

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Claas Finishes in the Black
- Mahindra: \$1B in U.S. Sales?
- 2017: Solid Year for Buhler

## Dealers Expect Improving Sales Levels for 2018

Despite ongoing concerns with low commodity prices, North American farm equipment dealers are far more optimistic about their business prospects than they were a year ago.

Based on the responses to *Ag Equipment Intelligence's* most recent Dealer Sentiments & Business Condition Update survey, a net 40% expect improved sales in 2018 and are forecasting a 2% increase in sales for the year. Last year at this time, dealers were expecting a 4% drop off in sales for 2017.

Comparing year-over-year changes in the dealers' outlook for the coming year since 2012 shows dealers are clearly more upbeat for 2018 than they have been in the past 5 years. In December 2012, 76% of dealers were forecasting increased sales growth for the follow-

North American Sales Outlook for Year Ahead — 2012-17 (% of reporting dealers)						
	Dec.-12	Dec.-13	Dec.-14	Dec.-15	Dec.-16	Nov.-17*
Growth	88%	31%	26%	17%	35%	55%
Flat	0%	24%	20%	19%	25%	31%
Decline	12%	45%	53%	65%	40%	14%
Net % Growth	+76%	-14%	-27%	-48%	-6%	+41%
*most recent survey results Source: <i>Ag Equipment Intelligence</i> , Cleveland Research Co. surveys						

ing year. Since then and up until this year, dealers' projections were clearly negative about potential sales growth during the year ahead. Sentiments bottomed out in December 2015 when more than two-thirds (65%) of dealers were forecasting a drop in sales and only 17% expecting an increase, for a net of -48%.

Dealer sentiments about their

prospects began changing in recent months, with a net 28% of dealers in the September study expecting growth and a net 32% in October. The current outlook for 2018 shows 55% of farm equipment dealers are looking for increased sales, while only 14% see another drop in sales. John Deere dealers are currently the most

*Continued on page 2*

## Compact Tractor Sales Soared in 2017 — Again

Dealers specializing in selling compact tractors (under 40 horsepower) had another banner year in 2017 as U.S. and Canadian sales of the small equipment reached all-time highs.

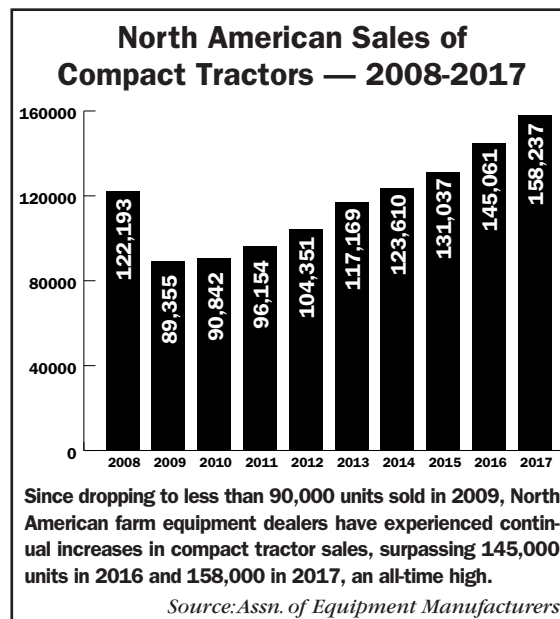
According to the latest figures from the Assn. of Equipment Manufacturers, 2017 unit sales of compact tractors were 158,237, up 9% from 2016, when U.S. and Canadian dealers sold 145,061 units, which was the previous high water mark for small tractors. Up until that time, the all-time high came in 2004 when dealers retailed just under 140,000 units.

Sales of under 40 horsepower tractors had sunk to as low as 90,000 units in 2009 and didn't surpass the 100,000 mark again until 2012. Since then, annual sales have risen steadily and many industry experts believe they could surpass the 160,000 unit mark in the next year or two.

Compared to 2009's low water mark, 2017 sales were up by 77%.

Over the past nearly 50 years, compact tractor sales have grown by 500% from about 31,000 units sold in 1969 to the 157,000 in 2017. In 1969, compact tractor sales made up about 18% of total tractor sales in North America to more than 60% of the total.

**AEI**



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optimistic, projecting a 4% increase of sales in the year ahead, while AGCO and Case IH dealers expect sales to improve by 3%.

### North American Dealers' 2018 Sales Forecast by Brand

(% change year-over-year)

	Dec. 2017	Dec. 2016
AGCO	+3%	-8%
Case IH	+3%	+2%
John Deere	+4%	-6%
Kubota	+1%	-6%
New Holland	+2%	-5%
Shortline/Other	-5%	0%
<b>Overall</b>	<b>+2%</b>	<b>-4%</b>

Source: Ag Equipment Intelligence, Cleveland Research Co. surveys

**Improved Inventories.** One reason behind dealers' growing optimism centers on lower equipment inventories on their lots. In our most recent study, only 16% of dealers are reporting their new equipment inventories are "too high." A year earlier, 41% of dealers said their new equip-

ment backlogs were "too high."

Used equipment levels are also more manageable at this point, with 16% of dealers reporting used equipment levels are "too high." This compares with 36% of dealers who told us their used equipment inventories were "too high." **AEI**

### Dealers' Equipment Backlog December 2017 vs. December 2016

(% of reporting dealers)

	New Equipment Inventory		Used Equipment Inventory	
	Dec. 2016	Dec. 2017	Dec. 2016	Dec. 2017
Too high	46%	32%	44%	30%
About right	49%	52%	48%	56%
Too low	5%	16%	8%	14%
<b>Net</b>	<b>41%</b>	<b>16%</b>	<b>36%</b>	<b>16%</b>

Source: Ag Equipment Intelligence, Cleveland Research Co. surveys

## LS Mtron Enters Ukraine Tractor Market with \$100M Deal

South Korean tractor manufacturer LS Mtron aims to secure a foothold in the Eastern European market through a new distribution deal with an automotive specialist in Ukraine. UkrAVTO (Ukraine Automotive Corp.) appears to have no previous experience in the ag, being a distributor and manufacturer of cars and buses.

But having exhibited at the country's main agricultural show to gauge interest, the Ukrainian business has reached agreement for LS Mtron to supply 7 models of 50-140 horsepower tractors in semi-assembled form for completion in UkrAVTO's automobile factory.

According to Koo Za Eun, a vice president of LS Mtron who co-signed the deal, the contract for a minimum of 4,500 units over the 5 years from 2018 to 2022 is worth \$100 million. Posco Daewoo, one of Korea's largest trading companies, will reportedly partner UkrAVTO in local assembly and leasing operations for the agricultural market.

In recent years, the farm tractor division of LS Mtron, itself part of the diverse LS Group, has invested in new factories in China and Brazil, as well as a new engine plant in South Korea. It currently produces tractors from 18-102 horsepower, but is working on more powerful models up to 140 horsepower.

A continuing export drive that builds on existing activities in North America, South America and Western Europe is key to the business unit's aim of achieving KRW 2 trillion (\$1.8 billion) in tractor sales by 2020.

Koo Zae Eun said, "The advance into Ukraine will be another starting point for targeting emerging markets to grow LS Mtron into a top 5 global brand."

The Ukraine market is reportedly encouraging AGCO to expand its presence in the country by introducing Valtra tractors, which are produced in Finland and Brazil, as well as selected models in Turkey.

The trade news website Ukraine

Open for Business reports from an agricultural event in Kyiv, the state capital, that the Valtra plant in Finland already produces tractors for other East European countries and these would be introduced to Ukraine through the same distribution network that handles AGCO's high end Fendt products.

Agricultural machinery imports to Ukraine are said to be increasing, despite a 20% state incentive program for farmers buying locally-built equipment. **AEI**

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## 2017: A Bumper Year for Australian Tractor Sales

Farm equipment dealers and distributors in Australia are eagerly awaiting official figures confirming a second bumper year of tractor sales.

Despite some cooling of market sentiment early on in the second-half of 2017, in large part due to a challenging harvest, there was a subsequent mini boom in sales of smaller tractors. This together with a better than expected demand for 100-200 horsepower units had the market heading toward another record.

Sales of large tractors led the market in 2016 notes Gary Northover, executive director of the Tractor & Machinery Assn., Australia's farm equipment trade body, as he looked back on prior year trends.

This resulted in a second consecutive annual market of 10,000-plus units — a scenario last seen in the early 1980s — with a year-end total of near 12,000 tractors up 8% in dollar terms on 2015.

Buoyant demand for large farm trac-

tors continued in the first half of 2017, but it was the strength of the under 40 horsepower "leisure" and rural lifestyle sector that has been the standout trend this year, with sales 16% ahead of 2016 by the end of August.

Distributors selling mainly larger tractors were also buoyed by demand that put the 100-200 horsepower category 13% above the prior year at this time, and 200 horsepower-plus tractors 8% ahead of 2016.

A month later, however, after a very wet period for the country, the market appeared to be slowing for most power sectors. Pundits were predicting a strong, but perhaps not quite as lively, market overall as in 2016.

In September, under 40 horsepower sales were down 10%, easing back to a 12.5% lead over the year prior.

At the same time, the 40-100 horsepower and over 200 horsepower categories saw their lead over the previous year's sales falling to a more modest 5%.

In contrast, more resilient demand than expected for 100-200 horsepower tractors saw monthly sales up 17%, which powered the category to a 13% lead over the 2016 year-to-date figure as dairy farmers in particular continued to invest in tractors of this size and category.

That kept the market 10% ahead of the prior year overall and that figure was further bolstered in subsequent months by a mini boom in small tractor sales. That pick up has seen sub-40 horsepower tractor sales rising by 22% to hold a 9% lead on the prior year figure.

The 40-100 horsepower tractors firmed up at 6% ahead of the year prior and the 100-200 horsepower sector held steady 10% up on the previous year.

Annual sales of more than 12,000 units is anticipated when the final tally is in for the year, up perhaps as much as 7-8% over 2016 in both unit sales and market value.

**AEI**

### FARM MACHINERY TICKER (AS OF 1/10/18)

MANUFACTURERS	Symbol	1/10/18 Price	12/11/17 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	\$58.06	\$53.27	\$60.26	\$47.08	29.43	45,020	937.90M
AGCO	AGCO	\$72.24	\$72.49	\$75.95	\$58.00	28.50	717,670	5.75B
AgJunction Inc.	AJX	\$0.50	\$0.53	\$0.67	\$0.44	—	43,690	58.42M
Alamo	ALG	\$111.85	\$112.75	\$119.58	\$70.53	26.80	61,150	1.30B
Art's Way Mfg.	ARTW	\$3.00	\$3.00	\$4.70	\$2.00	—	22,870	12.48M
Buhler Industries	BUI	\$4.60	\$4.19	\$4.90	\$4.14	219.05	414	115.00M
Caterpillar	CAT	\$165.87	\$143.77	\$167.53	\$90.34	111.10	3,840,000	98.68B
CNH Industrial	CNHI	\$14.22	\$13.05	\$14.48	\$8.74	44.44	1,880,000	19.39B
Deere & Co.	DE	\$164.94	\$151.33	\$168.44	\$103.99	24.69	2,120,000	52.99B
Kubota	KUBTY	\$102.28	\$93.39	\$102.43	\$73.00	19.80	8,390	25.29B
Lindsay	LNN	\$89.17	\$91.61	\$96.22	\$73.34	41.09	96,090	956.03M
Raven Industries	RAVN	\$35.75	\$33.80	\$38.35	\$23.65	35.05	124,030	1.29B
Titan Int'l.	TWI	\$13.18	\$11.86	\$14.23	\$7.97	—	228,940	787.02M
Trimble Navigation	TRMB	\$42.68	\$41.49	\$43.97	\$28.61	56.16	1,010,000	10.75B
Valmont Industries	VMI	\$165.85	\$163.60	\$176.35	\$136.40	19.81	108,880	3.75B
<b>RETAILERS</b>								
Cervus Equipment	CERV	\$15.30	\$15.35	\$15.85	\$10.98	10.15	13,460	238.79M
Rocky Mountain Equipment	RME	\$13.93	\$13.80	\$14.34	\$9.20	13.94	40,100	270.02M
Titan Machinery	TITN	\$23.02	\$21.71	\$23.82	\$11.68	—	207,510	491.01M
Tractor Supply	TSCO	\$78.53	\$67.15	\$79.72	\$49.87	23.27	2,130,000	9.86B

## Irrigation Dealers Hang Modest Growth Hopes for 2018 on Increased Parts & Service Sales

Dealers specializing in selling and servicing irrigation systems are mildly optimistic about their chances for improved sales levels in the year ahead, but most of that optimism is based on increasing sales of parts and service.

According to the results of Seaport Global Securities' and *Ag Equipment Intelligence's* most recent quarterly survey of irrigation equipment retailers, 41% of the dealers surveyed anticipate a revenue increase during 2018. This compares with 24% who saw an increase in 2017. Only 10% see revenues declining this year vs. 45% who saw decreased sales in the past year.

Of the dealers projecting higher revenues in 2018, 14% expect growth of 10% or more, 7% see increases in the 7-10% range, while 21% are forecasting revenues will improve by 2-5%.

Most dealers see their best opportunity to grow sales in the year ahead will come from parts and service. Overall, 69% of dealers see revenue growth from this segment of their business. This compares with only 28% who expect sales of new equipment to increase and 32% who are

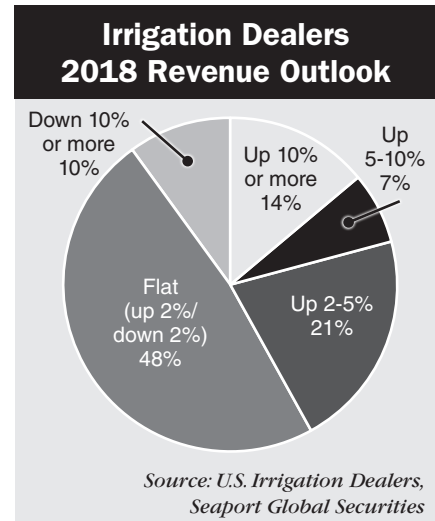
forecasting improved revenues from the sale of used equipment.

"Beyond parts and service, we noted that approximately 30% of dealers expect higher data and subscriptions revenue in 2018, while just 11% expect a decline," Michael Shlisky, analyst for Seaport Global Securities, said in a note. "These data points underscore our recent checks, which found that replacement of worn or damaged parts as well as technological upgrades are expected to be the drivers of growth in the near term."

Dealer commentary on their current business situation was mixed, with views ranging from "Getting stronger slowly" to "The irrigation business is terrible now."

But one dealer who hasn't felt the effects of the ag downturn, said, "We have been blessed to have very high sales volumes in the past 6 years and understood the sales would drop dramatically during this cycle of depressed commodity revenue. We are actually experiencing more optimistic buyers than we anticipated 3-6 months ago!"

Shlisky also noted that he is finding



dealer sentiment to be increasingly bullish. "Net/net, our question about dealer sentiment yielded relatively more positive results from our prior survey. Approximately 38% of the dealers feel more optimistic about their business today as compared to 3 months ago (23% in our third quarter survey), while just 17% feel less optimistic (from 15% in our last survey). The remaining 45% noted that they feel about the same today compared to the third quarter." **AEI**

## Beet Harvester and Sprayer Sales Produce Solid Results for Exel

An effective response to a record order book for new sugar beet harvesters, together with continuing international sprayer sales recovery, helped French equipment manufacturer Exel Industries post record fourth quarter revenue growth. The surge was led by the group's Agrifac and Holmer beet harvester operations as the removal of European tonnage quotas resulted in a 20% increase in the area grown.

"Revenue was €115.9 million (\$135 million) for the fourth quarter alone, which is as much as in the entire previous fiscal year," said Gueric Ballu, Exel CEO. Beet harvester revenue for the year hit €176 million (\$205 million), up more than 50% on the year prior, while agricultural sprayer sales grew more steadily at 4% to produce a fiscal year-end figure of €381 million (\$444 million).

"ET Works, which was acquired by the group in January 2016, returned to growth," says Ballu. "The company had two consecutive quarters of strong growth in the United States, despite the fact that the market has remained slow."

Fourth quarter revenues were up by 10.1% and by more than 34% over the year, and was marked by the launch of Bruin hydrostatic drive sprayers based on a Berthoud design adapted for North American requirements. Exel's ag spraying business grew almost 20% in the fourth quarter. **AEI**

## Deere's Brass See Tax Reform as a Net Positive

Michael Shlisky, analyst, Seaport Global Securities, comments following Deere & Co.'s annual sell-side breakfast in New York, N.Y., on Jan. 9, 2017:

"Deere's CFO, Raj Kalathur, commented briefly on the impact of the recent U.S. tax reform. Net/net, the impact is expected to be positive; while there could be non-cash adjustments to deferred taxes on Deere's books, Deere noted that [about] 55% of its operating income is in the U.S. While a definitive long-term tax rate was not shared, Deere noted it would be below the 32% in current guidance but above the new 21% rate.

"Outside of its own books, Deere believes that improved and permanent Section 179 provisions (both new and used equipment) and tax treatment for both ag and construction/forestry dealers make the farmer and dealer impacts positive as well. Repatriation of cash could lead to additional cash taxes over the next few years." **AEI**



## After a Solid Sales Year, Buhler Aims to Improve Operations Further in 2018

In a refreshingly honest annual report to shareholders, Buhler Industries President Dmitry Lyubimov and CEO Yury Ryazanov admit to some shortcomings in their Winnipeg-based business as well as highlighting the success stories. The company struggled to achieve timely completion and delivery of both Farm King and Versatile products and still has work to do on improving parts operations, service support and dealer communications, they say.

“Significant investment of financial resources and many hours of work were spent on improving our parts business, service support and communications with dealers,” says Ryazanov. “We are still far from perfect, but will continue to work hard on these issues as we have started to see positive results.”

Shipping delays on new and current product are blamed on reduced inventory of wholegoods and components due to market conditions in the past few years. In addition, the company increased product audits as a consequence of a higher level of customer quality expectations.

“Unpredictable demand on some product lines caused supply chain

issues that prevented an increase in production,” adds Ryazanov. “We are implementing new annual booking programs for fiscal year 2018 to improve production forecasting, including the advance purchase of components.”

On a positive note, Buhler Industries recorded a 13.5% increase in sales from C\$274 million (\$218 million) in 2016 to more than C\$311 million (\$248 million) in fiscal year 2017, ended Sept. 30.

“This is the fourth best sales result in the company’s history, which I believe is a great achievement when taking into account the economy and the ag machinery market, which has not recovered yet,” comments Ryazanov. “After several years of a downward sales trend, we have finally seen some stabilization in ag machinery demand.”

“During this time, we are still facing two major negative factors in the market: dealer inventory of new and used equipment and extreme competition for every deal in a fight for market share.”

As a result, Buhler’s gross profit margin of 11.6%, while better than in 2015 and 2016, is below the 15% achieved

Buhler Industries	FY 2016	FY 2017
Revenue	274,067	311,974
Gross profit	21,226	36,153
Gross margin	7.70%	11.60%
Income from operations	-4,668	9,387
Net earnings	-2,677	520
<i>Note: In thousands of Canadian \$</i>		

from 2011-14 and which managers aim to achieve again within 2 years by monitoring efficiency and overhead.

A record C\$9.6 million (\$7.65 million) was invested in R&D and product development during the year with the purpose of bringing continuous new product introductions through 2018-22. The executives say they are committed to maintaining that investment at C\$8-\$9 million (\$6-\$7 million) a year.

“We are more optimistic about 2018 as the market continues to recover and shows signs of growth, but are ready for aggressive competition,” says Ryazanov. “We believe we have everything to be successful: loyal dealers and customers, great brands and a professional team ready to work hard.” **AEI**

## Mahindra Targets \$1 Billion in U.S. Sales by 2020

To establish Mahindra Tractors as a global brand, Mahindra & Mahindra (M&M) is looking to double its business in the U.S. market to \$1 billion by 2020 compared to \$547 million earned during the 2017 financial year.

Rajesh Jejurikar, head of Mahindra U.S.A., part of M&M’s farm equipment business said that the company currently is number one in market share in the U.S. in the 0-80 horsepower segment. Other than expanding its dealer base, the company is also investing in brand, technology, distribution centers and people in an effort to reach its target, Jejurikar said.

He added that this is part of the company’s larger global plans and wants 50% of the total revenue of

the farm equipment division to come from global operations by financial year 2019 vs. 30% in 2015.

To achieve this turnover, the company is looking to target the \$150 billion global farm equipment opportunity of which \$90 billion is the non-tractor market and feels that the company will not only cater to the entire farm value chain, but also go beyond tractors.

M&M’s U.S. tractor business has posted sales increases for the past 3 fiscal years, starting with \$357 million in FY2015, \$504 million in FY2016 and \$547 million in FY 2017.

In October 2017, the company launched a series of products to target the higher horsepower market

and also expanded its distribution channel from 400 to 550 dealers in the U.S. market, Jejurikar said.

He added that the company entered the Mexican market in July 2017 with a retail finance tie up with DLL, which it had done in Brazil in October 2016.

In order to increase its global footprint, the company acquired a 33% stake in Japan-based Mitsubishi Mahindra Agricultural Machinery, a 35% stake in Finland based Sampo Rosenlew and also acquired Turkey based Hisarlar and Erkunt.

Through December FY2017, Mahindra’s domestic tractor sales were up by 16% and exports increased by 7% year-over-year. **AEI**

## South American Ag Equipment Intelligence

### Argentina Seeder Exports Down 66% Since 2014

Argentina's seeder exports reached an average FOB value of \$67,900 per unit and a total of 124 units were sold in 2017, official data reveals. That's up from the average of \$65,700 per unit registered in 2016 when 123 units were sold. The top destinations for Argentinian seeders in the last year were Bolivia (44 units), followed by Italy (12), South Africa (12), Uruguay (10), Paraguay (1), Russia (9), Mexico (4), France (4) and Bulgaria (4). Most sales were made by the company Apache with a revenue of \$1.59 million (19% of the market share), followed by SuperWalter (16%), Gherardi (13.1%), Agrometal (11.6%), Doble TT (11.2%), BTI Agri (7%) and Tanzi (6.3%).

The most expensive models were the recently launched Apache 27,000 for \$95,532, SuperWalter W630 for \$73,000, Doble TT Neozaf 8022 (sugarcane seeder) for \$96,643 and Agrometal TX mega 22/35 for \$90,085.

The appreciation of the Argentinian peso, a product of a low nominal exchange rate combined with high inflation, is seen as an incentive to sell the goods in the domestic markets.

Between 2012-15, due to weaker agricultural business, the domestic demand for seeders was depressed. In this context, the industry focused on export markets to offset the fall off in revenue. In 2015, 172 units were exported at an average of \$65,500, while in 2014 there were sales of 368 units for an average of \$63,400.

### Argentinian Harvester Maker to Close Its Doors

Argentinian harvester manufacturer Vassalli, based in Firmat, province of Santa Fe, announced its intention to reduce the number of employees because the company is seen as "not viable with the risk of closure." In a statement, the firm said, "In the last few years there was a loss between AR\$1-AR\$5 million per month." It also claimed that neither the national or provincial government did not fulfill their promise of financial aid. A local union decided to protest the layoff of 52 employees. "We tried to keep the personnel for over a year, though they were very heavy for the company facing this complex situation," Vassalli pointed out.

The company also explained that their financial problems started in 2014 because the Venezuelan company Compañía de Mecanizado Pedro Camejo defaulted on purchases and broke their agreements with Vassalli. They also said that no one has shown interest in purchasing the company "mostly because of its high production costs."

### Brazil to End Subsidies for All Producers?

The director of Regulation, Supervision and Control of Brazil's Central Bank, Claudio Filgueiras Pacheco, recently released a statement to co-op representatives regarding the Brazilian rural credit system. In it he said the system which makes loans with subsidized rates for the agricultural producers will not endure over time. These loans generally are provided for long term investments, such as machinery, but also sometimes for cashflow and daily expenditures.

The changes in the system are the result of the declining volume of purchases made with cash in the last 5 years. According to Pacheco, not all farmers need this type of support. "The large producer [has access to] credit of R\$800 million and needs the hand of the state, and what about the small producer that needs just R\$50,000," asked he Central Bank director.

In Pacheco's view, the role of the state is to create a regulatory framework that allows the market to work. He does not consider it to be "adequate" that government subsidizes any farmer. The solution he says is to minimize the burdens for credit access, increase the use of technology and reduce costs of observance and surveillance. Pacheco pointed out that 420 Brazilian co-ops that operate with rural credit represent only 14% of the credit available in the market and the co-ops borrow only 2.7% of the resources of credit cooperatives.

**AEI**

## Krone Posts 2.3% Gain in Ag Sales for FY2017

Forage equipment specialist Krone beat its own cautious expectations by racking up another 12 months of sales revenue growth in its financial year to the end of July 2017.

As the German manufacturer celebrated 40 years of round baler production, recovery in milk prices saw more buoyant investment in hay equipment than expected, with the result that revenues in the agricultural division hit €582.8 million — equivalent to \$695.5 — an increase of 2.28% or €13 million (\$15.5 million).

This is the fourth year in a row that Krone's farm equipment operations have recorded increased sales since they dipped in 2014 after hitting a peak of €564 million (\$673 million) in 2013.

The hay equipment division, which contributed approximately 30% to the group's record €1.9 billion (\$2.26 billion) revenues for the 2016-17 financial year — the rest comes from sales of commercial vehicle trailers — benefited mainly from a recovery in milk prices.

Bernard Krone, managing partner of Krone Holdings, says, "Initially, the low milk prices were a concern for our agricultural machinery division, but fortunately these prices recovered significantly during the year."

Sales outside Europe were strong, contributing more than 14% of agricultural division revenues, up from 11% as Western Europe revenues remained flat and Eastern Europe dipped slightly.

Group infrastructure investments during the period focused on the commercial trailers business but the agricultural division did benefit from upgraded processing technologies and manufacturing capacities at the Spelle headquarters factory in Germany.

In the U.S., Krone shelved plans announced in 2016 for a \$12.5 million move from Tennessee to Indiana, which would have involved constructing a new distribution center, showroom and training facility (*see Ag Equipment Intelligence, January 2017*).

**AEI**

## 4WD Tractor Sales Up 27% in December

Sales of large 4WD tractors finished 2017 on a high note, but other big ag equipment — row-crop tractors and combines — ended the sales year in “flat” fashion, according to the latest figures released by the Assn. of Equipment Manufacturers.

Summarizing year-over-year farm machinery sales in December, Mircea (Mig) Dobre, analyst with RW Baird noted, “Large ag equipment retail sales were essentially flat in December with a 4% decline in U.S. sales offset by high-teens growth in Canada. U.S. inventories declined year-over-year in absolute and days-sales terms, especially large ag with more than 10% inventory decreases in all categories. Gradual growth off recent North American large ag bottom, driven by replacement demand remains intact, tax reform impact could further drive demand.”

- 4WD tractor sales increased 27.1% year-over-year in December following the 8.8% decrease in November. Last 3 months (L3M) sales increased 14.8% year-over-year after 14.5% growth in the November L3M period. December typically an above-average month for 4WD tractor sales, accounting for 10.6% of annual sales the last 5 years.

- Row-crop tractor sales declined 4.4% year-over-year after growing 5.4% in November; L3M sales increased 17.4% (November L3M +13.6%). December is typically an above-average month for row-crop tractor sales, accounting for 10.5% of annual sales the last 5 years.

- Combine sales increased 1.6% following 14% growth in November. L3M sales increased 20.7% on a year-over-year basis after a 22.4% L3M increase last month. December is typically an above-average month for combine sales, accounting for 10.4% of annual sales the last 5 years.

- Mid-range tractor sales declined 0.4% after growing 12.5% last month. Compact tractor sales increased 5.6% year-over-year after a 9.9% increase last month. Under 40 horsepower tractor sales reach an all-time high, surpassing 157,000 unit

**AEI**

### DECEMBER U.S. UNIT RETAIL SALES



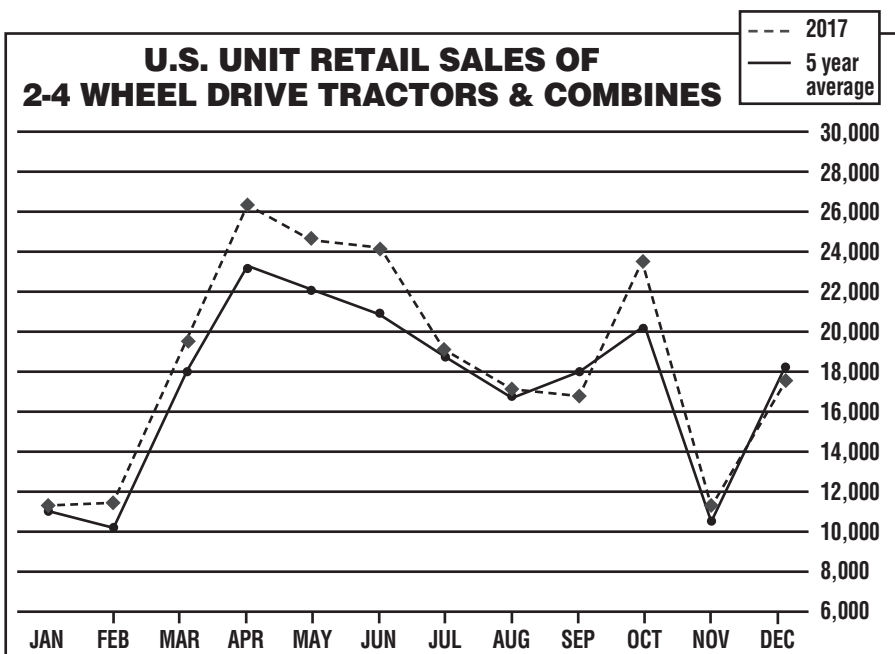
Equipment	December 2017	December 2016	Percent Change	YTD 2017	YTD 2016	Percent Change	Beginning Inventory Dec. 2017
Farm Wheel Tractors-2WD							
Under 40 HP	9,819	9,383	4.6	144,038	133,209	8.1	77,480
40-100 HP	5,606	5,621	-2.0	57,055	57,087	-0.1	31,382
100 HP Plus	1,624	1,754	-7.3	17,026	18,524	-8.1	8,053
Total-2WD	17,049	16,858	1.1	218,119	208,820	4.5	116,915
Total-4WD	283	239	18.4	2,427	2,313	4.9	701
<b>Total Tractors</b>	<b>17,332</b>	<b>17,097</b>	<b>1.4</b>	<b>220,546</b>	<b>211,133</b>	<b>4.5</b>	<b>117,616</b>
<b>SP Combines</b>	<b>475</b>	<b>490</b>	<b>-3.1</b>	<b>4,112</b>	<b>3,971</b>	<b>3.6</b>	<b>626</b>

### DECEMBER CANADIAN UNIT RETAIL SALES



Equipment	December 2017	December 2016	Percent Change	YTD 2017	YTD 2016	Percent Change	Beginning Inventory Dec. 2017
Farm Wheel Tractors-2WD							
Under 40 HP	1,145	1,001	14.4	14,199	11,852	19.8	7,429
40-100 HP	670	580	15.5	6,556	5,852	12.0	3,718
100 HP Plus	350	310	12.9	3,823	3,651	4.7	2,141
Total-2WD	2,165	1,891	14.5	24,578	21,355	15.1	13,288
Total-4WD	130	86	51.2	1,023	822	24.5	276
<b>Total Tractors</b>	<b>2,295</b>	<b>1,977</b>	<b>16.1</b>	<b>25,601</b>	<b>22,177</b>	<b>15.4</b>	<b>13,564</b>
<b>SP Combines</b>	<b>224</b>	<b>198</b>	<b>13.1</b>	<b>2,212</b>	<b>1,785</b>	<b>23.9</b>	<b>348</b>

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



— Assn. of Equipment Manufacturers

## Reducing Costs Helps Claas Finish FY2017 in the Black

Cost-cutting initiatives over the past few years that, among other things, have trimmed the workforce helped the Claas Group almost double its pre-tax profits on moderately higher revenues in the latest financial year.

The Germany-based international manufacturer of tractors and harvest machinery increased sales revenues by 3.6% in a challenging global market for ag machinery, from the equivalent of \$4.27 billion in September 2016 to \$4.43 billion in the same period in 2017. Profit before taxes was up 98% at \$217 million from \$109 million in the prior 12 month period to September 2017.

Hermann Lohbeck, spokesman for the Claas Group executive board, said, "We were able to home in on growth in a stabilizing agricultural engineering

market and significantly improve our profitability at the same time. A strong boost was largely down to the Eastern European market, where good harvests led to a noticeably higher demand for modern agricultural technology."

Market sentiment in South America was also positive, but somewhat mixed in Europe, where markets generally were flat but sales in France fell significantly due to the loss of special tax depreciation for farmers. China and the U.S. also registered a further decline in sales, adds Lohbeck.

But Claas remains optimistic, as evidenced in its sustained spending on research and development, which held steady at the equivalent of \$255 million, which has doubled over the past 10 years.

Claas has also invested "in a working

environment that promotes innovation," say managers. A new electronics development center has been opened, taking another step toward the digital future, and the "Greenhouse," a co-working space for the development of future-orientated business models, is also being built. Construction of a new test and inspection center is underway at the Harzewinkel headquarters factory complex in Germany where combines are built.

Claas managers expect a moderate improvement in the global agricultural engineering markets for 2018, with strengthening of milk prices and an anticipated slight improvement in farm profitability in most parts of the world pointing toward a positive sales trend and stable pre-tax earnings for the group.

**AEI**

## How North American Ag Equipment Dealers Compare with European Counterparts

When it comes to farm equipment revenue mix, European dealers rely far more on new equipment sales and less on used equipment sales than do dealers in the U.S. and Canada. Beyond this, the sales mix for dealers in both regions is fairly similar.

According to a report presented at the November 2017 Agritechnica show in Germany, CLIMMAR, the association of European machinery dealers, covered data from its most recent survey of dealers from 16 countries.

In comparing the CLIMMAR data with that compiled by the Western Equipment Dealers Assn. for its 2017 Cost of Doing Business study, which covers the U.S. and Canada, the most striking difference is the percentage of total revenue from new and used equipment sales.

On average, 56% of European dealers' annual revenues come from new equipment vs. 46% of North American ag machinery sales. When it comes to sales of used equipment, only 15% of European sales comes from second hand equipment compared to 26% of North American dealers' annual revenue. Most of the

Farm Equipment Revenue Mix European & North American Dealerships				
	Revenue	% Revenue	Revenue	% Revenue
New equipment	\$2.0M	56%	\$6.0M	46%
Used equipment	\$538,000	15%	\$3.4M	26%
Service	\$345,000	9%	\$886,000	7%
Parts	\$624,000	17%	\$2.3M	18%
Other	\$153,000	3%	\$445,000	3%
<b>Total</b>	<b>\$3.7M</b>	<b>100%</b>	<b>\$13.0M</b>	<b>100%</b>
Avg. Employees/dealership		9.1		19.3
Avg. revenue/employee*		\$406,593		\$673,575
*calculated Source: European data, CLIMMAR; North American data, Western Equipment Dealers Assn.				

other major revenue segments line up pretty well.

Average total sales are a different story. According to CLIMMAR, on average European dealerships employ 9.1 people. The data from WEDA, indicates the average size of North American dealership staffs is 19.3 people per location.

For European dealers, the average revenue per company is approximately \$2 million, according to CLIMMAR data. For North American dealerships, WEDA reports that it was about \$6

million in 2016. Based on this information, the average revenue per dealership employee in Europe is nearly \$407,000. For U.S. and Canadian farm equipment dealerships revenue per employee is about \$674,000.

According to CLIMMAR, the number of dealerships from the 16 countries it represents is nearly 18,900. Based on the most recent estimates of farm equipment dealerships from *Ag Equipment Intelligence's* Big Dealer reports there are 6,750 locations in the U.S. and Canada.

**AEI**