

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Claas Adds Dealer Group
- CVL, RME Sales Rise
- Farmland Values Slip

How Have Dealer Ratings of OEMs Changed?

Earlier this summer the Equipment Dealers Assn. (EDA) released the results of its Dealer-Manufacturer Relations survey. Through this study, equipment dealers rated the companies whose products they represent on 12 key categories of dealership operations and support on a scale of 1 (extremely dissatisfied) to 7 (extremely satisfied).

The association has been conducting the survey since 2013. Compared to 2013, the average overall score for “engine powered” manufacturers improved by 0.14, while the average score for implement manufacturers improved by 0.11. George Russell, a member of the Machinery Advisory Consortium, says the survey results validate much of what he’s been hear-

ing from dealers anecdotally.

OEMs that saw gains in their overall score in 2016 vs. 2013 include:

- McCormick: +0.97
- Unverferth +0.55
- Gehl: +0.52
- Landoll: +0.43
- Bourgault: +0.37
- AGCO: +0.28
- New Holland: +0.27
- Deere: +0.25

OEMs that saw a loss in their overall score in 2016 vs. 2013 include:

- Buhler/Versatile: -1.15
- Kinze: -0.99
- Kubota: -0.31
- H&S: -0.27
- Case IH: -0.22

What Changed? Looking at the majors, John Deere’s improvement

was due to gains in product availability, technical support and warranty procedures. New Holland’s overall gain can be attributed to improvements in the OEM’s scores for communications with management, product availability and return privileges. Kubota was down in every category in 2016 compared to 2013, but the most significant changes came in product availability, product quality and technical support. Russell says Kubota’s drop may be the result of a lot of the changes taking place within the Kubota organization in its efforts to become a full line ag equipment manufacturer.

“There are a lot of changes going on and dealers are seeing that, but they’re not getting the same level of

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Kubota Revenues Decline 6.8% in 1H16, FIM Down 5.9%

For the 6 months ended June 30, 2016, Kubota Corp. revenues fell to \$7.9 billion, or by 6.8%, compared to the first half of 2015. Domestic revenues declined by \$130 million to \$2.8 billion, or 4.4%, according to the company’s earnings report. Overseas revenues fell by 8% to \$5.1 billion.

Kubota reported that during the first 6 months of the year, Farm & Industrial Machinery (FIM) revenues were down nearly 6% to \$6.3 billion due to the effect of appreciation of the yen. This segment includes farm equipment, agricultural-related products, engines, construction machinery and electronic equipped machinery, and accounted for 79.3% of consolidated revenues.

Revenues from farm equipment

and engines fell by 7.7% to \$5.1 billion during the first half of the year. At the same time, construction machinery revenues rose slightly to \$1.1 billion from \$1 billion vs. the same period in 2015.

FIM domestic revenues decreased by 5.2% to \$1.4 billion compared to \$1.5 in the first 6 months of 2015. Overseas revenues decreased by 6% to \$4.9 billion.

In North America, revenues in construction machinery increased significantly due to the favorable market demand and the full-scale entry of new products, offset by lower sales in tractors, which was caused by low commodity prices. The company reported that revenue in this area decreased in total mainly due to the

negative impact of yen appreciation.

Kubota noted that revenues from North America include those from the U.S. of \$1,084 million for the 3 months ended June 30, 2016 vs. \$1,096 million for the same period last year.

2016 Outlook. Kubota revised its forecasts for revenues for the year ending December 31, 2016, down to \$16.6 billion, a decrease of \$500 million from its previous forecast on May 10, 2016. Overseas revenues of farm equipment are forecast to decrease because the yen exchange rate has been and is expected to be stronger than the previous assumptions and sales of tractors in Thailand have decreased to a great extent than

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Kubota – 2Q16 Selected Data

| | April 1, 2016 to June 30, 2016 (in millions of yen) | April 1, 2016 to June 30, 2016 (in millions of dollars) | April 1, 2015 to June 30, 2015 (in millions of yen) | April 1, 2015 to June 30, 2015 (in millions of dollars) |
|--|--|--|--|--|
| Farm Equipment and Engines | 507,658 | 5,062 | 549,816 | 5,483 |
| Domestic | 115,421 | 1,151 | 117,291 | 1,170 |
| Overseas | 392,237 | 3,911 | 432,525 | 4,313 |
| Constuction Machinery | 110,386 | 1,101 | 105,657 | 1,054 |
| Domestic | 15,229 | 152 | 19,568 | 195 |
| Overseas | 95,157 | 949 | 86,089 | 858 |
| Electronic Equipped Machinery | 13,326 | 133 | 15,152 | 151 |
| Domestic | 12,708 | 127 | 14,342 | 143 |
| Overseas | 618 | 6 | 810 | 8 |
| Farm & Industrial Machinery | 631,370 | 6,296 | 670,625 | 6,687 |
| Domestic | 143,358 | 1,430 | 151,201 | 1,508 |
| Overseas | 488,012 | 4,866 | 519,424 | 5,180 |
| Total | 796,136 | 7,939 | 853,950 | 8,516 |
| Domestic | 282,206 | 2,814 | 295,293 | 2,945 |
| Overseas | 513,930 | 5,125 | 558,657 | 5,571 |

Source: Kubota company reports

U.S. Farms Financial Condition Slips a Little

In its second-quarter survey of lenders the St. Louis Federal Reserve Bank (7th District) asked the ag lenders to assess the overall change in the financial condition of their ag borrowers (farmers and/or ranchers) compared with the prior year, based on 5 categories ranging from significant deterioration to significant improvement.

The lenders' responses showed that 14% assessed their borrowers as having experienced significant deterioration in their financial conditions, with 66% reporting modest deterioration. Meanwhile, 17% of the lenders said their borrowers had experienced no change, while 3% said their borrowers' financial conditions showed a significant improvement.

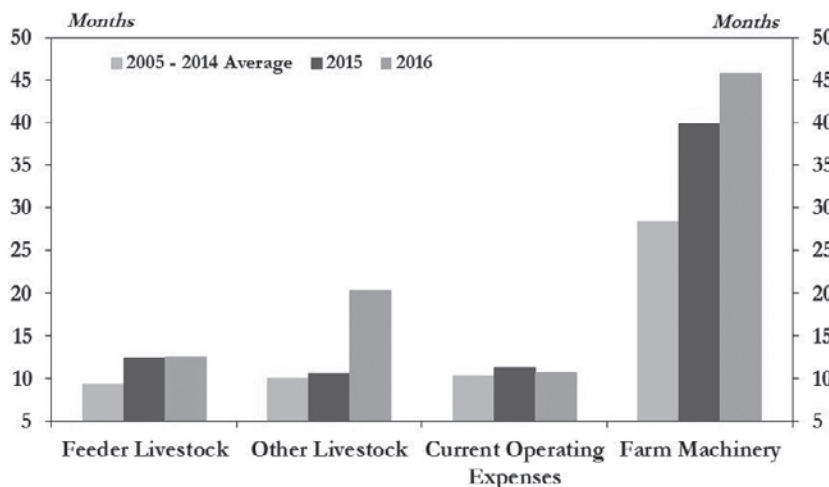
expected due to water shortages caused by the severe drought.

2Q Regional Results. Japan edged out North America in the second quarter as Kubota's largest revenue producing region, a turnaround compared to the second quarter of 2015.

Between April 1 and June 30 of this year, sales of Kubota products i Japan produced \$1.22 billion vs. \$1.21 billion in North America. During the same period a year ago, North American revenues came in at \$1.26 billion compared to Japanese sales of \$1.16 billion. The company attributes the exchange rate for the drop off in the U.S. and Canada.

Revenues in Asia outside of Japan for the period were \$765 million vs. \$931 million a year earlier.

The company completed its acquisition of Great Plains Mfg. on July 1. It paid \$430 million for one of North America's best known makers of tillage and seeding equipment. For Kubota, the deal secures another component of an expansion plan that aims to turn the compact tractor and light construction equipment specialist into an agricultural full-liner. **AEI**

Equipment Loan Extensions Average 46 Months in 2Q16**Maturities on Non-Real Estate Farm Loans — 2Q16**

Reduced cashflow has resulted in extended maturities for many loan categories to help reduce annual debt payments, according to a recent report from the Federal Reserve Bank of Kansas City ("Prolonged Need for Lending Pressures Farm Finances"). Loans used to finance machinery and equipment were extended to an average of 46 months in the second quarter from an average of 28 from 2005-2014. Maturities on loans used to finance livestock operations, excluding the purchase of feeder livestock, increased to a record 20 months. Since 2005, maturities on each of the loan types tracked has increased, but most significantly in the machinery category.

Source: Agriculture Finance Databook, Table A.4

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Claas Exploits Overseas Distributor Expertise to Build North America Dealer Network

Claas is again drawing on the resources and expertise of European distribution networks to support its presence in North America by reaching a preliminary agreement with one of its leading distributors in Russia to cover an important territory in the U.S.

The agreement follows a partnership forged earlier this year with the German dealer group BayWa to support the hay tools to combines product line in western Canada (see *Ag Equipment Intelligence*, April 2016).

A week ago, that partnership led to parts department staff, a sales team and a full complement of factory-trained technicians with field service trucks starting work at Alberta AG Centre, Crossfield, Alta., as the first of BayWa's dealerships opened under the pact.

The letter-of-intent agreement with MirTech, one of four distributors of Claas equipment in Russia, is for the Western Delta region, where Holt CAT

has withdrawn its Holt Agribusiness branches from Jonesboro, Ark., and Sikeston, Mo.

Claas announced the ending of a long-standing distribution agreement with Holt in March this year; the ag and construction machinery dealership is focusing its Texas operations on existing AGCO tractor and harvester franchises (Challenger, Fendt and Massey Ferguson), in addition to Caterpillar and a number of agricultural equipment product lines.

The territory encompassed by the preliminary agreement with MirTech takes in the Missouri boot heel and northeastern Arkansas, explains Eric Raby, Claas of America president and general manager of sales. "We are working to build our support of farmers in the region with an experienced dealer organization," he says.

Kirill Krattli, MirTech CEO comments: "At the conclusion of our planning with Claas and the assignment

of a dealer agreement for this important territory, we will work to ensure superior service to all customers in the area."

MirTech (Mirovaya Technika) was founded by Colorado native Robert Krattli 17 years ago and now operates a network of 13 service centers in southwest Russia, where harvester sales are characterized by the supply of 50 or more combines at a time to agribusiness concerns managing the cultivation of huge tracts of land measuring hundreds of thousands of acres.

Its sales and service territory includes the Krasnodar region where Claas has a recently expanded combine harvester assembly operation for the Russian market. MirTech represents a number of European agricultural equipment manufacturers, including Lemken, Maschio Gaspardo and Hardi, as well as Canadian manufacturers MacDon and Bougault. **AEI**

FARM MACHINERY TICKER (AS OF 8/15/16)

| MANUFACTURERS | Symbol | 8/15/16 Price | 7/13/16 Price | 1-Year High | 1-Year Low | P/E Ratio | Avg. Volume | Market Cap. |
|--------------------------|--------|---------------|---------------|-------------|------------|-----------|-------------|-------------|
| Ag Growth Int'l. | AFN | \$41.75 | \$39.81 | \$43.49 | \$24.68 | N/A | 30,057 | 613.77M |
| AGCO | AGCO | \$47.85 | \$48.75 | \$56.00 | \$41.91 | 21.51 | 834,598 | 3.95B |
| AgJunction Inc. | AJX | \$0.68 | \$0.66 | \$0.71 | \$0.40 | N/A | 58,164 | 84.36M |
| Alamo | ALG | \$64.73 | \$65.41 | \$68.04 | \$43.98 | 16.44 | 105,894 | 744.27M |
| Art's Way Mfg. | ARTW | \$3.00 | \$2.93 | \$4.52 | \$2.46 | N/A | 5,084 | 12.32M |
| Buhler Industries | BUI | \$4.90 | \$4.85 | \$6.00 | \$4.75 | N/A | 941 | 122.5M |
| Caterpillar | CAT | \$84.15 | \$79.69 | \$84.29 | \$56.36 | 56.10 | 4,651,010 | 49.16B |
| CNH Industrial | CNHI | \$7.46 | \$6.79 | \$8.82 | \$5.67 | N/A | 2,044,140 | 10.16B |
| Deere & Co. | DE | \$78.28 | \$82.96 | \$94.35 | \$70.16 | 15.71 | 3,259,280 | 24.6B |
| Kubota | KUBTY | \$73.89 | \$69.26 | \$86.30 | \$58.99 | 13.06 | 35,553 | 18.37B |
| Lindsay | LNN | \$71.70 | \$69.21 | \$84.00 | \$62.99 | 86.18 | 118,197 | 762.18M |
| Raven Industries | RAVN | \$20.97 | \$19.50 | \$21.66 | \$12.88 | 85.24 | 258,384 | 758.25M |
| Titan Int'l. | TWI | \$9.07 | \$6.91 | \$9.50 | \$2.50 | N/A | 395,667 | 490.2M |
| Trimble Navigation | TRMB | \$27.85 | \$25.05 | \$28.09 | \$15.90 | 60.54 | 1,470,400 | 2.97B |
| Valmont Industries | VMI | \$131.05 | \$137.69 | \$145.94 | \$92.33 | 53.29 | 144,702 | 2.97B |
| RETAILERS | | | | | | | | |
| Cervus Equipment | CVL | \$11.30 | \$11.32 | \$15.35 | \$10.41 | N/A | 4,719 | 176.48M |
| Rocky Mountain Equipment | RME | \$8.39 | \$7.08 | \$8.85 | \$5.50 | 12.81 | 20,100 | 162.63M |
| Titan Machinery | TITN | \$10.95 | \$11.49 | \$14.54 | \$7.87 | N/A | 86,920 | 231.99M |
| Tractor Supply | TSCO | \$86.03 | \$93.33 | \$97.25 | \$75.00 | 27.59 | 1,082,370 | 11.5B |

U.S. Agricultural Cropland Values Decline 4.3%, Pastureland Values Flat

Agricultural lenders are keeping a close eye on farmer finances, which includes trends in farmland values. Federal Reserve Banks throughout Mid-America are reporting that land values generally trended downward in the second quarter of 2016.

In its August 2016 summary of land values, USDA said farmland values in the lower 48 states fell by \$10 per acre — for both cropland and pastureland — to an average of \$3,010 (see the two adjacent charts). This was the first drop since 2009, according to Bloomberg. Cropland declined 1% to \$4,090 and acre, while pastureland was unchanged at \$1,330 an acre.

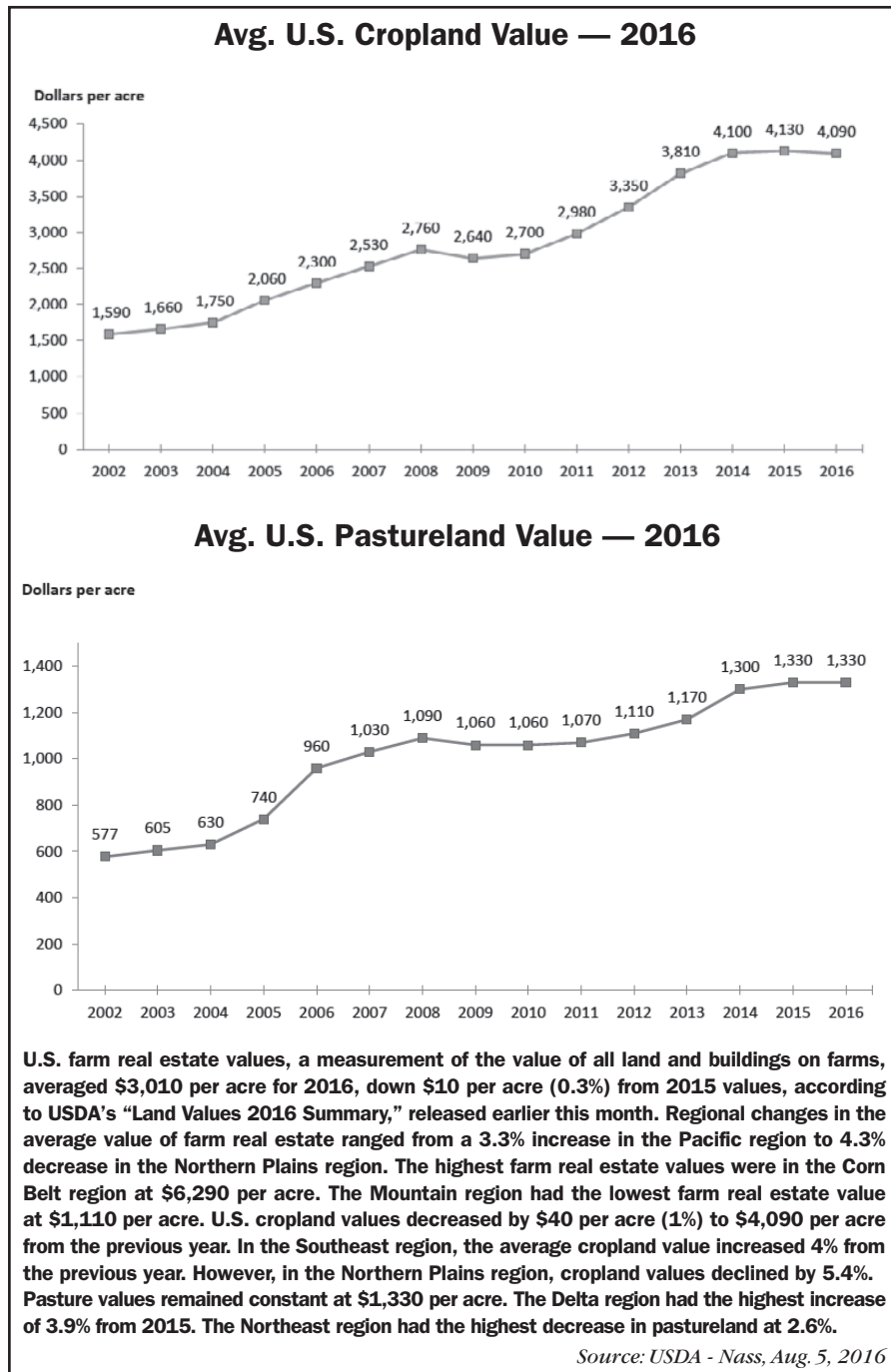
Chicago Fed. In the 7th Federal Reserve District, which includes Illinois, Indiana, Iowa, Michigan and Wisconsin, farmland values saw a year-over-year fall off of 1% in the second quarter. That was lower than what the district saw in the first quarter.

According to the district's August report, the string of quarters without a year-over-year gain in farmland values reached 8 (2 years). "In contrast to the year-over-year decrease, 'good' farmland values for the district inched up 1% in the second quarter of 2016 relative to the first quarter." Bucking the trend, both Illinois (+2%) and Wisconsin (+5%) saw year-over-year and quarterly increases in farmland values, and Iowa had no quarterly change in farmland values.

Only 1% of survey respondents expected farmland values to rise during the third quarter of 2016, while 48% expected them to move down and 51% expected them to be stable, according to a survey of 193 District agricultural bankers.

St. Louis Fed. In the 8th District, comprised of all or parts of Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee, after dropping 6.4% on a year-over-year basis in the first quarter, quality farmland values declined only 0.7% in the second quarter.

Looking ahead, a majority of lenders indicated that they expected values to continue to trend downward into the third quarter. Meanwhile, cash rents for quality farmland tumbled 10% dur-



ing the second quarter. Year-over-year ranchland or pastureland values fell 7.4%, compared with last quarter's 0.1% increase. Cash rents for ranchland or pastureland plunged 20.7% from last year, vs. a decline of 2.2% reported in the first quarter.

Kansas City Fed. The Federal Reserve Bank for the 10th District, which includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico, reports values of

non-irrigated and irrigated cropland declined 3% and 5%, respectively, vs. a year ago. Ranchland values also declined 3%, continuing the downward trend of recent quarters. From 2002-14, the value of both irrigated and non-irrigated cropland declined in only one quarter (3Q 2009). As of the second quarter, however, irrigated cropland values have declined in each of the past 6 quarters and non-irrigated cropland values have declined in 4 of the past 6 quarters.

AEI

Väderstad Opens R&D Facility to Develop New Seeding Equipment

Drill and tillage equipment manufacturer Väderstad is studying seeding technology in greater details thanks to a new research facility at its headquarters in Sweden where different environments and simulated field conditions can be recreated under controlled conditions.

Advanced measuring systems in the 280 square meter facility are among the resources available as equipment is tested with the varied effects of workload, heat, cold, air pressure and other factors, together with rigs for durability and extensive quality testing.

"We work with quality throughout the whole company and the new seed lab ensures that we can continue to be at the forefront of modern precision farming," says Gert Gilstring, senior design engineer and one of 120 staff members employed in Väderstad's R&D department.

At Canada's Farm Progress Show this year, Väderstad group company Seed Hawk introduced a Tempo high speed planter with the added versatility of adjustable row spacing. The tractor-mounted implement can plant 12 rows at 20 inches and 8 or 6

rows at 30 inches with a tractor front-mounted hopper supplying fertilizer for placement if required.

Continuous product improvement and new developments helped Väderstad maintain turnover in 2015 at a level similar to the prior year, says Crister Stark, group chairman. Sales revenues were equivalent to \$246.8 million and a profit of \$9.6 million was recorded on an EBITDA basis.

Pat Beaujot, one of the founders of Seed Hawk, was inducted into the Saskatchewan province's Agricultural Hall of Fame this month. **AEI**

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support and responsiveness that they may have had in the past. Particularly when in the past, Kubota had always said, 'The dealer is our customer.' Previously, they were always rated very highly by dealers," he says.

However, Russell says it's important to note that despite Kubota seeing the largest drop in its overall score, it was still the highest rated of the major manufacturers.

Case IH's overall score dropped due to losses in the technical support and marketing support categories.

Looking at the shortline manufacturers, Russell notes the dramatic changes for Kinze and Buhler/

Versatile (-0.99 and -1.15, respectively). "Because of the product issues that Kinze had and their warranty policy, that came out big time. The survey really validated what a lot of dealers have said."

Small Tractor Makers. Looking at the tractor and engine manufacturers, there are a number of smaller manufacturers rated in 2016 that were not on the list in 2013. "Those newer entrants into the smaller tractor business really need to try and serve their dealers well," Russell says. With the exception of TYM, which was at the bottom of the list, the smaller tractor manufacturers rated very

high. However, Russell says the smaller product line at some of these manufacturers puts them at an advantage in terms of the ratings over the majors. "The majors have a harder time making dealers happy with a full line of equipment vs. a focused line. You have to put that into perspective. When you mix a company like Branson in with Deere and Case IH, it's an apples to oranges comparison," he says.

With 2,321 dealers participating in the survey, Russell says the results are statistically significant. "These are trends the manufacturers should pay attention to; this is pretty robust data," he says. **AEI**

Dealers' Ranking of Full-Line Equipment Makers

| By Brand | | Overall | Product Quality | Parts Availability | Parts Quality | Technical Support | OEM Responsiveness | Product Availability | Warranty Payments | Warranty Procedures | Communications w/Mgmt | Marketing Support | Return Privileges |
|-------------|-----------------|---------|-----------------|--------------------|---------------|-------------------|--------------------|----------------------|-------------------|---------------------|-----------------------|-------------------|-------------------|
| Kubota | 2016 | 5.83 | 5.77 | 5.39 | 6.07 | 5.07 | 5.04 | 5.13 | 5.36 | 5.33 | 5.34 | 5.54 | 5.3 |
| | Change vs. 2013 | -0.31 | -0.59 | -0.4 | -0.22 | -0.33 | -0.53 | -0.81 | -0.15 | -0.14 | -0.34 | -0.16 | 0.0 |
| Deere | 2016 | 5.37 | 5.32 | 6.03 | 6.00 | 5.39 | 4.53 | 5.22 | 5.42 | 5.27 | 4.97 | 5.45 | 5.51 |
| | Change vs. 2013 | 0.25 | -0.02 | 0.18 | 0.15 | 0.56 | 0.40 | 0.88 | 0.22 | 0.42 | 0.37 | 0.33 | 0.22 |
| AGCO | 2016 | 4.62 | 5.02 | 5.22 | 5.22 | 4.45 | 3.67 | 4.51 | 4.76 | 4.7 | 4.03 | 4.29 | 5.01 |
| | Change vs. 2013 | 0.28 | 0.25 | 0.55 | -0.02 | 0.3 | 0.2 | 0.91 | 0.2 | 0.23 | 0.15 | 0.03 | 0.08 |
| Case IH | 2016 | 4.48 | 4.68 | 4.74 | 5.25 | 4.3 | 3.68 | 4.93 | 4.13 | 4.05 | 4.28 | 4.17 | 4.51 |
| | Change vs. 2013 | -0.22 | -0.4 | 0.3 | 0.02 | -0.09 | 0.03 | 1.17 | -0.03 | 0.21 | 0.04 | -0.68 | 0.05 |
| New Holland | 2016 | 4.37 | 4.51 | 4.72 | 5.18 | 3.9 | 3.52 | 4.06 | 4.33 | 4.19 | 4.1 | 3.99 | 4.63 |
| | Change vs. 2013 | 0.27 | -0.14 | 0.14 | 0.06 | -0.12 | 0.29 | 0.36 | 0.28 | 0.5 | 0.61 | -0.24 | 0.36 |

China, Turkey More Attractive for Growth; SDF Won't Press to Expand North American Presence

Italy-based tractor and harvester maker SDF Group is not looking to increase its modest presence in North America any time soon as it reaps the benefit of placing big bets on manufacturing and distribution in China and Turkey.

Speaking to *Ag Equipment Intelligence* during the launch of new Deutz-Fahr tractors in Germany last week, SDF Group CEO Lodovico Bussolati said that since North America is full of competitors with manufacturing plants and widespread distribution, SDF is better off pursuing its internationalization goals elsewhere.

"We are content to continue serving the orchard and vineyard market in the U.S.A. as a leader in specialist tractors, which in the wine sector fit well with our Gregoire grape harvesters," said Bussolati. "In 2015, we started to see the first results of our long term strategy of investing in more powerful tractors to complete our product line for our traditional markets, but also from building production and sales activities in new markets such as China and Turkey."

Focusing on these markets, which are bucking the global downturn, helped SDF record a 15% increase in group revenues, which in 2015 hit €1.39 billion (\$1.54 billion) after 3 pretty flat years.

Profitability measured as EBITDA was also positive at €125 million (\$139 million), up 13.6% from the year prior and clearly better than the €20 million (\$22 million) recorded in 2010, the year Bussolati was appointed.

"Careful management of working capital allowed us to achieve a net financial position at the year end of -€114 million (-\$126.8 million) compared with -€128 million (-\$142 million) in the previous year," he pointed out. "Investments reached record levels at €103 million (\$114 million), with the most significant being €41 million (\$45.6 million) for the first stage of the new Deutz-Fahr plant in Germany and €33 million (\$36.7 million) for new products."

In Turkey, SDF produces 50-80 horsepower tractors at a former joint venture but now wholly-owned operation that also will provide a spring board into the Middle East and other markets. With revenues of €95 million (\$105 million), Turkey accounted for 6.8% of the group total, up from 5.4% and 2.8% in the prior years, as market share grew 21% to reach 6.2% overall.

SDF also benefited from keen demand for tractors in the country, with industry sales growing more than 4% in

2015, continuing a surge from 50,300 units in 2013 to 69,900 over the 12 months through April of this year.

Meanwhile, the €160 million (\$178 million) earned from operations in China represents 11.5% of 2015 group revenues, up from 5% in 2014 and 2% in 2013.

SDF successfully created a new SDF tractor platform for the Linshu plant to meet demand for machines over 90 horsepower, and alongside local products this helped the factory contribute almost a quarter of the near 33,500 tractors manufactured by the group.

It also spent €42 million (\$46.7 million) securing a 95% stake in the China business, which started as a 50:50 joint venture with a local partner.

"This gives us the opportunity to source components for SDF group factories in Italy and Germany in the same way we use our Indian plant for both the domestic market and components," said Bussolati. "The market in China is moving from low-medium to medium-high tractor technology, accelerating in a stable way as agricultural mechanization develops, and as we develop new small tractors, they will replace the local Shu He product with improved features and performance." **AEI**

Horsch Continues to Invest for Growth Following a Strong 2015

Investment in new product development, as well as bricks and mortar and human resources, continues at seeding and tillage equipment maker Horsch as it prepares for a recovery in agricultural machinery markets.

In total, the family-owned group based in Germany now has some 1,180 full- and part-time staff, with recruitment of territory managers and product specialists at Horsch LLC, the North American business in Mapleton, N.D., providing added support to dealers and enabling new dealer appointments in areas where the manufacturer has not been represented.

Sales revenues in 2015 reached €245.8 million (equivalent to \$274 million), up 5.6% on the prior year and somewhat against the indus-

try trend. Revenues fell short of the group's all-time record set in 2013 by just €6 million (\$7 million).

Rolling out improved and additional models for existing product lines has helped Horsch ride the choppy market, with products such as the enhanced Joker shallow disc cultivators, broader Maestro electric-drive planter range and bigger seed drill air carts attracting new sales.

In Europe, Horsch has developed the Avatar single-disc no-till drill to tackle large volumes of residue and expand its product offer. The group is also exploring new markets, notably in China and also in Brazil where a new subsidiary has been established.

Seed drills remain the group's biggest selling product by revenues,

accounting for 43% of sales last year, followed by tillage equipment at 32% and parts representing 10% of sales.

Crop spraying remains a relatively new field for Horsch but one in which it is making progress. The high-spec trailed and self-propelled sprayers produced mainly for European applications at present, now account for 10% of revenues.

Expectations of continued growth are behind a €1.5 million (\$1.67 million) investment that will almost double the production area of the sprayer technology site in Germany.

Meanwhile, Horsch has completed an €8 million (\$9 million) project at its Schwandorf headquarters to create a new Farming-Innovation-Training (FIT) center for marketing and dealer training operations. **AEI**

Ag Equipment Sales Remain Weak

North American large ag equipment sales remained weak in July, with 4WD tractor sales down 43.3% year-over-year and combine sales down 23.2% following an outlier positive month in June (+12.9%), said Mircea (Mig) Dobre, an analyst with RW Baird in a note to investors. While compact and mid-range tractor sales have been the bright spot, Dobre said "Compact and mid-range tractor inventories are at all-time highs with risks building." July 2016 marked the 30th month of large ag equipment year-over-year declines and was a larger decline than the prior month.

- U.S. and Canada large tractor and combine retail sales decreased 27% year-over-year in July, down from the 14% decrease in June. U.S. sales decreased 25% year-over-year, while Canadian sales declined 32%.

- 4WD tractor sales decreased 43.3% year-over-year in July vs. a 25.7% decrease in June (U.S. -48.3%, Canada -11.1%). U.S. dealer inventories of 4WD tractors decreased 28.8% year-over-year in June, while days-sales of inventory was 105. July is typically a below-average month for 4WD tractor sales, accounting for 6% of annual sales in the last 5 years.

- Combine sales declined, posting a 23.2% year-over-year decline in July following June's 12.9% increase (four consecutive months of 25-40% declines prior to June). U.S. combine inventories were 25.3% lower year-over-year in absolute terms in June (vs. down 25.1% last month). July is typically an above-average month for combine sales, accounting for 9.7% of annual sales the last 5 years.

- Row-crop tractor sales posted a 25.8% year-over-year decline, down from the 18.1% decrease in June. U.S. row-crop tractor inventories decreased 0.2% year-over-year in June vs. a 1.6% decrease in May. July is typically a slightly below-average month for row-crop tractor sales, accounting for 7.5% of annual sales over the last 5 years.

- Mid-range tractor sales decreased in July, down 22.6% year-over-year after a 1% increase last month. **AEI**

JULY U.S. UNIT RETAIL SALES



| Equipment | July 2016 | July 2015 | Percent Change | YTD 2016 | YTD 2015 | Percent Change | June 2016 Field Inventory |
|-------------------------|---------------|---------------|----------------|----------------|----------------|----------------|---------------------------|
| Farm Wheel Tractors-2WD | | | | | | | |
| Under 40 HP | 12,255 | 13,073 | -6.3 | 82,662 | 75,265 | 9.8 | 72,887 |
| 40-100 HP | 4,981 | 6,490 | -23.3 | 32,913 | 35,067 | -6.1 | 38,158 |
| 100 HP Plus | 1,574 | 2,095 | -24.9 | 11,353 | 14,946 | -24.0 | 10,558 |
| Total-2WD | 18,810 | 21,658 | -13.1 | 126,928 | 125,278 | 1.3 | 121,603 |
| Total-4WD | 120 | 232 | -48.3 | 1,194 | 1,797 | -33.6 | 755 |
| Total Tractors | 18,930 | 21,890 | -13.5 | 128,122 | 127,075 | 0.8 | 122,358 |
| Combines | 428 | 511 | -16.2 | 2,212 | 2,837 | -22.0 | 1,054 |

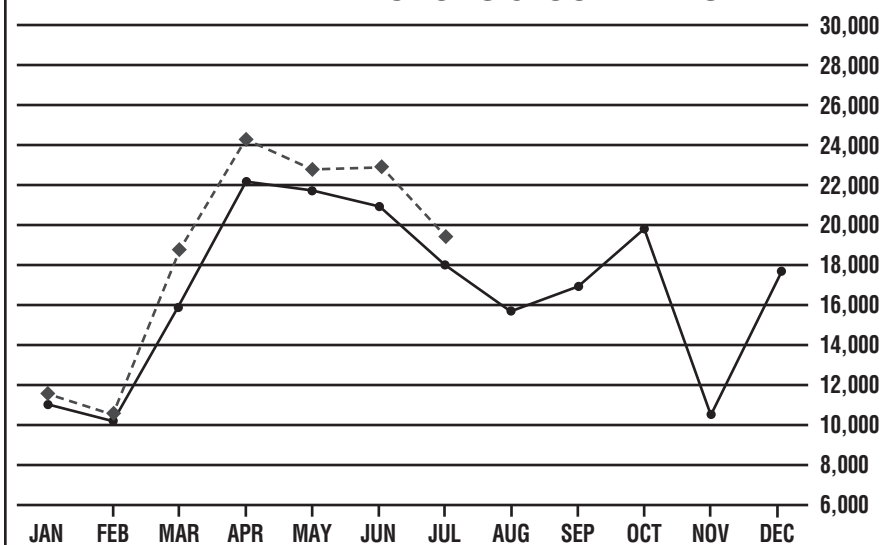
JULY CANADIAN UNIT RETAIL SALES



| Equipment | July 2016 | July 2015 | Percent Change | YTD 2016 | YTD 2015 | Percent Change | June 2016 Field Inventory |
|-------------------------|--------------|--------------|----------------|---------------|---------------|----------------|---------------------------|
| Farm Wheel Tractors-2WD | | | | | | | |
| Under 40 HP | 1,089 | 1,299 | -16.2 | 6,590 | 7,907 | -16.7 | 9,377 |
| 40-100 HP | 437 | 549 | -20.4 | 2,756 | 3,107 | -11.3 | 4,530 |
| 100 HP Plus | 259 | 374 | -30.7 | 2,041 | 2,670 | -23.6 | 2,370 |
| Total-2WD | 1,785 | 2,222 | -19.7 | 11,387 | 13,684 | -16.8 | 16,277 |
| Total-4WD | 32 | 36 | -11.1 | 473 | 526 | -10.1 | 250 |
| Total Tractors | 1,817 | 2,258 | -19.5 | 11,860 | 14,210 | -16.5 | 16,527 |
| Combines | 191 | 295 | -35.3 | 819 | 938 | -12.7 | 539 |

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

--- 2016
— 5 year average



— Assn. of Equipment Manufacturers

Canadian Dealers Report Small Improvements in Ag Revenues

Canadian dealer groups Rocky Mountain Dealerships and Cervus Equipment Corp. reported their second quarter financial results on Aug. 9 and 10, respectively. Despite the weakened ag economy, both groups saw some strength in their agriculture segments.

Rocky Revenues Rise. Revenues for Rocky Mountain, Case IH's largest dealer in Canada, were up by \$19.1 million, or 9%, in 2Q compared to the same period of 2015. Gross profit increased by \$1.2 million or 3.7%, which accounted for 14.7% of sales, down from 15.4%. For the 11th consecutive month, product support revenues for the ag segment grew vs. the same quarter of the previous year.

"While sales mix and currency pressures resulted in lower gross margin for the quarter, our continued focus on cost containment allowed us to deliver significant bottom-line improvements over last year," said Garrett Ganden, president and CEO of Rocky. "Our operational performance also resulted in a strengthening of our balance sheet, as we were able to further reduce our inventory and related floor-plan payables in the quarter."

Ganden also said good weather during the quarter and healthy prices for key Western Canadian crops helped. "The weather cooperated with farmers across much of our sales territory this quarter. Precipitation levels have returned to normal, or above-average, levels, and general crop conditions appear to be good. While commodity prices have softened somewhat in response to increased global supply, the prices for key Western Canadian crops remain healthy. Sentiment in the agriculture industry is very positive at present.

"With farmer balance sheets maintaining their record strength, the challenge before us is to continue presenting a compelling value proposition to our customers in all times and seasons. In this regard, I believe we have made significant inroads and are continuing on the right path," he said.

The Case IH dealer decreased its inventory by \$14.5 million (2.9%) over the 1Q 2016 and by \$46.1 mil-

| Rocky Mountain Dealerships — 2Q 2016 Sales (C\$ thousands) | | | |
|---|----------------|----------------|-------------|
| | 2016 | 2015 | % Change |
| New Equipment | 111,971 | 95,393 | 17.4% |
| Used Equipment | 78,468 | 75,487 | 3.9% |
| Parts | 32,314 | 31,989 | 1.0% |
| Service | 8,550 | 9,387 | -8.9% |
| Other | 1,272 | 1,204 | 5.6% |
| Total | 232,575 | 213,460 | 9.0% |

Source: Rocky Mountain Dealerships

| Cervus Equipment — 2Q 2016 Ag Revenue (C\$ thousands) | | | |
|--|----------------|----------------|-------------|
| | 2016 | 2015 | % Change |
| New Equipment | 95,199 | 103,986 | -8.0% |
| Used Equipment | 60,637 | 48,923 | 24.0% |
| Total Equipment | 155,836 | 152,909 | 2.2% |
| Parts | 22,058 | 21,025 | 5.0% |
| Service | 93,401 | 9,703 | -3.0% |
| Rental & Other | 873 | 1,040 | -16.0% |
| Total Revenue | 188,168 | 184,677 | 2.0% |

Source: Cervus Equipment

lion (8.5) over 2Q 2015. Despite the reduction, Ben Cherniavsky, an analyst with Raymond James, said in a note to investors that inventories are still excessive. He also notes that 2Q 2015 was a particularly challenging quarter for Rocky, which saw new unit sales falling 28% year-over-year, and created an easy comparison for this quarter. "Indeed, on a 5 year stack, Rocky's most recent new unit sales are low, especially since they include the benefit of substantial acquisitions and currency swings since 2012," he said.

Slight Decline for Cervus. Total revenues for Cervus, one of John Deere's largest North American dealers, were down 3% in 2Q 2016 vs. the same period of 2015. The company generated \$2.5 million of net income for the 2Q 2016 compared to a net loss of \$32.2 million for the comparable period in 2015. Total agriculture income from operating activities for the quarter decreased slightly by \$0.1 million compared to the second quarter of 2015. Revenues increased slightly with a significant shift in equipment demand from new to used, the company said.

"In Ontario, improved efficiencies in our parts and service departments continue to drive performance, while favorable crop conditions and record 2015 net cash farm income suggest a positive outlook for our agriculture segment leading into the second half of the growing season," said Cervus CEO Graham Drake.

The dealership continued to focus on inventory reduction during the quarter. Cervus achieved inventory reductions of \$52.3 million (14%) compared to June 30, 2015, primarily due to a 42% reduction in commercial and industrial inventories despite lower equipment demand in this segment. **AEI**

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