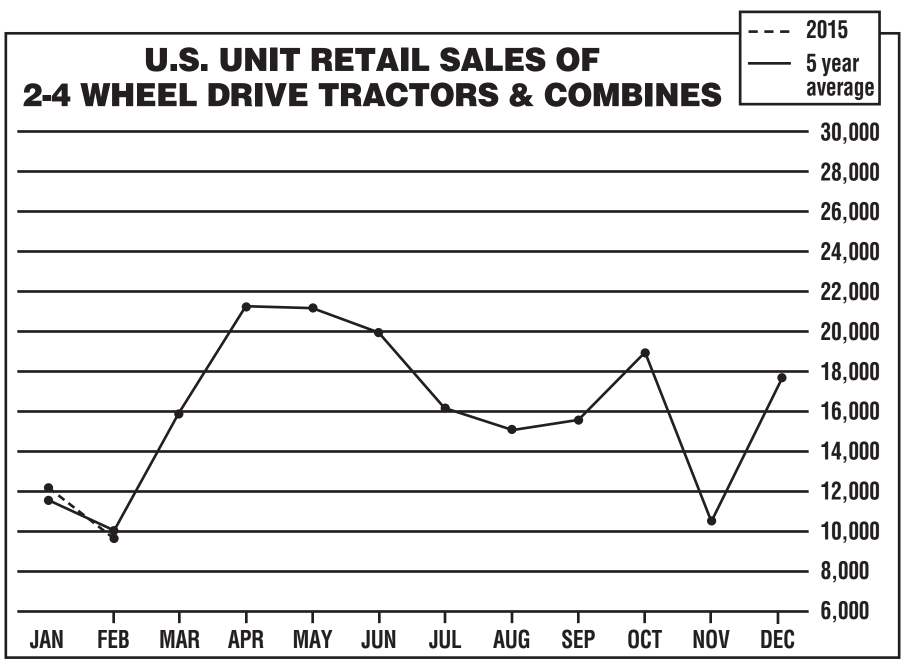
- U.S. and Canada large tractor and combine retail sales decreased 23% year-over-year in February, following a 22% decrease in January. U.S. sales were down 22% year-over-year while Canadian sales were down 27%.
- Combine retail sales dropped as well, posting a 24.1% decline in February following a 54.3% decrease in January. U.S. combine inventories were 0.8% higher year-over-year in January vs. down 18.8% the previous month. February is typically an unimportant month for combine sales, accounting for just 4.4% of annual sales over the last 5 years.
- Row-crop tractors saw a 19.3% drop in sales vs. the same period last year. This is down from the 5.4% decrease seen in January. U.S. row-crop tractor inventories were up 12.7% year-over-year vs. a 13.6% increase in December.
- 4WD tractor sales declined 39.5% year-over-year in February vs. a 65.1% drop in January. U.S. dealer inventories of 4WD tractors were down 30.1% year-over-year in January.
- Mid-range tractor sales declined in February, down 10.8% compared to last February after an 8.5% increase in January. Compact tractor sales dropped 0.1% year-over-year, down from the 7.5% increase last month. AEI

FEBRUARY U.S. UNIT RETAIL SALES

Equipment	February 2015	February 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	January 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	4,726	4,733	-0.1	9,483	8,750	8.4	66,149
40-100 HP	2,974	3,292	-9.7	7,068	6,936	1.9	31,665
100 HP Plus	1,651	2,044	-19.2	4,417	4,975	-11.2	11,332
Total-2WD	9,351	10,069	-7.1	20,968	20,661	1.5	109,146
Total-4WD	281	455	-38.2	473	995	-52.5	1,075
Total Tractors	9,632	10,524	-8.5	21,441	21,656	-1.0	110,221
SP Combines	326	414	-21.3	672	1,068	-37.1	1,168

FEBRUARY CANADIAN UNIT RETAIL SALES

Equipment	February 2015	February 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	January 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	579	575	0.7	1,202	1,313	-8.5	7,567
40-100 HP	276	353	-21.8	693	861	-19.5	3,740
100 HP Plus	304	379	-19.8	661	751	-12.0	2,602
Total-2WD	1,159	1,307	-11.3	2,556	2,925	-12.6	13,909
Total-4WD	67	120	-44.2	95	211	-55.0	364
Total Tractors	1,226	1,427	-14.1	2,651	3,136	-15.5	14,273
SP Combines	73	112	-34.8	111	282	-60.6	545



— Assn. of Equipment Manufacturers

record $0.54 per gallon in 2014.

"A new record weekly high profit of an astounding $1.61 per gallon was set on March 28, 2014. This dwarfs the previous record spikes in late 2011 and 2013. The record profits of 2014 are also part of the longest run of uninterrupted profits since we first began estimating margins in early 2007," says Irwin.

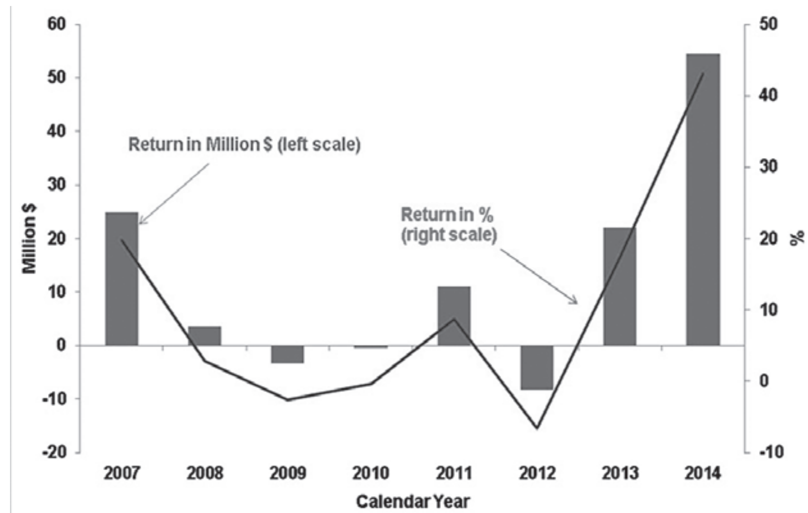
"The streak of positive profits began on March 15, 2013 and ended on Jan. 2, 2015, for a total of 95 consecutive weeks without a loss. The average profit during the streak was $0.43 per gallon. This is more than 10 times the average profit of $0.04 per gallon that a representative plant earned during all the weeks preceding the recent record streak (Jan. 26, 2007 – March 8, 2013)," he says.

Soaring Profits. Irwin goes on to say that the 2014 net profit of $54.4 million is more than twice the profits of the next highest year (2007, $25 million). "Even more impressive, the 2014 net profit exceeds the sum of all profits — $49 million — earned cumulatively over 2007-13. Averages for the 8-year period of 2007-14 are $13 million and 10.3%, respectively. The total cumulative (pre-tax) return to equity holders for the period was $104 million."

Using the model developed around an Iowa ethanol plant, Irwin says, "It was indeed a very good year for ethanol producers. Using the average net profit for the representative plant to make a rough estimate of profit for the entire U.S. ethanol industry in 2014, and assuming all plants in the industry earned a net profit of $0.54 per gallon, then, total ethanol production for the U.S. in 2014 of 14.3 billion gallon of ethanol implies aggregate industry (pre-tax) profits of $7.8 billion."

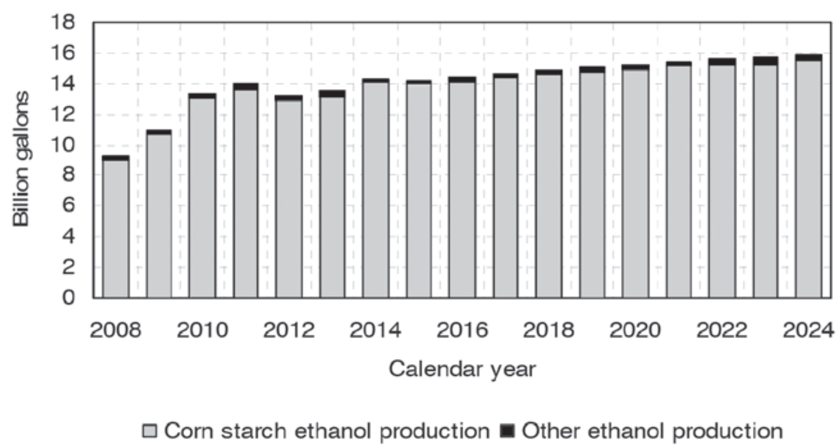
Looking ahead, Irwin says, "The large profits of 2014 and 2013 will provide a much needed financial cushion as the industry faces a substantially changed profit outlook in 2015. The recent crash in crude oil prices ended the record streak of ethanol production profits that began in March 2013.The key question moving forward is whether 2013-14 profits were a temporary blip dueto a unique set of circumstances or reflected a new normal driven by a robust ethanol export market."

Annual Pre-Tax Net Profit for a Representative Iowa Ethanol Plant, 2007-14 Calendar Years



Further perspective on the record profits for 2014 is provided in this chart from the University of Illinois, where the profit margins are aggregated over an annual horizon for 2007-14. Profits are presented in terms of both total pre-tax net returns and percent return to equity.

Ethanol Production in Next Decade



The Food and Agricultural Policy Research Institute at the University of Missouri expects ethanol production to decline in 2015 and then grow at a moderate pace through 2024.

Moderate Growth. At least a partial answer to Irwin's question may have come from the latest Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri. The "U.S. Baseline Briefing Book," which focuses on projections for agricultural and biofuel markets, released earlier this month, says the record margins in 2014 lead to a recovery in ethanol production compared with 2012 and 2013.

"Production is projected to decline slightly in 2015 as margins become tighter. Beyond 2015, ethanol production grows slowly as RFS requirements increase and production margins recover," says FAPRI. "Cellulosic and non-corn production levels contribute relatively minor quantities to the total."

FAPRI expects sugarcane imports from Brazil to continue at a very low level in 2015 before resuming some growth in 2016 and remain relatively flat through the reminder of the decade.

The past year saw a rebound in the exports of ethanol. The report says U.S. exports of ethanol will "continue steady growth with domestic conventional ethanol prices competitive in the global market." AEI