

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Sales Up in Canada
- Supplier Consolidation
- Novel CVT Production

## Pace of 'Big Dealer' Growth Slows, But List Continues to Expand

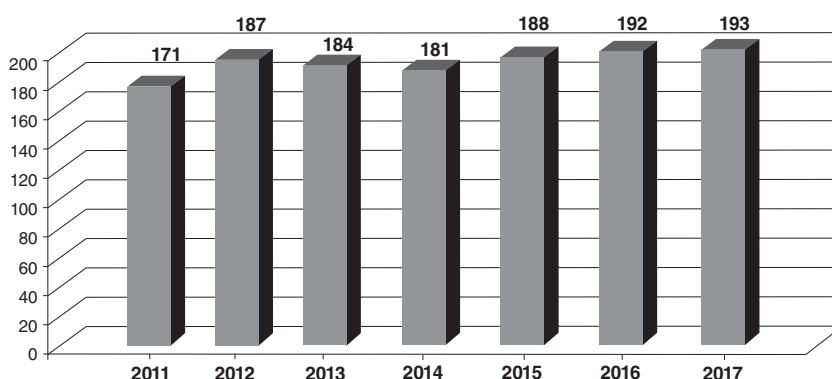
Overall, the number of "big dealers" of farm machinery in the U.S. and Canada did not increase significantly between the time the 2016 "Big Dealer" report was published and the compilation of the newest edition in 2017. Since last year at this time, only one dealer was added to *Ag Equipment Intelligence's* list of big dealers, increasing from 192 groups that operate 5 or more ag store locations to 193 groups in 2017.

The biggest change noted in the 2017 Big Dealer report came in the second tier of big dealers, those operating 15-19 locations, which increased by four and now total 18 dealerships. Since the Big Dealer report was first published in 2011, this category of dealerships has grown from 5 groups to 18 in 2017, or by 260%. On average, these dealers operate 32 total locations each, with 24 focused on farm equipment. In total, they control 924 locations, with 695 primarily handling ag machinery.

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### 'Big' North American Farm Equipment Dealers — 2011-17

	Change (%)							
Stores Owned	2017	2016	2015	2014	2013	2012	2011	2011 vs. 2017
20+	11	12	11	10	9	8	8	+38%
15-19	18	14	12	14	11	8	5	+260%
10-14	41	41	42	36	30	30	30	+37%
<b>Sub-Total 10+</b>	<b>70</b>	<b>67</b>	<b>65</b>	<b>60</b>	<b>50</b>	<b>46</b>	<b>43</b>	<b>+63%</b>
5-9	123	125	106	121	134	141	128	-3%
<b>Total</b>	<b>193</b>	<b>192</b>	<b>188</b>	<b>181</b>	<b>184</b>	<b>187</b>	<b>171</b>	<b>+13%</b>



The total number of dealer groups that own 5 or more stores increased to 193 in 2017, up 13% since *Ag Equipment Intelligence*, working with the Machinery Advisors Consortium, published the first Big Dealer report in 2011.

Source: *Ag Equipment Intelligence*, Machinery Advisors Consortium

## Precision Planting: Who's on Deck to Buy the Company?

The clamor created when Monsanto withdrew its offer to sell Precision Planting to John Deere is finally settling down. The conversation has now turned to speculation about who might be a logical buyer of the company that developed the state-of-the-art advanced technology planting system that is opening the door to high speed seed placement.

Monsanto says it still wants to sell the equipment company, valued at \$190 million, when it agreed to sell it to

Deere in November 2015. It purchased Precision Planting for \$210 million, plus a performance-based payment of up to \$40 million, when it acquired the company in May 2012. Which leads to a second question: Why the difference in the selling price in 2015 and the purchase price in 2012?

**Potential Suitors?** Monsanto says it has "spoken with several third parties that have expressed interest in purchasing" Precision Planting, but it did not disclose who these potential

customers might be.

Jack Zemlicka, technology editor of *Farm Equipment* and managing editor of *Precision Farming Dealer*, spoke with several precision dealers who suggested various potential suitors for the company. According to Zemlicka, a couple of the interesting theories were also mentioned. One has Deere returning to the table to purchase only parts of Precision Planting's business. A second theory

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Dealerships that own and operate 10 or more stores increased by three, from 67 groups last year to 70 currently. Since 2011, this category of dealerships has grown by 63%, from 43 dealers in 2011 to 70 in 2017. In terms of store locations, the dealers with 10 or more locations operate 1,490 stores, an average of 21 retail outlets each. Of this total, the dealers operate 1,923 locations that handle farm machinery, an average of 16 stores each.

In total, the 193 dealers that comprise the 2017 Big Dealer list operate 2,473 total locations, for an average of 13 stores each. Of this total, these dealerships operate 1,923 ag equipment stores and an average of 10 locations for each dealer group on this year's list.

**Brand Breakdown.** The numbers clearly show that Deere continues to be the most active among the major manufacturers of ag machinery in consolidating its farm and turf equipment dealer networks.

By our count, of the 193 dealers comprising the 2017 Big Dealer list, 108 are Deere dealerships (including 8 of the 11 dealerships with 20 or more stores), 44 are primarily Case IH, 20 are AGCO, 15 are New Holland, 4 are Kubota and 2 are shortline-only dealerships.

As would be expected, Deere dealers dominated each of the number of locations categories, as well.

**Second Wave.** In his analysis of current and emerging farm equipment dealer trends, George Russell,

co-founder of the Machinery Advisors Consortium and co-author of the Big Dealer report, says, what we're observing now in the industry is a "second wave of consolidation."

During this phase of dealer amalgamation, Russell says big dealers are combining with other big dealers. "The most activity we've seen in the past few years has taken place in the group of dealers who operate 15-19 stores. I would not be surprised to see another 5-7 dealerships join the 15-plus group in the next year. I'm sure almost all of them will be Deere dealers."

Russell also notes other underlying trends taking place within the larger consolidation movements. These include investments in advanced business systems and some additional activity from the private equity sector into farm equipment dealerships.

**Business Systems.** Russell says he's urging his dealer clients to continue moving ahead to take advantage of the current sales slowdown to invest in their business systems. "I continue to remind them about how fast the world is changing and the growing expectations of their customers. If they're not moving ahead, they're getting behind."

He's observing more progressive dealers using this time to expand their sales areas and making other changes like investing to significantly upgrade their business systems. "I have several dealer clients who are realizing their current business system is just not adequate for the future," says Russell.

"These dealers want to start leveraging technology, including information technology to run their businesses. They want to use remote apps, telematics and customer relationship management systems to take advantage of what's happening in other industries and to apply it to their business. They are beginning to realize they've got to change and their dealer business system could be hold-

## Change to Big Dealer List

On May 1, the same day the 2017 Big Dealer report went to print, we received word that John Deere dealer Wm. Nobbe & Co. had acquired the 5 Illinois locations of McLean Implement. Nobbe now operates 12 Deere stores in Illinois and Missouri. The change reduces the total Big Dealer list by one to 192.

ing them back," Russell says.

**Private Equity.** Though not as prevalent as it appeared to be a few years ago, acquisitions of dealer groups by private equity investors are still taking place from time to time. The latest example took place in February 2017 when Lakeland Equipment and Z&M Ag and Turf, western New York's two John Deere dealers, announced a new partnership with Argonne Capital Group.

The two dealer groups said they would merge their assets into a new company called LandPro Equipment LLC that is backed by Argonne and existing shareholders of Lakeland and Z&M. Combined, the new group will have 12 dealership locations and will become the largest John Deere turf and agricultural equipment dealer in the Northeast.

Russell suggests that this may be a case where the dealerships needed to go outside the industry to find the equity needed to expand. He adds that this move shows two things. "These dealers realized that they need to move ahead and were willing to give up some control in order to do that."

In another deal that involved private equity, Pattison Agriculture, which is owned by the Jim Pattison Group, extended its farm equipment network with the acquisition of Nykolaishen Farm Equipment, with locations in Kamsack and Swan River, Sask. Pattison Agriculture now owns 19 John Deere locations in Manitoba and Saskatchewan.

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## CVTCorp. to Produce 'Novel' Transmissions in South Korea

A Canadian technology company with a novel continuously variable transmission has secured business from a North American manufacturer of feed mixers and a leading OEM supplier in South Korea.

CVTCorp. makes a toroidal transmission that transmits drive through rollers acting on the concave face of steel discs. The rollers rotate the discs via friction fluid rather than metal-to-metal contact and infinitely variable speed adjustment is achieved by angling the rollers.

Among the first applications for the compact transmission is a CVT front power take-off unit for tractors produced in The Netherlands by Zuidberg, a specialist in front linkages.

Now, CVTCorp. has secured business from a North American manufacturer of feed mixers — as yet unnamed — for a drive assembly incorporating the mCVT transmission along with an integrated wet clutch and electronic control unit.

Jeremy Shiflett, CVTCorp. vice president of sales, marketing and service says, "Our technical team has developed a highly efficient implement drive that is a game changer for the feeder-mixer market. But our vision for this product is much bigger than just

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***"This is a game changer for the feeder-mixer market, but this product is much bigger than just this sector ..."***

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this sector; we see it being applied on a multitude of implements, such as tillers, tub grinders and sprayers."

End users will have the facility to customize the electronic control system to provide an appropriate mixing strategy for different feeds. Also, the company believes that the high power transmission efficiency and lack of fixed gears will enable machines to be operated on

lower horsepower tractors.

Production start-up is due mid-2018 in a new \$20 million factory being built by off-highway vehicle components manufacturer Jinmyung Frictech (JMFT) in South Korea. JMFT is a leading manufacturer of friction products such as four-wheel drive, power shuttle and PTO clutch assemblies, and axle and parking brake assemblies used in compact and utility tractors.

In addition to South Korean tractor OEMs, JMFT counts Transaxle Manufacturing of America, Rock Hill, S.C., among its customers.

JMFT CEO Hong Seong-Deok, says, "Over the past year, we spent a significant amount of time preparing to support production in Korea and talking with potential customers with positive results."

The new facility will be vertically integrated with on-site manufacturing of gears, shafts and clutches for assembly of the CVT cartridge and complete transmissions.

**AEI**

### FARM MACHINERY TICKER (AS OF 5/10/17)

MANUFACTURERS	Symbol	5/10/17 Price	4/12/17 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	\$59.92	\$52.16	\$60.26	\$35.71	46.31	59,250	920.05M
AGCO	AGCO	\$64.37	\$58.87	\$65.67	\$44.68	32.84	641,100	5.12B
AgJunction Inc.	AJX	\$0.64	\$0.55	\$0.74	\$0.45	N/A	76,670	79.7M
Alamo	ALG	\$83.50	\$72.94	\$87.73	\$52.82	24.13	41,350	961.5M
Art's Way Mfg.	ARTW	\$3.30	\$3.40	\$4.70	\$2.50	N/A	4,370	13.72M
Buhler Industries	BUI	\$4.51	\$4.64	\$6.00	\$4.37	31.32	672	112.75M
Caterpillar	CAT	\$100.36	\$94.86	\$105.98	\$69.04	N/A	5,720,000	59.12B
CNH Industrial	CNHI	\$10.76	\$9.88	\$11.30	\$6.26	49.59	1,530,000	14.67B
Deere & Co.	DE	\$113.55	\$109.35	\$114.17	\$76.33	24.60	2,350,000	36.14B
Kubota	KUBTY	\$75.95	\$76.63	\$83.48	\$62.80	15.52	8,020	18.27B
Lindsay	LNN	\$85.96	\$86.01	\$89.98	\$65.78	39.41	88,320	916.59M
Raven Industries	RAVN	\$31.45	\$28.45	\$31.70	\$15.08	56.46	175,730	1.14B
Titan Int'l.	TWI	\$10.79	\$9.33	\$14.23	\$5.76	N/A	570,890	643.70M
Trimble Navigation	TRMB	\$35.83	\$30.84	\$36.15	\$23.13	55.98	1,100,000	9.06B
Valmont Industries	VMI	\$151.75	\$147.95	\$165.20	\$120.65	19.89	179,300	3.43B
<b>RETAILERS</b>								
Cervus Equipment	CERV	\$12.77	\$12.65	\$15.45	\$11.35	8.87	5,390	201.31M
Rocky Mountain Equipment	RME	\$ .90	\$10.11	\$11.25	\$6.84	12.86	27,980	191.9M
Titan Machinery	TITN	\$15.37	\$14.99	\$16.80	\$8.68	N/A	117,320	327.84M
Tractor Supply	TSCO	\$60.95	\$64.61	\$97.00	\$60.87	18.82	2.20M	7.92B

# Canadian Dealers Report Improving Sales; Margin Pressures Continue

Rocky Mountain Dealerships (RME) and Cervus Equipment (CERV), two of Canada's largest farm equipment dealership groups, issued first quarter earnings reports in the past week showing improved sales levels. Both dealer groups made prominent mention of continuing margin pressures throughout the period.

**Rocky Mountain.** On May 9, Rocky Mountain, Case IH's largest dealer group in Canada, reported first quarter sales of \$209.9 million, up 10.8% vs. last year. Gross profit declined by 5.3% to \$26.8 million (12.8% of sales, down from 14.9% in 1Q16) as the impact on margins of trailing inventory initiatives continued within equipment sales activity.

According to RME, this effect was compounded by a change in sales mix, lower margins on bulk new equipment sales carried forward from the fourth quarter of 2016, and a \$1.1 million reduction in manufacturer incen-

tives recognized in the quarter.

In a note, Ben Cherniavsky, Raymond James analyst, says, "The first quarter of 2017 is the sixth quarter of year-over-year inventories reductions. Management has indicated that the 2016 focus on inventory reduction, which negatively impacted margins, will now shift toward margin improvement."

**Cervus Equipment.** On May 11, Cervus Equipment, John Deere's largest dealer group in Canada, reported first quarter revenues of \$231.1 million, up 11% over the first quarter of 2016. Total equipment sales accounted for \$158.7 million in revenue, up 13.6% year-over-year.

Total revenues from sales of farm equipment during the period were \$146 million, up 11% vs. the same period in 2016. Gross profits for the ag segment were \$22 million, up 5% from a year earlier. Gross profit margins were 15.1%.

"Profit capture on increased sales

[in ag and transportation] was hampered in part by increased margin pressure in our agriculture and transportation segments during the quarter," says Graham Drake, Cervus president and CEO.

He adds that the dealership group will continue to focus on sales generation and combat the pressure on margins for the remainder of 2017.

In his analysis, Cherniavsky says, "Cervus' gross margins of 17.5% were below our 17.9% estimate and down 130 bps year-over-year. Competitive pricing pressures and aggressive discounting remain recurring themes not just for Cervus but for the whole equipment industry as dealers are finally 'dealing' with the inventory glut that has prevailed for almost 5 years.

"While the later innings of this cycle appear within sight, we remain uncertain about the speed or magnitude of any recovery." **AEI**

## KC Fed: Farm Income Declines, But at Slower Pace

Farm income in the Tenth District continued to decline in the first quarter, but at a slightly slower pace than in recent quarters. According to the results of the bank's most recent quarterly survey of agricultural credit conditions survey, 73% of bankers reported farm income was lower than the year before.

The decline in the first quarter marked the fourth consecutive year that district bankers reported farm income was lower than a year earlier. Despite the persistent decline, the pace of softening appeared to slow in the first quarter. Some 24% of bankers indicated farm income remained unchanged from the previous year, the largest share since the third quarter of 2015. Bankers expected farm income to decline further in the coming months, but also at a slower pace than in recent quarters. **AEI**

## Brandt Continues to Grow U.S. Dealer Network, Acquires Factory

Grain handling equipment and harrow manufacturer Brandt Industries added to its dealer network in the U.S. with two more appointments. It also acquired a manufacturing facility in Canada to expand its operations.

One of its newest dealers is P&K Equipment, which has 10 locations across northwestern, central and northeastern Oklahoma handling John Deere agricultural, light construction and Frontier-brand equipment. "We are careful to add lines that complement John Deere and the high quality and customer reliability that our customers expect," says P&K sales manager, Drew Combs. "The Brandt line delivers high quality and reliability in grain handling equipment and will be a great addition to our existing product lines."

Brian Walker, regional sales manager at AHW LLC in Indiana expresses similar sentiments: "Brandt grain handling equipment fits very well alongside our John Deere lineup. We are very selective about which products we offer and these high quality units are

an excellent addition to our portfolio."

With 16 locations across two states, AHW gives Brandt a strong presence in Illinois and Indiana, notes Russell Solomon, Southern U.S. sales manager at Brandt's agricultural products division. "Both are highly respected dealer groups with a long history and a strong reputation," he says. "They will enhance the company's ability to provide premium quality grain handling equipment and proactive, locally-based service in these important markets."

Brandt's agricultural division makes portable grain augers, conveyors, grain vacuums and carts, heavy flexible tine harrows and crop sprayers.

The Brandt Group, which employs more than 1,800 people, recently concluded a deal to acquire a former power systems facility, including a 208,000 square foot manufacturing plant and its specialized equipment in Saskatoon. The new facility increases the group's manufacturing footprint to more than 500,000 square feet. **AEI**



## Government Support Helps Morris Industries Adopt New Technology

Air drills manufacturer Morris Industries will use a nearly C\$3.5 million (\$2.6 million) funding package from the Canadian government to commercialize new manufacturing technology at its Yorkton, Sask., works. The government agency Western Economic Diversification Canada is delivering the repayable loan through its Western Innovation (WINN) initiative.

Morris says the government funding package will help the company accelerate plans for the introduction of new manufacturing technology. The company will match the investment that was won in a competitive selection process.

The project is a multi-year undertaking that will include not only buying new fabrication and welding equipment but will involve changes

in processes, manufacturing systems and product tooling, with advanced robotics allowing for several new manufacturing techniques.

In addition to increasing production capacity and improving competitiveness, the changes will bring about new product features.

Ben Voss, president of Morris, said, "Morris has a history of being an innovative company backed by solid customer service. Our customers all over the world will benefit from new technology enhancements enabled by the advanced manufacturing processes that we are installing to build on the company's 88 year track record as a globally competitive agricultural equipment manufacturer."

Morris Industries builds mostly air carts and drills, as well as bale collectors/carriers, which are supplied

through dealers throughout Canada and the U.S., as well as distributors in Australia, France, New Zealand, South Africa, Russia and Ukraine.

The company will also benefit indirectly from a C\$700,000 (\$511,000) contribution to Saskatchewan Trade and Export Partnership (STEP) for renting floor space at this year's Agritechnica exhibition in Germany. Morris will be among more than 40 western Canadian agricultural equipment manufacturers, service and technology companies at the event. **AEI**

## Jaylor Acquires TMR Competitor MMI, Reaches Agreement with Storti

"If you can't beat 'em, join 'em!" could be the thinking behind Canadian manufacturer Jaylor's decision to acquire a range of horizontal mixers to complement its line of vertical auger designs.

But in reality, it's just a pragmatic decision with a parallel to Alltech's Keenan tie-up with an Italian manufacturer to offer tub feeders alongside its long standing horizontal paddle mixers lineup.

Offering only one or the other limits the customer base. Offer both and potential customers have a choice of the style of TMR mixer they prefer.

Jake Tamminga, president of Jaylor at the company's East Garafraxa, Ont., base, says, "For decades we've been die-hard proponents of the vertical auger, and for most operations it is the best solution. But there are some commercial applications where the horizontal mixer has proven to be a better fit."

Tamminga has followed through that acknowledgement by acquiring a controlling interest in MMI International in Brush, Colo., which

primarily serves the feedlot sector in the U.S. with delivery boxes, large capacity manure spreaders and a four-auger design horizontal TMR feeder.

Three truck-mounted feeders in Jaylor colors are available now. The other products, including a trailed version, will be added progressively throughout the year.

Jaylor is also participating in a campaign by Italian manufacturer Storti to extend its international reach by signing on to distribute the company's Dobermann Evo self-loading, self-propelled mixer-feeder.

Storti has a co-distribution agreement with Keenan in Europe and selected markets farther afield and has existing distributors in Canada.

The company is also supplying the Dobermann chassis and silage clamp face shavers to the Dutch firm Peeters Landbouwmachines, which builds Peecon mixer-feeders distributed in the U.S. (*see Ag Equipment Intelligence, March 2017*).

Jaylor intends to integrate the patented Square-Cut auger design into the Dobermann machines over time. **AEI**

## Polish Equipment Maker's New Plant to Employ 1,000

A Polish ag equipment manufacturer that recently set up shop in the U.S. is investing in a new factory and office complex on a rural greenfield site in its home country.

Samasz has built disc and drum mowers, hay tedders and rakes, mixer feeders, flail cutters and snow clearance equipment since being formed 33 years ago. In 2015, it opened its first non-European sales office in the U.S.

Based in Roselle, N.J., Samasz North America supplies the company's products through distributor Price Brothers Equipment, Wichita, Kan., and several dealers. The initiative is part of a development strategy to build sales in both North and South America.

The company's new factory is being built on a 64 acre rural plot 11 miles southwest of its current location in the city of Bialystok. It will employ around 1,000 staff at the new headquarters.

Samasz holds a Guinness World Record set in 2015 for the largest area of grass mown with a triple combination of disc mowers within 8 hours. The 96.29 hectares (approx. 237 acres) was cut at an average speed of 11 mph, a rate of 41.5 acres per hour and with the 250 horsepower Deutz-Fahr tractor consuming diesel at 6.31 gallons per hour or 1.53 pints per acre. **AEI**

## South American Ag Equipment News

### 1Q Brazilian Ag Machinery Sales Rise 15%

Agricultural machinery sales reached R\$2.38 billion (approx. \$756 million) in revenues during the first quarter of 2017 in Brazil, according to the president of the Sectorial Chamber of Machinery and Agricultural Implements, Pedro Estevao Bastos de Oliveira. This is an increase of 15% vs. the same period of 2016.

He said farm machinery manufacturers attributed the increase to a “revival of confidence” during the second half of last year following a period of political instability in the country, according to reports in the news portal G1.

In 2016, the total revenue of the agricultural equipment sector was around R\$11 billion (approx. \$3.5 billion), which was 13% higher than in 2015.

“Agriculture, in general, is in great economic and financial shape, but last year purchases were frozen in the first quarter because of a lack of confidence in the government. [During] an impeachment process, people hold investments until they know what is going to happen. As the political scenario [improved], people came back to do investments,” said de Oliveira.

The increased sales of ag machinery contrasts with that of the overall manufacturing sector during the most recent quarter, which closed the period with a net income of R\$15.58 billion (approx. \$1 billion), down 3.4% vs. the same period last year.

In an event in the state of São Paulo, chairman of the board of directors of the Brazilian Assn. of Machinery and Equipment Industry (Abimaq), João Pedro Marchesan, said that the agricultural business, compared to other manufacturing sectors, like cars and trucks that continue to struggle, farm equipment is doing very well. He sees a likely increase of 15% in sales at Agrishow, an agricultural fair held in the city of Ribeirão Preto. Organizers of Agrishow expect to see sales of R\$1.95 billion (approx. \$620 million) in sales of ag machinery, or about the same volume produced by the show in 2016.

The major worry for the industry currently is the price of steel, but experts still see “inflation under control” as something that can be overcome by sales volumes.

### 49 Employees Laid Off at Deere's Brazilian Plant

In April, John Deere laid off 49 employees at its factory in Catalão, state of Goiás, in the central-west region of Brazil. According to local unions, most of the workers who were laid off were temporary workers, and the decision was not subject of worry because the company had hired 200 employees during the past few months. A John Deere spokesperson said that the layoffs represented a readjustment of production projections with slightly lower output expected.

### Big Wheat, Corn Crops Push Argentina's Ag Machinery Sales Up 80%

Bolstered by bigger wheat and corn acreage, sales of agricultural machinery in Argentina reached 3,080 units in the first quarter, an increase of almost 80% compared to the first 3 months of 2016, according to data from the Assn. of Automotive Dealerships of the Republic of Argentina. Considering March alone, the increase was almost 80%.

Industry representatives also pointed out that there have been fewer working days compared with the same period of 2016. “Everything seems to indicate that the activity will be maintained and we are going to have a full year of growth,” said Dante Álvarez, president of the association, in comments to financial publication *Cronista*. During the first quarter of 2016, unit sales jumped 27% and revenue by 106%. The Ministry of Agriculture of Argentina also provided AR\$4.5 billion (approx. \$300 million) in loan subsidies for agricultural machinery purchases in 2016.

**AEI**

*Precision Planting: Who's on Deck to Buy the Company? ... Continued from page 1*

has the company possibly merging with another precision company looking to expand its reach into the planter technology market.

“Several dealers suggested Kubota as a logical buyer, given its recent momentum toward its goal of becoming a full-line major manufacturer,” says Zemlicka.

Earlier this year Kubota Tractor Corp. entered into an alliance with Smart Path Systems for its precision guidance technology products that will be available at select dealerships nationwide for Kubota M, L and B-Series tractors, Kubota F-Series mowers and Kubota utility vehicles.

“Others suggested the termination of Deere's pursuit opens the door for Case IH to capitalize on its existing relationship with Precision Planting. Still others suggested AGCO as a natural fit, with some dealers pointing to recent ‘beta’ testing the manufacturer has been doing in the field this spring,” says Zemlicka.

**Keeping the Data.** He adds, whichever company has its bid approved, it seems unlikely that Monsanto will include the data component of its original \$250 million purchase of Precision Planting.

During an interview with Steve Cabbage, owner of Record Harvest, a precision farming dealership in Nevada, Mo., Zemlicka says, he noted that Precision Planting is currently valued at \$190 million.

“Where did that other \$60 million go?” Cabbage asks. “I suspect that is where the value of the data access is and it's not something Monsanto will want to sell.

“Monsanto says they don't want to be in the precision hardware business and in my opinion, they never did,” says Cabbage. “They bought Precision (Planting) to gain access to the data and I think even with the Deere deal, that was still a caveat as they said, ‘We'll sell you the hardware business, but we retain the rights to whatever data flows through that technology.’ I think that is going to be the carrot and the stick in negotiations moving forward, because the last thing Monsanto will want to give up is access to that flow of data coming through that hardware.”

**AEI**

## Large Ag Equipment Sales Improving

Large ag equipment sales grew again in April, largely due to strong demand in Canada for combines and 4WD tractors, says Mircea (Mig) Dobre, senior research analyst with Baird. "Row-crop tractors were soft in the U.S. and Canada, though positively, declines narrowed in the U.S. and inventory continued to tighten with DOS [day sales for inventories] lower year-over-year," he says. March and April are both above average sales months and both had positive year-over-year sales growth.

U.S. and Canada large tractor and combine retail sales increased 1% year-over-year in April after increasing 3% in March and 10% in February.

U.S. sales decreased 7% year-over-year (row-crop down high single digits, 4WD down mid single digits, combines flat); Canadian sales were up 37% (strong growth in all three categories most significantly 4WD).

- 4WD tractor sales increased 31.3% year-over-year in April, slightly better than the 31% increase in March. U.S. dealer inventories of 4WD tractors decreased 13.5% year-over-year in March. April is typically an above-average month for 4WD tractor sales, accounting for 10.8% of annual sales the last 5 years.

- Row-crop tractor sales declined 4.5% year-over-year, compared with the 6% decrease in March. U.S. row-crop tractor inventories decreased 17.9% year-over-year in March. Typically, April is an above-average month for row-crop tractor sales, accounting for 10.3% of annual sales over the last 5 years.

- Combine sales increased 8.6% in April following March's +32.1%. U.S. combine inventories were 0.8% lower year-over-year in March. April is usually an average month for combine sales, accounting for 8.2% of annual sales the last 5 years.

- Mid-range tractor sales increased in April, rising by 0.3% year-over-year after a 4.3% increase in the previous month.

- Compact tractor sales increased 9.9% year-over-year after a 12% increase in March.

**AEI**

### APRIL U.S. UNIT RETAIL SALES



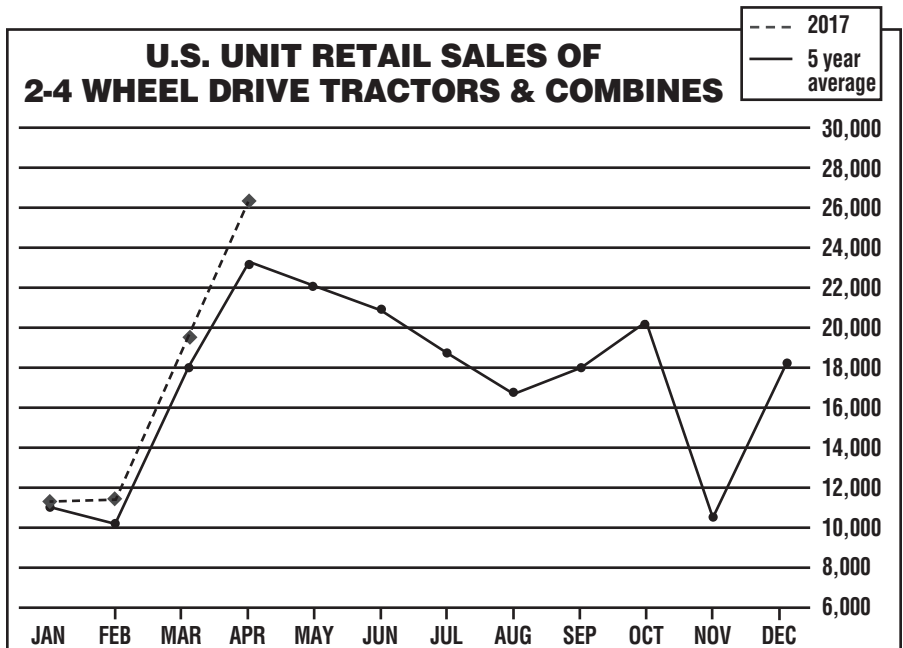
Equipment	April 2017	April 2016	Percent Change	YTD 2017	YTD 2016	Percent Change	March 2017 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	18,379	16,578	10.9	44,799	39,829	12.5	75,610
40-100 HP	5,112	5,069	0.8	16,411	16,808	-2.4	37,959
100 HP Plus	2,008	2,189	-8.3	5,787	6,552	-11.7	8,951
Total-2WD	35,499	23,836	7.0	66,997	63,189	6.0	122,520
Total-4WD	228	239	-4.6	685	763	-10.2	692
<b>Total Tractors</b>	<b>25,727</b>	<b>24,075</b>	<b>6.9</b>	<b>67,682</b>	<b>63,952</b>	<b>5.8</b>	<b>123,212</b>
<b>SP Combines</b>	<b>319</b>	<b>318</b>	<b>0.3</b>	<b>1,034</b>	<b>1,169</b>	<b>-11.5</b>	<b>860</b>

### APRIL CANADIAN UNIT RETAIL SALES



Equipment	April 2017	April 2016	Percent Change	YTD 2017	YTD 2016	Percent Change	March 2017 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,094	1,148	-4.7	3,267	2,725	19.9	8,244
40-100 HP	483	509	-5.1	1,631	1,503	8.5	3,948
100 HP Plus	417	350	19.1	1,162	1,058	9.8	2,477
Total-2WD	1,994	2,007	-0.6	6,060	5,286	14.6	14,669
Total-4WD	213	97	119.6	440	296	48.6	380
<b>Total Tractors</b>	<b>2,207</b>	<b>2,104</b>	<b>4.9</b>	<b>6,500</b>	<b>5,582</b>	<b>16.4</b>	<b>15,049</b>
<b>SP Combines</b>	<b>185</b>	<b>146</b>	<b>26.7</b>	<b>492</b>	<b>337</b>	<b>46.0</b>	<b>572</b>

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



— Assn. of Equipment Manufacturers



The Jim Pattison Group is Canada's second-largest private company and has over 505 locations in a wide range of businesses, with annual sales of over \$8.1 billion.

Russell views the ongoing interest of private equity in agriculture as a positive. "It says the ag industry continues to be a good place to invest, which is why private equity wants to come into the

industry. It has slowed down a bit from where it was a couple years ago, but there are still private equity companies that want to learn about and invest in the ag business," he says. **AEI**

## Consolidation Permeates Ag Industry

Like farm equipment dealerships, nearly every segment of agriculture in the U.S. is being transformed by a consolidation of its participants, from farmers to ag equipment makers and input producers.

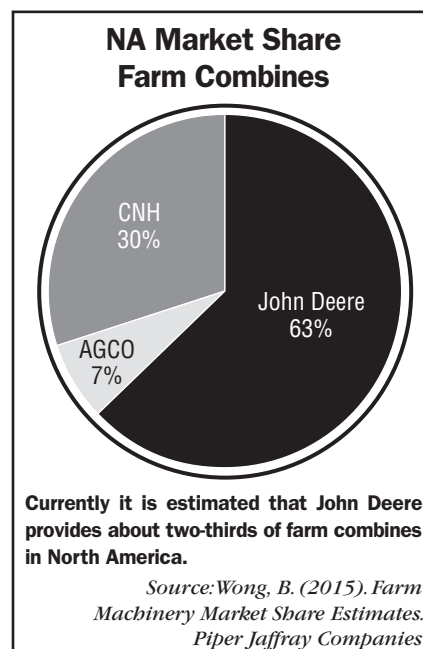
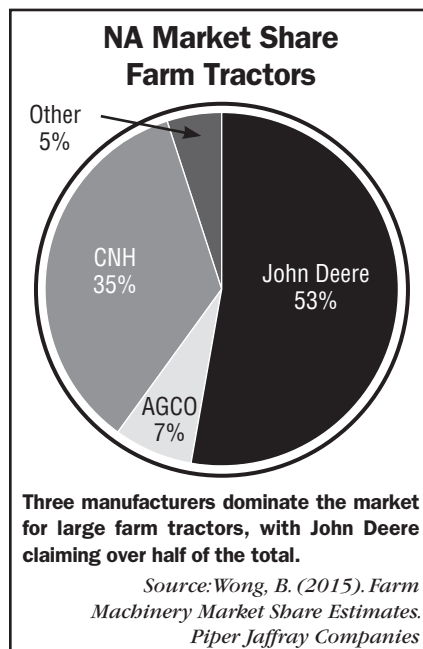
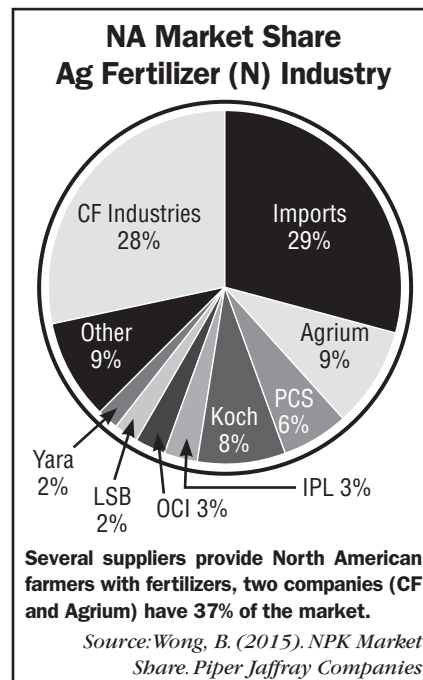
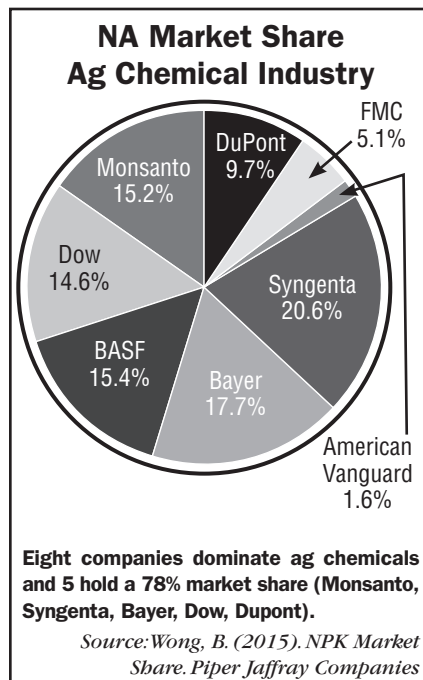
In a recent 72 page report entitled "The Voice of the Farmer," Farmer's Business Network (FBN) examined the state of modern farming through a combination of farmer interviews and an analysis of millions of acres of real farm yields, and scrutinized thousands of farmer seed and chemical invoices and price records. Part of the research focused on the impact that ag industry consolidation is having on farming.

FBN, which describes itself as an independent farmer-to-farmer network that helps farmers increase their market power through market insights and buying power, says that "Ag industry consolidation will likely further hurt farm incomes."

**Higher Prices.** Its analysis found that with market share increases among input manufacturers, come higher prices for farmers in both seed and chemical. FBN's research also revealed that yield gains from innovation tapered off as input manufacturers gained market share.

The research also found that farm consolidation is putting pressure on independent farmers and is changing the business practices and productivity of operations. "We studied the relationship between farm size, price paid for inputs and yields relative to revenue trends," the study reports. "Larger farms typically pay less for key inputs and concentrate buying from major seed brands, but not major chemical brands. Larger farms also realize lower yields per acre as it becomes harder to optimize each individual field." Chemical, fertilizer and equipment markets are all dominated by a small number of companies, which overall does not bode well for the smaller farm operation.

**More M&A.** While current merger and acquisition activity wasn't directly referenced in the FBN report, these could further exacerbate farmer concerns about diminishing competition for ag inputs.



The five companies currently seeking to combine their business enterprises — Dow + Dupont, Bayer + Monsanto and Syngenta, which is to be acquired by ChemChina — together would hold a 78% stake in the ag chemicals segment of the industry. It could put them in a position to squeeze out the remaining competition.

More information on the report and the organization is available at [farmersbusinessnetwork.com](http://farmersbusinessnetwork.com). **AEI**