

# FARM EQUIPMENT'S

# Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer

March 15, 2005

## While 2005 Net Farm Income to Fall 13% in the U.S., Analysts Project Still-Strong Equipment Sales

The USDA forecast of 2005 net farm income is estimated at \$64.4 billion, down 13% from the USDA's 2004 net income forecast of \$73.6, but well above the 1995-2004 average net farm income of \$51.1 billion.

In analyzing the income numbers along with farm receipts and expenses in the USDA Agricultural Baseline Projections to 2014 (see table below), UBS's David Bleustein says, "The primary risk to farm machinery manufacturers is that deterioration in agricultural commodity prices could result in weakness in machinery sales.

"However, we continue to expect 0%-5% growth in U.S. farm machinery sales in 2005, as generally lower farm commodity prices are more than offset by strong livestock profitability, healthy farmer balance sheets, low interest rates, a countercyclical farm program and multiple years of weak farm equipment demand."

Merrill Lynch's Andrew Obin adds, "We view farm cash receipts as the primary driver for agricultural equipment demand and believe the current agricultural equipment cycle is sustainable. Global grain inventories remain at historically low levels, supporting relatively high commodity prices.

"Overall, a near record level of U.S. farm cash receipts in 2005 should support continuing strength in agricultural equipment demand, particularly

large farm equipment (100-plus-hp tractors and combines), which we forecast to increase by 6.0% to 32,200 units in 2005 in the U.S."

He adds that this will still be 18.5% below the previous peak of 39,500 units achieved in 1997 when U.S. farm cash receipts were \$217.9 billion. *AJW*

### KEY MARKET FACTORS TO WATCH FOR IN 2005

Market analyst Arlan Suderman highlights the following key factors to watch as indicators of the farm economy in 2005:

- ✓ **Cheap U.S. Dollar** — Making U.S. commodities easier to compete on the world market.
- ✓ **Changing U.S. and World Weather Patterns** — El Nino, which is currently appearing in the South Pacific, often locks in favorable weather patterns for the U.S. and Midwest.
- ✓ **Energy prices, ethanol vs. crop mix** — Atlanta's January 1 gasoline blending policy will now consume 100 million bushels of corn annually — a significant effect from a single community. Ethanol now requires more corn than what Nebraska — the nation's third-largest corn-producing state — can supply. Another 60 ethanol plans are currently on the drawing boards to support the booming industry.
- ✓ **China's Growth leading up to 2008** — Resulting in a high demand for all commodities.

### FARM RECEIPTS, EXPENSES & INCOME 2003-2004

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<i>Billion dollars</i>												
Cash receipts:												
Crops	106.2	113.2	104.6	106.2	109.9	113.6	117.0	120.1	123.0	125.4	127.8	130.6
Livestock and products	105.5	122.2	117.9	121.0	123.5	124.5	126.2	128.3	130.1	131.2	132.2	133.8
All commodities	211.6	235.4	222.4	227.2	233.4	238.1	243.3	248.5	253.2	256.6	260.0	264.3
Farm-related income	16.3	16.1	16.8	17.2	17.6	18.1	18.5	19.0	19.4	19.9	20.3	20.8
Government payments	15.9	14.5	24.1	18.0	14.3	13.3	11.2	10.9	10.9	11.0	10.9	10.9
Gross cash income	243.9	266.1	263.4	262.4	265.3	269.5	273.0	278.3	283.5	287.4	291.3	296.1
Cash expenses	175.4	188.3	185.3	190.0	195.5	201.0	205.2	209.7	213.5	217.7	221.6	225.9
Net cash income	68.6	77.8	78.1	72.4	69.8	68.5	67.8	68.6	70.0	69.7	69.7	70.2
Value of inventory change	0.8	6.1	-3.4	1.3	1.5	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Non-money income	12.1	12.9	13.4	13.7	14.0	14.2	14.5	14.7	14.9	15.2	15.4	15.7
Gross farm income	256.9	285.0	273.4	277.5	280.8	284.8	288.6	294.1	299.5	303.7	307.8	312.9
Noncash expenses	15.4	16.1	16.6	16.6	16.8	16.9	17.0	17.2	17.3	17.5	17.7	17.9
Operator dwelling expenses	6.8	7.0	7.0	7.1	7.2	7.3	7.4	7.5	7.6	7.7	7.7	7.8
Total production expenses	197.6	211.4	208.9	213.8	219.5	225.2	229.6	234.4	238.4	242.9	247.0	251.6
Net farm income	59.2	73.6	64.4	63.7	61.3	59.6	58.9	59.7	61.1	60.8	60.8	61.3
Farm assets	1,378.8	1,452.9	1,504.5	1,543.2	1,559.7	1,579.6	1,608.5	1,634.0	1,663.1	1,693.5	1,724.1	1,754.2
Farm debt	198.0	205.9	213.3	217.0	218.7	220.4	223.3	226.1	229.0	232.0	235.0	238.0
Farm equity	1,180.8	1,247.0	1,291.2	1,326.1	1,341.0	1,359.2	1,385.2	1,407.8	1,434.0	1,461.5	1,489.1	1,516.2
<i>Percent</i>												
Debt/equity ratio	16.8	16.5	16.5	16.4	16.3	16.2	16.1	16.1	16.0	15.9	15.8	15.7
Debt/assets ratio	14.4	14.2	14.2	14.1	14.0	14.0	13.9	13.8	13.8	13.7	13.6	13.6

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## Deere Posts Record First-Quarter Results, 26% Ag Sales Increase

In late mid-February, Deere reported fiscal first quarter net income of \$222.8 million, a 30% increase over the same period a year ago. Net sales and revenues grew 18% over the first-quarter of last year to \$4.127 billion, with net sales of equipment operations accounting for \$3.526 billion (vs. \$2.912 billion a year ago).

Overall, equipment sales in the U.S. and Canada rose 20% for the quarter.

In the ag division, sales rose 26% for the quarter due to higher shipments that reflect continued strong retail demand as well as improved pricing and currency translations.

Operating profit within the ag equipment division nearly doubled from \$85 million last year to \$163 million this year. Deere attributes this gain to higher worldwide sales and efficiencies related to stronger production volumes, as well as improved pricing that offsets a "significant portion" of increased raw material costs.

"We calculate that incremental margins in the quarter were roughly 19%," says UBS' David Bleustein.

Deere expects farm cash receipts to

### DEERE FIRST QUARTER, ENDED JANUARY 31, 2005 (Millions of dollars)

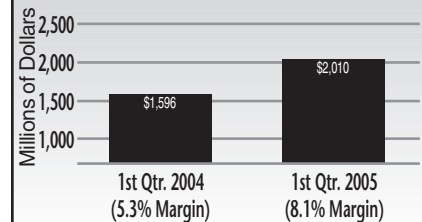
	2005	2004	% Change
Ag equipment net sales	\$2,010	\$1,596	+26
Total net sales and revenues	\$4,127	\$3,484	+18
Ag Equipment operating profit	\$163	\$85	+92
Net Income	\$223	\$171	+30
Net income per share-basic	\$0.90	\$0.70	+29
Net income per share-diluted	\$.89	\$0.68	+31

remain near the record levels of 2004, acknowledging the solid conditions for the livestock and dairy sectors while government payments largely offset the effects of lower commodities. As a result, Deere raised its retail ag sales outlook in the U.S. and Canada from 5% to 5-10% for fiscal 2005. Deere also raised its worldwide ag equipment forecast from 2.5% to 7-9%.

"With demand for farm and construction equipment running at a strong pace, the firm is on track for improved financial performance in 2005," say company officials.

ATW

### DEERE AG SALES



### PRIOR & REVISED SALES OUTLOOK

	Prior FY05	Revised FY05
Ag Equipment Sales	2-5%	7-9%
U.S. & Canada	5%	5-10%
Western Europe	0-(-5%)	0-(-5%)
South America	(-10%)-(-20%)	(-20%)-(-30%)

## U.K. Tractors Sales: Deere Loses Ground, Yet Retains Top Position Over New Holland

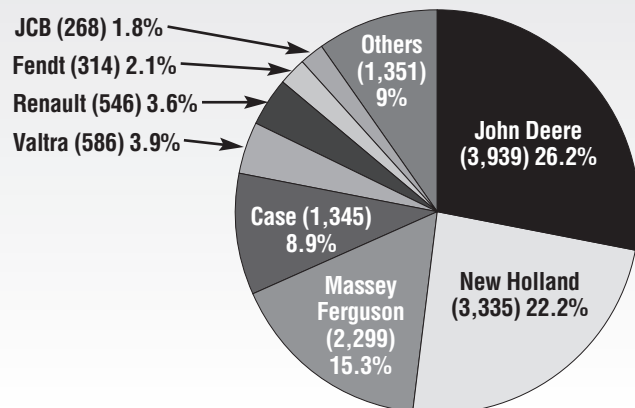
Despite losing some market share in 2003, John Deere remained first in U.K. tractor sales with 26.2% market share, according to a new study released by the Agricultural Engineers Assn. in early February. New Holland followed closely behind, having narrowed its second-place gap by 5 points in 2004.

The biggest percentage gainers from 2002 were seen by New Holland (+3.1%), McCormick (+1.1%), while the largest market share losses were Massey Ferguson (-2.4%), Deere (-1.6%).

When all brands are lumped under the various parent companies' umbrellas, however, CNH takes the top spot. Together, New Holland and Case have a combined market share of 31%. Agco, meanwhile, which owns Massey Ferguson, Fendt and Valtra, finds itself in the No. 3 spot behind Deere.

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### 2003 U.K. TRACTOR MARKET SHARES (units in parentheses)



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## Exports of U.S. Farm Equipment Increase 19% in 2004

U.S. exports of ag machinery totaled almost \$5.7 billion in 2004, a 19% increase over the previous year, according to a global markets report issued by the Assn. of Equipment Manufacturers on February 21. The double-digit improvement is the third consecutive year of growth following a 9% gain in 2003 (\$4.8 billion) and a 6% gain in 2002 (\$4.4 billion). The accompanying table shows the nations buying the most U.S.-made machinery in 2004.

The largest percentage increase came in farm equipment exports to

the Australia region, which grew by 64% in 2004, with purchases totaling \$673 million. Exports to South America increased almost 43% to \$401.5 million, while exports to Central America grew 28% to \$642 million. Asia had a 6% gain, at \$486 million, and Africa improved 17%, to \$179 million.

Europe and Canada bought the most ag machinery from the U.S. in 2004. Europe purchased \$1.7 billion, a 14% gain, and Canada bought \$1.6 billion for a 7% increase.

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### U.S. EQUIP. EXPORTS TOP 10

1. Canada	\$1.6 billion	(+7%)
2. Australia	\$616 million	(+67%)
3. Mexico	\$525 million	(+28%)
4. France	\$297 million	(+ 6%)
5. Germany	\$255 million	(+ 9%)
6. United Kingdom	\$216.5 million	(+10%)
7. Brazil	\$186.5 million	(+45%)
8. Belgium	\$143 million	(-14%)
9. Japan	\$116.5 million	(-8%)
10. South Africa	\$115 million	(+37%)

## World Agricultural Supply & Demand Estimates Bode Well for Farm Equipment Manufacturers

Merrill Lynch & Co.'s Andrew Obin says the World Agricultural Supply & Demand Estimates released by the USDA on March 10 bodes well for U.S. farm cash receipts and manufacturers of agricultural equipment.

USDA raised its price outlook for corn, soybeans and wheat for the 2004-2005 marketing year, citing the ongoing drought in Southern Brazil and the higher prices received by U.S. farmers due to forward-hedging. USDA also raised its outlook for beef and dairy prices.

"We believe that the USDA's current outlook for South America is conservative," says Obin. "There will be further cuts to South American production estimates and a better

commodity price outlook in the next report on April 8."

He also stated that the lower demand forecast for corn is only marginally negative. "The lower outlook for South American soybean production and better overall commodity prices more than offset the news."

Obin says global grain inventories remain at historically low levels, supporting relatively high commodity prices and healthy farm cash receipts for 2005 and beyond. "We believe these conditions should benefit agricultural machinery sales."

UBS' David Bleustein believes the recent increase in corn prices

adds some risk for manufacturers' sales outlooks. Discussing his projections, he notes that "Our thesis hinges on the belief that farmers will produce a smaller crop in 2005, leading to higher prices later in the year. The recent rally in corn and soybean prices increases the risk that farmers will plant more crops in 2005 than originally anticipated."

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### PRICE OUTLOOK 2004-05

	Previous	Revised
Corn	\$1.85-\$2.05	\$1.95-\$2.15
Soybeans	\$4.80-\$5.40	\$5.05-\$5.45
Wheat	\$3.30-\$3.45	\$3.35-\$3.45

### FARM MACHINERY TICKER (AS OF 3/11/2005)

Mfr.	Symbol	3/11/05 Price	2/11/05 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$19.82	\$19.74	\$23.13	\$17.78	10.66	1.35 M	1.79 B
Alamo	ALG	\$24.80	\$25.35	\$29.23	\$14.40	19.08	29,700	241.50 M
Art's Way	ARTW	\$6.58	\$7.30	\$8.79	\$3.98	9.14	6,900	12.75 M
Caterpillar	CAT	\$99.00	\$92.78	\$99.96	\$68.50	17.22	2.97 M	33.95 B
CNH	CNH	\$18.67	\$17.18	\$21.90	\$16.18	22.49	85,300	2.48 B
Deere	DE	\$69.39	\$69.33	\$74.93	\$56.72	12.03	2.03 M	17.20 B
Gehl	GEHL	\$29.74	\$26.81	\$29.85	\$14.80	13.52	38,900	197.62 M
Kubota	KUB	\$27.85	\$27.19	\$28.46	\$19.05	67.83	7,200	7.47 B



# Agco Sales Increase 51% In 2004 With Help From Valtra Acquisition

In its February 22 report, Agco announced that its net sales for 2004 increased 51% over 2003, primarily due to the acquisition of Valtra in January 2004. The company reported sales growth in each of its geographical segments, as well as positive currency translation impacts.

Valtra represented 29% of the growth for the full year, with net sales of \$1 billion. In addition, the consolidation of the GIMA transmission joint venture and the impact of currency translation contributed 68% growth for the full year. The balance of the sales growth was attributable to stronger end markets, particularly in North America and South America.

For the full year of 2004, Agco reported net sales of \$5.27 billion and net income of \$158.8 million (\$1.71 per share), vs. net sales of \$3.5 billion and net income of \$74.4 million (\$0.98 per share) in 2003. Adjusted net income, excluding restructuring and other infrequent expenses, was \$162.4 million (\$1.75 per share), vs. net sales of \$3.5 billion and \$94.2 million (\$1.24 per share) in 2003.

Below is a summary of year-end performance by region:

**North America** — Industry unit retail sales of tractors increased 12% over 2003 with increases in all tractor segments, with the largest growth in high-horsepower equipment. Industry unit retail sales of combines were 41% higher than the prior year. Agco's unit retail sales of tractors and combines were also higher for the full year of 2004 over 2003.

**Western Europe** — Industry unit retail sales of tractors increased 2% over 2003. Retail demand improved in France and Italy, but declined in Finland and in Germany for the higher horsepower sector. Including the impact of Valtra sales in both periods, Agco's unit retail sales for the full year of 2004 also increased when compared to the prior year period.

**South America** — Industry unit retail sales of tractors increased 8% over 2003. Tractor demand declined slightly in Brazil but was offset by significant increases in Argentina and other South American markets.

Industry retail unit sales of combines were 8% higher than 2003, with increases in both Brazil and Argentina. Including the impact of Valtra sales in both periods, Agco's South American unit retail sales of tractors and combines also increased in the full year of 2004 compared to 2003.

**Rest of World Markets** — Outside of North America, Western Europe and South America, Agco's net sales for the full year of 2004, excluding Valtra, were 14% higher than 2003 due to higher sales in Australia, Asia, Eastern Europe and the Middle East.

Martin Richenhagen, Agco president and CEO, expects industry retail sales to be mixed in 2005. "In North America, despite a decline in commodity prices, we expect the end markets to remain at or above current levels as farmers benefit from high farm income generated in 2004," he says.

"In Western Europe, industry

demand is expected to be relatively flat as the benefit of a stronger harvest in 2004 is likely to be offset by lower commodity prices and the impact of the strong Euro. In South America, we expect demand to soften, particularly in the combine market and in Brazil.

"Lower commodity prices, increasing input costs and the weak dollar are expected to impact the soybean sector and delay further farm expansion. As a result, we expect industry demand in 2005 in South America to have meaningful declines from their strong levels of 2004."

Agco's net sales are expected to grow approximately 0-5% in 2005 resulting from currency translation, price realization and increased retail sales in most regions.

The firm's South America operations are expected to negatively impact 2005 results. *A/W*

## AGCO'S YEAR ENDED DECEMBER 31, 2004 (in millions)

	2004	2003
Net sales	\$5,273.3	\$3,495.3
COGS	\$4,320.4	\$2,878.9
Gross profit	\$952.9	\$616.4
Income from operations	\$323.5	\$184.3
Net income	\$158.8	\$74.4
Net income per common share		
Basic	\$1.84	\$0.99
Diluted	\$1.71	\$0.98

## Farm Equipment Industry Newsmakers

**Kuhn Group**, one of Europe's biggest farm machinery manufacturers, has bought the ag division of **Metasa S/A Industria Metalurgica**, a Brazilian manufacturer of no-till precision drills that enjoyed sales of \$30 million last year. A Kuhn spokesman told *A/W's* foreign correspondent that Metasa's \$30-million machinery business will give Kuhn access to the fast-growing South American market and complements Kuhn's existing product lines in world markets. Export sales represent 63% of Kuhn's \$604 million turnover.

Wisconsin's **Gehl Co.**, a worldwide distributor and manufacturer of compact construction and agricultural equipment, announced that it has launched an \$8.7 million expansion of its Yankton, S.D. manufacturing and research and development (R&D) facilities.

**Buhler Industries**, Winnipeg, Canada, will add 100 workers and expand operations in its Fargo, N.D. plant. The 110,000-sq. ft. facility manufactures front-end loaders and

components for other manufacturer

**Orthman Manufacturing** of Lexington, Neb., acquired the assets and products of **Quinstar Equipment Co.**, Quinter, Kan., in February. Orthman continues its growth strategy by adding the Quinstar Broad Acre Tillage and Vertical Tillage product lines to their existing product line-up.

**Raven Industries** of Sioux Falls, S.D., entered into a \$2.8 million purchase agreement on February 18 with **Montgomery Industries** of Stockholm, Sask., Canada. The acquisition gives Raven increased penetration into the agricultural sprayer boom market.

India's **Tractors and Farm Equipment Limited (TAFE)** announced its intent on February 26 to purchase the tractor and engine businesses of **Eicher Motors Ltd. (EML)**, also of India. EML had gross sales of 1,565 crore last year. The purchase would make TAFE the next-largest tractor manufacturer in India, second to **Mahindra**.

## Gehl 2004 Sales Increase 48%, Including 34% Rise in Ag Equipment

Gehl Co., West Bend, Wis., reported annual sales of \$361.6 million for 2004, an increase of \$117.2 million, or 48%, over 2003 when sales finished at \$244.4 million. Net income for 2004 was \$13.4 million, or \$2.20 per share.

The company attributes higher sales and earnings to the overall economic expansion and generally improving

conditions in the construction and agricultural markets, coupled with several new product launches, including its new skid steer loader series.

Construction equipment and agricultural equipment net sales were up 56% and 34%, respectively, in 2004.

Demand for compact construction equipment in the North American market in 2005 is expected to increase 6-9% over 2004 levels, while demand for farm implements in the North American market is projected to be flat to up to 5% compared to 2004.

Based on the current market outlook, the company's 2005 net sales are expected to increase 10-12% over 2004 levels.

"Like several other machinery manufacturers, Gehl's fourth-quarter growth was strong, but rising material costs hindered incremental margin expansion," says Robert McCarthy, Baird/U.S. Equity Research. He added that Gehl's solid backlog, plus a potential boost from a capacity expansion in the second half of 2005, prompts him to believe that management's 2005

sales and earnings per share forecast is beatable, even if near-term margin expansion remains more measured.

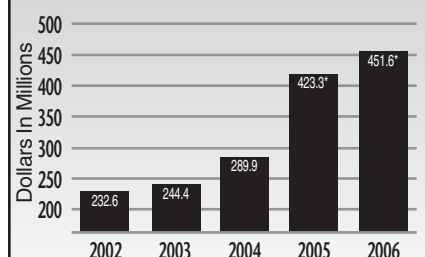
Looking specifically at Gehl's ag business, McCarthy believes that management's 0-5% demand for farm implements is consistent with his view of the market. But because 60% of Gehl's ag equipment sales consist of material handling equipment like telescopic handlers, he says, "we are comfortable forecasting ag equipment segment sales in excess of those industry forecasts."

AJW

### YEAR-END INCOME STATEMENTS (in thousands)

	12/31/04	12/31/03
Net Sales	361,598	244,400
COGS	289,910	192,979
Gross Profit	71,688	51,421
SGA	50,980	46,535
Income from Operations	20,708	4,886
Income Before Taxes	19,985	3,354
Net Income	13,387	2,630
Net Income/Share		
Diluted	\$2.20	\$0.49
Basic	\$2.27	\$0.49

### GEHL TOTAL SALES



\* Estimates

— Baird/U.S. Equity Research

## Titan to Buy Goodyear's Farm Tire Business for \$100 Million

Goodyear Tire & Rubber Co., the nation's largest tiremaker, announced on February 28 that it would sell its farm tire business for \$100 million to tire manufacturer Titan International Inc., Quincy, Ill.

Goodyear's farm tire business employs 800 people, mostly in Freeport, Ill., who make tires for tractors and other farm machines. The deal with Titan includes the plant, property and equipment, and would represent Goodyear's exit from the North American farm business.

Titan employs 1,800 people with sales revenues of \$510.6 million in 2004. Titan expects the purchase to add an additional \$210 million in annual revenues.

"This agreement is important in that it allows Goodyear to sell a non-core asset in a business that has been challenging to our earnings, yet allows continued access to the same high-

quality Goodyear-branded tires from a company that considers the farm business as a core," said Jonathan D. Rich, president of Goodyear's North American Tire Business.

Selling the farm-tire business "is not surprising given Goodyear's expressed intention to focus on the core business of passenger and truck tire manufacturing," says tire industry analyst Robert Ulrich. "They also have a lot of debt and they need to pare that down, so selling unprofitable parts of their business gives them some cash and cuts costs."

The agreement calls for Titan to keep making and selling Goodyear-brand farm tires in North America. Titan, which also makes tires for military and recreational vehicles, will pay Goodyear royalties that weren't disclosed.

The purchase will vault Titan from third- to first-place in market share for

sales of large radial rear tires to farm-equipment makers, Ulrich said. "Titan will have 48% of sales to Bridgestone Corp.'s Firestone's 37%," he said.

The sale must be approved by federal regulators and by members of the United Steelworkers of America. The union is not optimistic about labor negotiations with Titan, citing a "long history of adversarial labor relations" that included a 40-month-long strike in 2001.

Titan Chief Executive Maurice Taylor Jr. said he plans to extend Goodyear's current labor agreement to 700 hourly employees through 2010. He was quoted in *Bloomberg* as saying the union's choice on the sale is "they either accept it or Goodyear will close the plant. There [are] 15 months left on the Goodyear contract, and we have agreed to honor the wages and benefits."

AJW

## Deere, Claas & New Holland Tops in Image in Europe

The German Agricultural Society (DLG) released its first-ever image ranking of farm machinery manufacturers in early March.

A total of 3,760 farmers and farm managers were polled in Germany, France, U.K., Poland, Czech Republic, Hungary and Russia for the study. Each was asked to rank farm machinery manufacturers that they considered to be particularly good and innovative.

As seen in the list at right, the brand name appears despite the impact of mergers, demonstrating the importance of brand recognition.

Deere received the most nominations in five of the seven countries (Claas took the top position in Germany, and Rosselmash took the lead position in Russia). The list at right shows scores out of a possible 175 points. *AIW*

### EUROPEAN IMAGE BAROMETER: FARM MACHINERY

Rank	Manufacturer	Score (out of 175)	Rank	Manufacturer	Score (out of 175)
1.	John Deere	167	16.	Belarus, Minsk Tractors	38
2.	Claas	154	17.	Krone	36
3.	New Holland	139		Ford	36
4.	Fendt	122	19.	McCormick	35
5.	Case	111	20.	Grimme	32
6.	Amazone	103	21.	Fiat	27
7.	Kuhn	99	22.	Pöttinger	26
8.	Massey Ferguson	91	23.	Rosselmash	25
9.	Kverneland	75	24.	JCB	23
10.	Deutz-Fahr	67		Rabe	23
11.	Väderstad	57	26.	Same	21
12.	Horsch	50		Unia Grudzadz	21
13.	Lemken	43		Valtra	21
14.	Renault	41		Volgograd Tractors	21
	Zetor	41			

## Brazilian Equipment Demand Picture Improving Due to Commodities, GMOs

"The negative outlook for agricultural equipment demand in South America, particularly Brazil, due to low soybean prices has been a major concern," says Merrill Lynch's Andrew Obin.

"However, a recent increase in soybean prices and the likely approval of genetically modified (GMO) crops in Brazil should lead to an improved outlook for the incomes of Brazilian farmers in 2005 and better prospects for acreage growth in 2006."

Obin believes that recent weather is producing a net benefit for Brazilian farmers. Soybean prices are up 22%, off their February lows. While hot weather in Southern Brazil is likely to impact

the soybean crop, the majority of the country's soybean production is located in the central and northern regions where the weather conditions have been far more favorable.

"Most Brazilian soybean growers should reap the benefits of higher commodity prices without having to suffer the consequences of a drought," says Obin.

New legislation in Brazil, which just passed both houses of the Brazilian Congress, could lead to a rapid expansion of GMO crops such as Monsanto's Roundup-Ready soybeans (RRSB), which will allow farmers to save \$15/acre (\$0.40/bu.) in pesticide

costs. While black-market RRSBs are grown in Southern Brazil, these seed varieties are not viable in northern regions, which account for 70% of Brazil's 55 million acres of soybeans. The new legislation would allow for the sale of RRSB seeds in tropical soybean varieties suitable for use in the Central and Northern regions.

"Overall, the combination of better commodity prices and increased availability of GMO crops will improve both the near- and long-term outlook for farm incomes in Brazil, sustaining acreage expansion and driving demand for new farm equipment," concludes Obin. *AIW*

## Cautionary Notes Issued on Deere, Agco

In early March, Merrill Lynch's Andrew Obin highlighted several risk factors that could impact stock price objectives for Deere and Agco.

**Risks for Agco:** Obin cited the execution of the recently-completed acquisition of Finland's Valtra and the potential change to the Common Agricultural Policy for ag subsidies in Europe.

**Risks for Deere:** Obin cautions

that another record harvest in the U.S. in 2005 could further depress agricultural commodity prices and lead to weaker U.S. farm cash receipts. This would have a negative impact on sales of large farm equipment (>100 horsepower tractors, four-wheel drive tractors and combines).

Regarding soybean rust, Obin notes that the USDA has estimated that damage could range from \$640 million to \$1.34

billion in the first year of the pathogen's establishment and \$240 million to \$2 billion possible in subsequent years.

"Soybean rust can lower yields by 10% in any U.S. soybean-growing region, and conceivably by 50% in the Southeast," he says. He estimates U.S. soybean producers would have to absorb \$25/acre to control the disease if it occurs. *AIW*

## Analysis of February 2005 Sales Data

According to monthly sales reports (see tables and charts at right), total North American unit sales moderated in February, increasing by 3% vs. one year ago.

According to Baird/U.S. Equity Research's Robert McCarthy, however, analysis of February data should be tempered by the fact that less than 7% of the year's total farm machinery sales are contributed during the month of February. "Sales over the upcoming and more seasonally important months should be more telling of overall 2005 demand," he says.

Looking at the large farm equipment segments in North America (100 HP 2WD, 4WD and combines), Merrill Lynch's Andrew Obin notes that a 15% increase was seen vs. last February, with a huge 86% year-to-year increase for combines.

McCarthy points out that large hp tractor retail sales showed only a 5% year-to-year growth, the slowest rate of growth since May 2004.

While mid-range tractors (40-100 hp) rose 14% year-over-year, both small tractor sales (-6%) and 4WD tractor sales (-17%), fell after 4 and 5 consecutive growth months, respectively. Tractor sales as a whole fell 17%.

McCarthy notes that U.S. dealer inventories of row-crop tractors stretched in January; down 5% compared to the 5-year average. On a days-sale basis, the current level of 103 days is the lowest since December 2001. He added that Deere reports that its order book continues to develop nicely.

Bleustein adds that total inventories of small tractors, utility tractors and 4WD tractors are above last-year's levels, while inventories of row crop tractors and agricultural combines are below year-ago levels.

"Overall, global agricultural fundamentals remain positive," says Obin. "Global inventories remain at historically low levels, supporting relatively high commodity prices and healthy farm cash receipts in 2005 and beyond. We believe these conditions should benefit ag machinery sales." *AJW*

### FEBRUARY U.S. UNIT RETAIL SALES



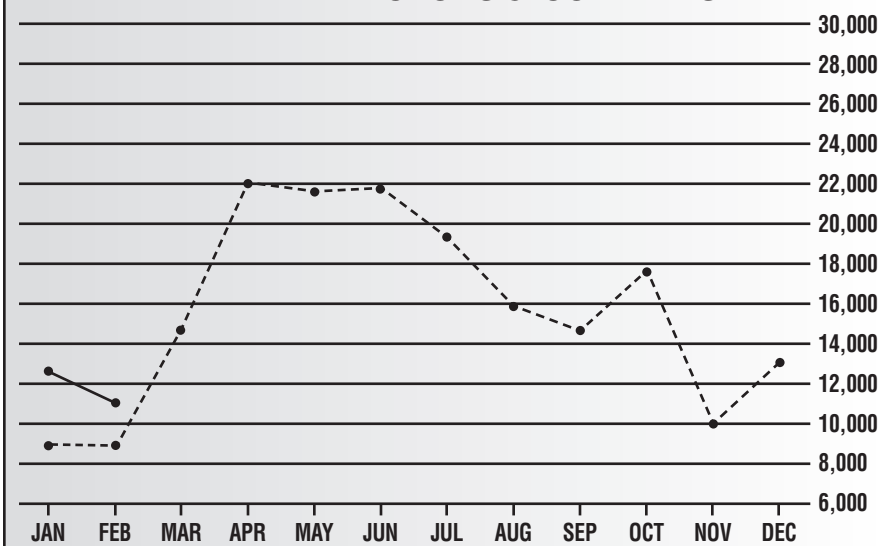
Equipment	February 2005	February 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	January 2005 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	5,625	5,919	-5.0	10,929	10,772	+1.5	55,433
40-100 HP	3,770	3,268	+15.4	8,318	7,061	+17.8	27,309
100 HP Plus	1,220	1,154	+5.7	3,329	2,966	+12.2	5,751
<b>Total-2WD</b>	<b>10,615</b>	<b>10,341</b>	<b>+2.6</b>	<b>22,675</b>	<b>20,799</b>	<b>+8.5</b>	<b>88,493</b>
<b>Total-4WD</b>	<b>158</b>	<b>163</b>	<b>-3.1</b>	<b>425</b>	<b>384</b>	<b>+10.7</b>	<b>902</b>
<b>Total Tractors</b>	<b>10,773</b>	<b>10,504</b>	<b>+2.6</b>	<b>23,001</b>	<b>21,183</b>	<b>+8.6</b>	<b>89,395</b>
<b>SP Combines</b>	<b>249</b>	<b>129</b>	<b>+93.0</b>	<b>605</b>	<b>382</b>	<b>+58.4</b>	<b>986</b>

### FEBRUARY CANADIAN UNIT RETAIL SALES



Equipment	February 2005	February 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	January 2005 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	197	249	-20.9	434	461	-5.9	3,376
40-100 HP	290	282	+2.8	589	605	-2.6	2,201
100 HP Plus	184	136	+35.3	332	267	+24.3	1,415
<b>Total-2WD</b>	<b>671</b>	<b>667</b>	<b>+0.6</b>	<b>1,355</b>	<b>1,333</b>	<b>+1.7</b>	<b>6,992</b>
<b>Total-4WD</b>	<b>12</b>	<b>43</b>	<b>-72.1</b>	<b>38</b>	<b>77</b>	<b>-50.6</b>	<b>174</b>
<b>Total Tractors</b>	<b>683</b>	<b>710</b>	<b>-3.8</b>	<b>1,393</b>	<b>1,410</b>	<b>-1.2</b>	<b>7,166</b>
<b>SP Combines</b>	<b>43</b>	<b>28</b>	<b>+53.6</b>	<b>105</b>	<b>78</b>	<b>+34.6</b>	<b>348</b>

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



—Assn. of Equipment Manufacturers



## European Manufacturers Share Insight into Attractive Export Markets, Growing Pains at Paris Machinery Show

*Ag Industry Watch* assigned a correspondent to report on the SIMA Paris International Agri-Business Show from February 27 to March 3. Attendance at the biennial show was reported to be 200,000, with one-fourth of the visitors representing 107 nations outside of France. International attendance grew 9% over 2003.

According to the *AIW* correspondent, the mood of the attendees and exhibitors was generally positive, although "infectious excitement" was tempered by the reality of still-present global tensions.

Some initial observations from interviews with manufacturers on the show floor appear below. Additional coverage will be seen in future issues of *Ag Industry Watch*.

**Evolving Channels** — There were signs everywhere of the changing business climate as the European Union (EU) continues to mature. Many manufacturers commented on how their distribution models are evolving to accommodate more freedom across the borders of their fellow EU countries.

While this freedom certainly seems to be helping manufacturers with European distribution, it also appears to be baiting many smaller companies into trying to establish a

more global influence.

Eastern Europe, the former Soviet states and South America were mentioned universally by manufacturers as having the most potential for growth over the next 5 years.

**Sales Potential** — When European manufacturers were asked about what nations would receive the most sales development attention in the coming months, Russia, Ukraine, Belarus and Brazil topped the lists.

Perhaps the greatest challenge faced by those wishing to capture business in these growing markets is the lack of structured, reliable distribution. Although a large number of so-called distributors and dealers are knocking on manufacturers' doors, those that can be trusted and relied upon to be around for the long haul remains a big unknown.

The biggest concern of many of these startup distributors and dealers, especially in Russia, Ukraine and Belarus, is how to get farm machinery on the lots. With little or no capital behind them, these startups are pressuring manufacturers to ship equipment to them as complimentary demos or with billing terms suspect. It's a gamble that some manufacturers are apparently taking.

**Exporting Prospects** — The recent weakening of the U.S. dollar

against the Euro provided some encouragement for European manufacturers to consider exporting to existing markets within the U.S. Most, however, remain hesitant, as they don't believe that the exchange differential will continue for a long enough period of time to justify the expense of expansion. Other smaller manufacturers, although intrigued by the prospects of exporting to the states at some future point, feel constrained by their own production capacity. In other words, building equipment for export would come at the expense of meeting increased demand in their home markets.

**Product Line** — On the R&D side, our correspondent noted that it's still apparent that European manufacturers are at the front of the pack in applying ingenuity to high-quality farm equipment.

Rather than focusing on redesigning current products or coming up with new, radical designs, many manufacturers are aiming to find specialized niches for existing products, and putting resources behind exploiting the niche markets. Of the new designs, much of the equipment addressed farmers' concerns over water availability, labor-savings and increasing fuel-prices. *AIW*

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