

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Tariffs are Bad News
- Impact of Rate Hikes
- Sources of Ag Loans

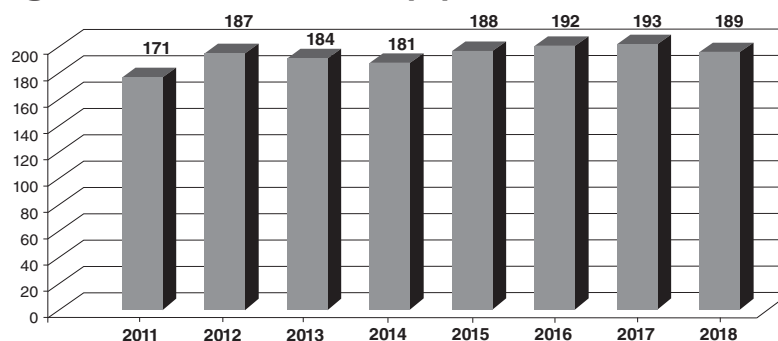
Ranks of Biggest Ag Equipment Dealerships Continue to Swell

While there are fewer “big” North American farm equipment dealer-principals or ownership groups at this point in 2018 than there were a year ago — 189 vs. 193 — this in no way signals a slowdown in dealer consolidation trends of the past decade. In fact, a quick review of the numbers shows that growth of the “biggest” big dealers continues to escalate, while the number of the “smallest” big dealers continues to decline, according to the 2018 edition of the annual Big Dealer report.

Ag Equipment Intelligence, in partnership with the Machinery Advisors Consortium, has compiled and published the “Big Dealer” report annually since 2011. During the period of 2011-18, “big” farm equipment dealerships, which are defined as those organizations that own and operate 5 or more farm equipment dealer locations, have grown by more than 11%. But this doesn’t accurately reflect what’s really happening within the farm machinery retail distribution channel.

‘Biggest’ Groups Growing. Overall, the percentage of dealers in each of the 4 different size categories — 20-plus stores, 15-19 stores, 10-14

‘Big’ North American Farm Equipment Dealers — 2011-18



The total number of big farm equipment dealers (with 5 or more store locations) declined in 2018 as the biggest dealers acquired other big dealers. Last year at this time there were 70 dealer groups with 10 or more stores. This year there are 85.

Source: *Ag Equipment Intelligence*, Machinery Advisors Consortium

stores and 5-9 stores — held steady during the first 7 years of the study, but significant shifting has taken place between the 2017 and 2018 studies.

Generally, the dealer groups with 20 or more stores were in the 5-6% range between 2011-17 but increased to 8% in 2018. Dealers in the next category, 15-19 stores, is where much of the shifting has taken place. In 2011, this group represented only 3% of the total. This grew to 9% in 2017 and then jumped to 15% in 2018.

The next tier, dealers with 10-14

store locations, grew steadily over the past 7 years. Starting at 17% in 2011, by 2017 it had increased to 21% of the total and stands at 23% in 2018. While dealers in the smallest group, 5-9 locations, held at about 75% of the total through 2013, the following year its percentage dropped to about 66%, where it stayed until the current year. In 2018, the smallest “big” dealers’ percentage of the total fell to about 55% of all big dealers. Clearly, it has been dealers in the 15-19 store

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Titan Machinery’s 4Q18 Sees Top and Bottom Line Growth

Titan Machinery, one of North America’s largest equipment dealership groups, posted its first strong earnings report since sales of farm machinery turned down in 2014. Fourth quarter revenue topped \$339 million, up 7% year-over-year. According to Mig Dobre, analyst for RW Baird, Titan’s revenue levels

for the period were above both the \$315.1 million consensus and Baird’s \$318.7 million estimate.

Overall, the dealership group’s ag sales increased 2.1% year-over-year, construction equipment sales rose by 5% and international sales grew by 39.4% during the period. Equipment sales were up 11%, revenue from

parts dropped 7%, service revenue was down 5% and rental and other revenues improved by 7%.

One of the most noticeable improvements in Titan’s fourth quarter was a decrease in floorplan interest expense, which dropped to \$1.4 million during the period compared

Continued on page 2

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to \$2.7 million for the same period last year.

Gross profit for the fourth quarter improved to \$52.1 million vs. \$48.8 million in the same period last year. The company's gross profit margin was relatively flat at 15.3% compared to 15.4% in the fourth quarter of FY2017. Gross profit margin remained relatively flat as the impact of higher equipment margins was offset by a change in Titan's gross profit mix, which was the result of additional equipment revenue as compared to higher margin parts and service revenue.

Operating expenses were \$50.3 million, or 14.8% of revenue, for the fourth quarter of fiscal 2018, compared to \$52.2 million, or 16.5% of revenue, for the fourth quarter last year. The company said restructuring efforts that were completed in fiscal 2018 are expected to continue to reduce operating expenses on a going forward basis.

Segment Results. Ag revenue for the quarter was \$205.3 million vs. \$201.1 million for the same period a year ago. Revenue from CE sales was \$85.8 million compared to \$81.7 million last year. International revenue rose to \$48.5 million vs. \$34.8 in the fourth quarter of Titan's fiscal 2018.

Reflecting on Titan's improved performance, David Meyer, chairman and CEO, said, "We were well positioned to capitalize on the increase in ag equipment demand that resulted from improved grower sentiment because of better than anticipated crop yields in our footprint. As a result of our improved inventory position, we continue to experience increased equipment margins compared to the prior year."

FY2019 Outlook. Dobre, the Baird analyst, anticipates an improving scenario for Titan Machinery and the ag equipment business generally with plenty of room to run. "Commodity prices are still soft, but

Titan Machinery 4QFY18 & Full Year Revenue (millions of \$)						
	4QFY18	4QFY17	Change	FY2018	FY2017	Change
Total Revenue	\$339.6	\$317.6	+6.9%	\$1,202.9	\$1,213.1	-0.8%
Equipment	\$252.6	\$226.9	+11.3%	\$804.4	\$797.3	+0.9%
Parts	\$45.5	\$48.7	-6.6%	\$222.4	\$233.8	-4.9%
Service	\$26.5	\$28.0	-5.4%	\$117.3	\$124.1	-5.4%
Rental & Other	\$15.0	\$14.0	+7.3%	\$58.9	\$57.9	+1.7%

Source: Company reports

U.S. replacement demand is starting to manifest, and U.S. combine and 4WD tractor volumes are still 50% below what we would consider normal demand levels."

Referencing the ongoing tariff discussions, Dobre says higher steel prices are a headwind for ag and construction OEMs, but Titan "provides exposure to improving end market demand while minimizing risk stemming from higher steel costs. They will have to push through

OEM price increases, but risk to the dealer in our view is lower than to the manufacturer."

Dobre sees the biggest gain for Titan coming from improving after-

market sales. "Parts and service is where the money is made, an inflexion here is around the corner: this business contributed half of the gross profit dollars in FY18 with revenues declining for 4 years in a row while the fleet has gotten older. This is unsustainable in our view; once parts and service return to growth mode, earnings should accelerate as incremental margins are significant," Dobre says. (See table below for typical aftermarket gross margins.)

Titan Machinery's outlook for the year ahead calls for a 0-5% improvement in ag equipment, a 3-8% increase for construction and a 0-5% bump in international sales. **AEI**

Average Gross Margins for Ag Equipment Parts, Service & Wholegoods

Sales of parts and service is where farm equipment dealers achieve their best gross margins as shown in the table below. Many industry experts suggest a 60/40 ratio (wholegoods/aftermarket) for dealership sales is the benchmark that machinery dealers should shoot for to optimize overall profitability. **AEI**

	Gross Margin Parts	Gross Margin Service	Gross Margin New Wholegoods	Gross Margin Used Wholegoods
2011	30.3%	65.5%	7.5%	7.4%
2012	28.8%	65.0%	7.4%	5.1%
2013	28.6%	64.1%	8.2%	4.2%
2014	29.9%	61.0%	6.7%	5.1%
2015	29.4%	61.2%	6.8%	2.7%
2016	30.6%	61.8%	7.2%	1.6%
2017	30.2%	60.2%	7.3%	2.5%

Source: Western Equipment Dealers Assn. Cost of Doing Business Studies

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Who's the Winner in the Bayer-Monsanto Tie Up?

If published reports turn out to be accurate, it looks as if Bayer's deal to acquire Monsanto will finally be completed. According to an April 9 *Wall Street Journal* report, the U.S. Justice Department will allow the acquisition after Bayer agreed to sell off additional assets, in all likelihood to BASF, which competes with Bayer.

According to the *WSJ* report, as part of an agreement with U.S. antitrust enforcers, people familiar with the matter said Bayer will divest additional seed and seed-treatment assets and will make concessions related to its digital agriculture business, which provides data-driven farming advice and services.

The European Union gave its conditional approval in March, again after Bayer sold off more than \$7 billion in assets to BASF. When completed, the deal would make Bayer the world's biggest supplier of pesticides and seeds for farmers.

This is the third mega-merger on the consumables side of the ag business in the last 2 years. Earlier, Dow and DuPont announced the two ag behemoths would become one and the same. They will eventually spin it off as a new company to be called Corteva Agriscience.

Also, China National Chemical Corp. (often referred to as ChemChina) acquired another ag giant, Swiss seed and

pesticide maker Syngenta AG last year in a \$43 billion deal.

When the dust finally settles who will be the real winners of the merger mania that's been dominating the ag business in the past few years?

Frank Lessiter, editor of *No-Till Farmer*, doesn't think it will be the farmers. "This is a good deal for Bayer and Monsanto, but maybe not so much for farmers who will likely see higher prices for pesticides and seed," he says.

"The big winner may be BASF, who is purchasing a number of the Bayer assets to make the deal work. The big one is BASF taking over Bayer's Liberty Link herbicide and GMO business. This product is becoming more important to growers as major weed resistance challenges come up with Monsanto's Roundup."

Lessiter points to the results of *No-Till Farmer's* annual benchmark survey of farming practices. He says it indicates that no-tillers are shifting their herbicide chemistry due to weed resistance concerns with Roundup.

In 2010, 95% of growers no-tilling soybeans were using Monsanto's Roundup as their primary herbicide and 8% were utilizing Bayer's Liberty Link herbicide. Results from the 2018 farmer survey showed that 67% of growers used Roundup, while 25% were using Liberty Link, which bodes well for BASF.

AEI

FARM MACHINERY TICKER (AS OF 4/11/18)

MANUFACTURERS	Symbol	4/11/18 Price	3/12/18 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	\$52.91	\$54.39	\$60.63	\$47.08	24.35	39,9200	868.56M
AGCO	AGCO	\$64.00	\$67.03	\$75.95	\$58.01	27.59	725,180	5.09B
AgJunction Inc.	AJX	\$0.88	\$0.55	\$0.91	\$0.44	—	81,090	102.85M
Alamo	ALG	\$112.80	\$116.91	\$120.59	\$71.67	29.76	56,760	1.31B
Art's Way Mfg.	ARTW	\$2.55	\$2.85	\$3.50	\$2.00	—	9,950	10.71M
Buhler Industries	BUI	\$4.00	\$4.10	\$4.89	\$4.00	—	632	100.00M
Caterpillar	CAT	\$146.79	\$154.50	\$173.24	\$92.98	116.50	6,340,000	87.73B
CNH Industrial	CNHI	\$11.87	\$13.21	\$15.65	\$9.72	54.95	2,129,000	16.19B
Deere & Co.	DE	\$144.41	\$164.03	\$175.26	\$107.04	32.83	2,550,000	46.76B
Kubota	KUBTY	\$85.31	\$89.72	\$107.13	\$73.00	16.55	14,070	20.88B
Lindsay	LNN	\$87.05	\$92.78	\$100.40	\$82.31	41.95	93,600	936.42M
Raven Industries	RAVN	\$35.30	\$38.90	\$40.85	\$26.70	31.24	148,330	1.27B
Titan Int'l.	TWI	\$11.86	\$13.55	\$14.53	\$7.97	—	273,790	709.36M
Trimble Navigation	TRMB	\$34.91	\$39.35	\$45.70	\$30.45	74.28	1,140,000	8.68B
Valmont Industries	VMI	\$140.80	\$147.80	\$176.35	\$137.90	27.55	112,050	3.20B
RETAILERS								
Cervus Equipment	CERV	\$13.90	\$14.26	\$15.85	\$10.98	11.62	5,390,00	218.06M
Rocky Mountain Equipment	RME	\$12.48	\$12.29	\$14.34	\$9.20	10.58	45,050	248.15M
Titan Machinery	TITN	\$21.81	\$21.01	\$25.09	\$11.68	—	196,280	465.20M
Tractor Supply	TSCO	\$61.34	\$63.66	\$82.68	\$49.87	18.59	2,000,000	7.60B

Most Dealers Believe Interest Rate Hikes Would Hamper Sales

Nearly two-thirds of farm equipment dealers surveyed in early February expect higher interest rates on retail equipment will cause their farm customers to think twice before deciding to buy new equipment in 2018.

Ag Equipment Intelligence editors' discussions with ag lenders, as well as reports from various districts of the Federal Reserve Bank points to probably 3 increases during 2018 of about 0.25% each, or less than a 1% overall in rate increases for the year.

The survey conducted by Ag Equipment Intelligence asked dealers "Would a modest interest rate increase affect customers' equipment purchasing decision? Overall, 64% of dealers expect higher rates will impact farmers' decision to purchase equipment. A little over one-quarter (26%) don't think higher rates will affect buying decisions and 10% don't know.

The survey also asked, "What percent-

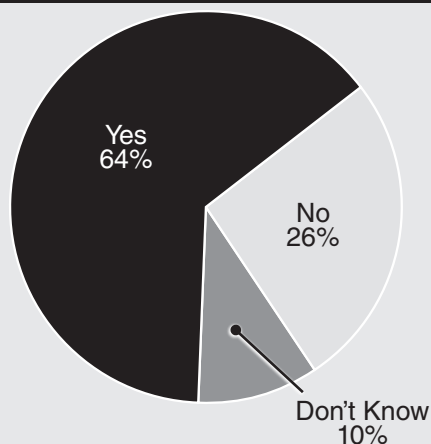
age of retail loans for farm equipment that you sell are financed by your manufacturer, Farm Credit System and local, regional banks or other lenders?"

Not surprisingly, about 60% of dealers' retail loans originate with their manufacturers. By equipment brand, John Deere dealers were most reliant on their supplier's finance division, as nearly 80% of retail loans coming through the company. Two-thirds of Case IH dealers retail loans originate with the CNH Industrials Financial Services operations.

The next major lender for ag equipment retail loans were with associations connected to the Farm Credit

system, which comprised 27% of customer borrowing. Dealers who do not carry any of the 5 major brands relied most on the Farm Credit system compared with the branded dealerships. Local and regional banks or other lenders accounted for about 13% of farm machinery loans, with "other" dealers utilizing their services most often. **AEI**

Will Higher Interest Rates Affect Farmers' Purchasing Decisions? (% of dealers)



Source: Ag Equipment Intelligence survey

Will Interest Rate Hikes Impact Sales?

	Yes	No	Don't Know
AGCO Dealers	50%	30%	20%
Case IH	69%	25%	6%
John Deere	78%	14%	8%
Kubota	60%	30%	10%
New Holland	60%	33%	7%
Other	67%	22%	11%

Mahindra's Swaraj Tractors Extends Offerings to 75 Horsepower

The Mahindra & Mahindra owned tractor company, Swaraj Tractors is rolling out its new tractors models in the 60-75 horsepower range. According to the company, it is aiming to capture a significant share of the 50,000 units sold annually in the over 50 horsepower range. With this launch, the company expects to capture a 11-12% market share in the next year.

Speaking at the new product launch, the company's managing director, Pawan Goenka, said the new lines will a much stronger portfolio of tractors that will cater to a wide range of farming applications and geographical markets.

Swaraj 963 FE tractor, which is 60 horsepower unit, is priced at \$11,200 and will be available in both 2WD and 4WD options.

The company's president for farm equipment business, Rajesh Jejurikar, said that the company invested close to \$15.34 million to develop the new tractor platform.

He said the company is looking to sell 110,000 units during 2018-19 fiscal year. Initially, the high power tractors will be available in Punjab, Andhra Pradesh, Telangana, Tamil Nadu and Chhattisgarh and by the end of 2018, it will be rolled out across India through its 875 dealers. **AEI**

Sources of Ag Equipment Loans

Earlier this year, Ag Equipment Intelligence surveyed U.S. and Canadian farm equipment dealers on their major sources for equipment loans. Overall, 61% of dealers reported that customer loans for purchasing equipment came from their manufacturers. But the percentage varied widely depending on the brand of equipment. For example, John Deere dealers say 78% of loans made to their customers originate with John Deere credit services. On the other hand, only 60% of equipment loans for Kubota and New Holland dealers came from their manufacturers' loan divisions. **AEI**

	Mfr. Finance	Farm Credit	Local or Regional Bank/Other
AGCO	62%	27%	11%
Case IH	67%	24%	9%
John Deere	78%	14%	8%
Kubota	60%	30%	10%
New Holland	60%	28%	12%
Other	37%	37%	26%
Overall Avg.	61%	27%	13%

Source: Ag Equipment Intelligence survey

Ag Tariffs Not 'Welcome News' for U.S. Farmers or Ag Equipment Segment

If China enacts their announced tariffs on U.S. ag products, farm equipment dealers and manufacturers will feel it just as acutely. Already jittery about making capital investments, putting the proposed tariffs into effect, farmers could easily decide to put off replacing that tractor for another year.

In a recent report, London-based data gathering and analysis firm, IHS Markit, sums up the situation this way: "The announced tariffs on agricultural products are not welcome news for U.S. farmers, especially amid a multiyear slump in farm incomes. The economic impact in the United States of the sanctions currently in place, including 25% on pork and 10% on a list of fruits and tree nuts, is likely to be minor. The bigger issue for U.S. farmers will arise if the prospective 25% tariff on soybeans is enacted."

According to the research firm, U.S. soybean exports to China totaled \$12.4 billion in 2017, accounting for over 75% of total U.S. exports of ag products to China and nearly 10% of total U.S. merchandise exports to China last year. In recent years, China has been the destination for around 60% of total U.S. soybean exports, accounting for around 30% of annual U.S. soybean production. "Looked at from the other side, U.S. imports accounted for more than one-third of China's total soybean usage during the last marketing year."

The states that would be most impacted would be Nebraska,

South Dakota and Iowa, according to IHS Markit, because farm income accounts for at least 3% of total personal income. Major fruit and nut producing states like California and Washington, would also see significant tariff impacts.

Potential Impacts. In a recent report, "If China Strikes Back," Rabobank says tariffs would partially limit U.S. exports. "Our baseline production estimation, under normal conditions with no trade disruptions, is for pork production to grow by

"Policy uncertainty will continue to roil the business plans of manufacturers..."

around 3.2% through year-end, reaching around 12.1 million tons," say Rabobank researchers.

Total pork consumption for 2018 is estimated at 9.8 million tons, with exports accounting for 2.6 million tons. Under normal trade conditions, about 11% of all pork exports were expected to be shipped to China. If the 25% tariff is enacted in May, total U.S. pork exports to China could decline to around 120,000 tons, down from Rabobank's initial estimates of 300,000 tons.

In addition to the reduction in pork, itself, this would also have big ramifications for grain and oilseed prices because feed demand would decline. "The corn and soybean pro-

duction area may face a reduction of around 100,000 acres due directly to the decrease in pork feed demand," says Rabobank.

Their report goes on to say that "Soy may be safe."

China has yet to announce tariffs on soybean imports. "We believe China's current dependency, short term global restraints and the complexity required to fully source its feed demand chain may limit China's ability to set any tariffs on U.S. soybeans."

However, the report authors say they performed a "sensitivity analysis" and determined that, "if China increases current tariffs and cuts is U.S. soybeans by 100 million bushels, U.S. soybean farm prices will decline from current levels by around 4-5% in the very short run."

They say that in all likelihood prices would recover and find other markets, like Mexico that continues to expand its animal protein platform.

Regardless of how the tariff scenario plays out, the uncertainty created will give farmers another reason to put off upgrading their equipment fleets until after harvest, at least. The IHS Markit report adds, "If the broader set of sanctions on around \$50 billion worth of U.S. exports to China goes into effect, the impacts will be economically significant. In the interim, the policy uncertainty will continue to roil the business plans of manufacturers, farmers, and other capital-intensive industry segments that feature long term planning horizons." **AEI**

India's Sonalika Reports Sales of 100,000 Tractors in FY18

Sonalika International Tractors Limited (ITL), one of India's leading tractor manufacturers, recorded an increase of 22% in tractors sales to 100,000 units in fiscal year 2018. This compares to 81,531 units registered in the previous year, which was an increase of 19.6%.

Raman Mittal, ITL executive director, said that this is the first time the company has achieved this level of sales, which is a doubling of sales since FY

2013. He said the company has seen significant growth since it started making customized products for different states, as well as various types of soil and farming applications, like puddling, orchard farming, potato farming, etc. Currently, the company offers more than 1,000 variations featuring high technology at competitive prices. ITL tractors range from 20-120 horsepower.

In the quarter ended March 31, 2018, the company recorded a

56% increase in unit sales. Also in March 2018, sales grew by 80% to 12,791 units, while exports rose 165%, to 2,804 units. According to ITL, it is supplying tractors to 100 countries worldwide including developing markets such as Nepal, Myanmar, Bangladesh, Sri Lanka and Algeria. Besides the Hoshiarpur facility in India, the company has assembly plants in Brazil, Algeria, Iran and Cameroon. **AEI**

South American Ag Equipment Intelligence

Brazil's Ag Fair Produces Modest Increase in Machinery Sales

The long running farm equipment exhibition, ExpoDireto, was held March 6-9 in the state of Rio Grande do Sul. The event typically runs during one of the key times for agricultural producers in southern Brazil to seek special credit lines to purchase farm machinery, particularly harvesters, seeders, sprayers and irrigation pivots. The total volume of deals during the 4 day fair reached nearly \$666 million, up about 4% compared to 2017.

According to the show's organizers, the reasons for the modest growth in sales were the drought in the southern half of Rio Grande do Sul and less access to subsidized credit lines. "We also had the announcement of our agricultural minister that the market interest rates, which are influenced by Central Bank decisions, [should] be a lot lower in the next year," said Nei Mânica, president of Cotrijal, a farm cooperative that organizes ExpoDireto. "I think that has forced some delays in sales."

For Claudio Bier, president of the Union of the Industries of Machinery and Agricultural Implements of Rio Grande do Sul, the only real growth was a 20% increase in irrigation equipment sales. "We are optimistic for the year because, with better prices, farmers are starting to sell soybeans [they had] stored. [This gives them] capital that will be applied to their business," said Bier.

New Holland showcased its TB565 tractor or "the giant tractor." Farmers call it giant because it weighs 40,501 pounds and has a fuel tank capacity of 294 gallons. The model is retailed at nearly \$394,000. Juliano Perelli, product specialist for New Holland, told Porto Alegre newspaper *Jornal do Comércio*, "It has almost the double of the average tractor in everything. It is imported. Today we have 40 models in the whole country and two models in Rio Grande do Sul. We expect to sell over 40 units in the country [this year]."

Despite Drought, Argentina's Expoagro Sees Strong Sales

Expoagro, a farm show held in Buenos Aires, Argentina, March 13-15, generated sales of nearly \$1 billion. With 150,000 visitors, the volume of deals is similar to that seen at the show last year. Although the region is in the midst of a historic drought, the number of exhibitors jumped from 360 last year to 460 this year.

During an interview with Buenos Aires newspaper *La Nación*, Rodrigo Ramírez, general manager at Expoagro, said, "There were 10,000 credit requests, which was a similar volume compared to last year." This, he said, was "remarkable."

During the show, banks offered lower interest rates for the purchase of machinery. The lowest rates were offered by Banco de La Pampa (12% per year) and state-run Banco Nación (15.5%) per year. Several private banks also offered loans in U.S. dollars.

Pauny, a local tractor manufacturer, sold 400 units during the 3 day show. While the sales would still be subject to credit approval, Raúl Giaui Levra, president of Pauny, said, "It was better than what we expected. We thought that producers would be beaten by the drought."

In addition, Claas sold 9 harvesters for \$7 million. Metalfor, a local spray producer, made 55 sales amounting to about \$140 million.

Low Price for Rice Impacts Brazil's Ag Machinery Business

Leaders from several agricultural machinery companies are concerned about the current price of rice and its impact on equipment sales in Brazil. They commented during the opening of the rice harvest in the headquarters of the Rio Grande do Sul Institute of Rice in Cachoeirinha, Rio Grande do Sul, at the end of February.

For José Henrique Karsburg, director of Case IH, Brazil should open new markets for its rice crop. "There are large markets like China and Nigeria where we can sell more rice. And currently, Brazil imports more rice than it actually exports. We need to reverse that," said Karsburg.

The state of Rio Grande do Sul, which accounts for over 65% of the Brazilian rice production, also makes over 60% of the country's ag machinery. **AEI**

TAFE Acquires IMT to Move into Higher Horsepower Tractor Segment

Tractors and Farmer Equipment, TAFE, one of India's largest tractor makers has acquired Serbian tractor maker IMT (Industrija Masina i Traktora). IMT manufactures equipment between 35-220 horsepower and the brand is well established in Eastern Europe, Northern Africa and the Balkans.

The company also produces implements, including plows, trailers, maize planters, seed drills, cultivators and loader forklifts.

According to various reports, Mallika Srinivasan, chairman & CEO of TAFE, said, "TAFE and IMT have shared a long mutually beneficial cooperation. This acquisition will play a key role in TAFE's strategic and growth plans for the future." Srinivasan is currently on AGCO's board of directors.

As TAFE, we already have a good presence in some of these markets, and therefore, this gives us opportunity to re-enter and strengthen our presence," said Srinivasan.

TAFE is the third largest tractor manufacturer and second largest in India by volume with annual sales of over 150,000 Units. It is also one of India's leading tractor exporters.

The company makes tractors up to 120 horsepower, which includes the Massey Ferguson, TAFE and Eicher brands. The company has more than 1,000 dealers/distributors throughout India and exports its equipment to more than 100 countries. **AEI**

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Large Ag Sales 'Flattish' in March

North American large ag equipment sales were relatively flat year-over-year in March. Row-crop tractor sales saw growth in both the U.S. and Canada, while 4WD and combine sales saw declines, according to the latest numbers released by the Assn. of Equipment Manufacturers. "Retail sales remain choppy, potential China tariffs on U.S. crops add to farmer uncertainty but impact on sentiment is arguably too soon to be felt," Mircea (Mig) Dobre, senior research analyst with Baird said in a note. "Crop prices remain up year-to-date aided by Argentina's drought (USDA further reduced Argentina's corn/soybean production estimates) as U.S. farmers enter planting season."

North American large tractor and combine retail sales were flat year-over-year in March after declining 7% in February and growing 4% in January. U.S. sales were flat year-over-year (row crop +4%, 4WD -5%, combines -20%), while Canadian sales increased 3% (row crop +8%, 4WD -7%, combines -1%).

- Combine sales declined 13.6% in March following 24.4% growth in February. Last 3 month (L3M) sales decreased 1.4% year-over-year after a 4.8% L3M increase last month. U.S. combine inventories decreased 7% in February vs. the same period last year.

- Row-crop tractor sales grew 5.2% year-over-year after decreasing 15.8% in February. L3M sales were down 1.9% (February L3M -5.7%). U.S. row-crop tractor inventories decreased 10% year-over-year in February.

- 4WD tractor sales were down 5.9% year-over-year in March following the 11.6% increase in February. L3M sales increased 7.6% year-over-year after 23.9% growth in the February L3M period. U.S. dealer inventories of 4WD tractors decreased 20% year-over-year in the month of February.

- Mid-range tractor sales were flattish in March, similar to February. Compact tractor sales increased 5.1% year-over-year after a 10.8% decrease last month.

AEI

MARCH U.S. UNIT RETAIL SALES



Equipment	March 2018	March 2017	Percent Change	YTD 2018	YTD 2017	Percent Change	Beginning Inventory Mar. 2018
Farm Wheel Tractors-2WD							
Under 40 HP	13,531	12,834	5.4	26,381	26,083	1.1	92,694
40-100 HP	4,292	4,896	0.7	11,553	11,559	-0.1	33,996
100 HP Plus	1,513	1,448	4.5	3,594	3,773	-4.7	8,284
Total-2WD	19,973	19,178	4.1	41,528	41,415	0.3	134,974
Total-4WD	217	229	-5.2	478	456	4.8	601
Total Tractors	20,190	19,407	4.0	42,006	41,871	0.3	135,575
SP Combines	240	300	-20.0	721	693	4.0	794

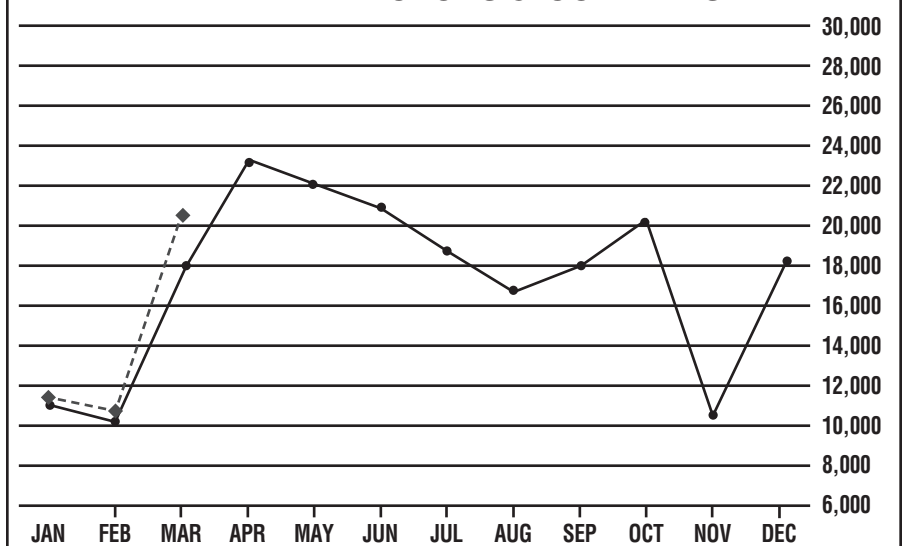
MARCH CANADIAN UNIT RETAIL SALES



Equipment	March 2018	March 2017	Percent Change	YTD 2018	YTD 2017	Percent Change	Beginning Inventory Mar. 2018
Farm Wheel Tractors-2WD							
Under 40 HP	876	870	0.7	2,264	2,183	3.7	8,785
40-100 HP	411	465	-11.6	1,227	1,178	4.2	3,641
100 HP Plus	366	388	8.3	844	744	13.4	2,306
Total-2WD	1,653	1,673	-1.2	4,335	4,105	5.6	14,732
Total-4WD	101	109	-7.3	257	227	13.2	334
Total Tractors	1,754	1,782	-1.6	4,592	4,332	6.0	15,066
SP Combines	155	157	-1.3	264	307	-14.0	539

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

--- 2018
— 5 year average



— Assn. of Equipment Manufacturers

locations' group that has shown the most continuous growth during the past 7 years.

The top tier of big dealers, those with 20 or more store locations, has grown from 8 in 2011 to 15 in 2018, a growth rate of about 88%. On the other hand, the lowest tier of the big dealer groupings, those with 5-9 operating locations, have declined by nearly 20%. In 2011, this tier of dealers had 128 groups, but their numbers have fallen to 104 in 2018.

The real story, though, is in the second tier of big dealer groups. Dealerships that own and operate 15-19 store locations has grown by more than 400% between 2011-18. Taken together, dealership groups with 10 or more stores have grown from 25% of the total big dealer group in 2011 to 45% in the past year.

Store Numbers Grow. As would be expected, the number of stores big dealers operate has grown at an even higher rate than overall M&A numbers. In 2018, the 189 big dealers operated 2,610 total dealership locations, which may have included construction equipment, outdoor power equipment, large trucks, etc. On average, these dealers had about 14 stores each.

Considering only retail locations that primarily handle farm machinery, 171 Big Dealers in 2011 operated 1,425 stores, or an average of a little over 8 stores per dealer group. In 2018, the 189 Big Dealers operated 2,082 ag locations, a 47% increase in the number of individual locations vs. 2011, and an average of 11 stores per dealer group.

On the other hand, if only the largest big dealer groups are considered, those with 15 or more locations, in 2011, those 13 dealerships operated 311 ag stores for an average of about 24 stores per group. This year, 41 groups with 15 or more stores owned 1,181 total locations, which averages out to just under 29 stores per operating group. When considering ag only locations, these dealers averaged a little under 22 stores per group.

The full 12 page 2018 edition of the annual Big Dealer Report will be published and distributed to Ag Equipment Intelligence subscribers in or around May 1.



'Big' North American Farm Equipment Dealers — 2011-18

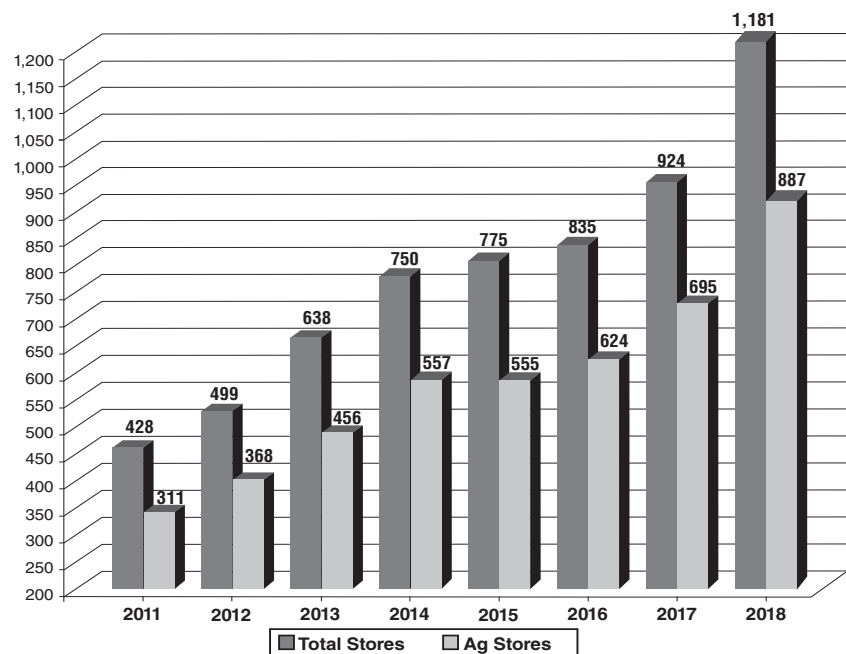
Stores Owned	2018	2017	2016	2015	2014	2013	2012	2011	2011 vs. 2018
20+	15	11	12	11	10	9	8	8	+88%
15-19	26	18	14	12	14	11	8	5	+420%
10-14	44	41	41	42	36	30	30	30	+47%
Sub-Total 10+	85	70	67	65	60	50	46	43	+98%
5-9	104	123	125	123	121	134	141	128	-19%
Total	189	193	192	188	181	184	187	171	+11%

The total number of dealer groups that own 5 or more stores declined to 189 in 2017, up 11% 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

Dealers with 15 or More Locations — 2011-18 All Store & Ag Store Avg. & Totals

Year	Groups w/15+ Stores	Total Stores	Ag Stores	All Stores Avg.	Ag Stores Avg.
2011	13	428	311	32.9	23.9
2012	16	499	368	31.2	23.0
2013	20	638	456	31.9	22.8
2014	24	750	557	31.3	23.2
2015	23	775	555	33.6	24.1
2016	26	835	624	33.3	24.0
2017	29	924	695	31.9	24.0
2018	41	1,181	887	28.9	21.6



Farm equipment dealership groups that own 15 or more farm equipment stores increased to 41 in the past year compared to 29 in the previous year. In total, this group of dealers operated 1,181 total retail locations, an average of 29 each. When considering only ag equipment locations, the average was about 22 stores each. Since 2011, the number of dealerships that operate 15 or more store locations has more than tripled and the number of ag equipment store locations they own has nearly tripled.

Source: Ag Equipment Intelligence, Machinery Advisors Consortium