

# FARM EQUIPMENT'S

# Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer

April 15, 2006

## Gehl Shuts Down Farm Implement Operations After 147 Years

After 147 years of manufacturing farm implements, Gehl Co., headquartered in West Bend, Wis., announced on April 3 that it will discontinue production of its farm implement line. The shut-down is expected to be complete in early June and will idle 140 workers.

The dairy industry has been a prime market for Gehl's implements over the years. Equipment like feeder wagons, manure spreaders and mowers

for hay and forage were the backbone of Gehl's business until the mid-1990s.

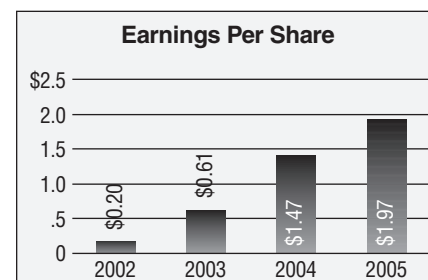
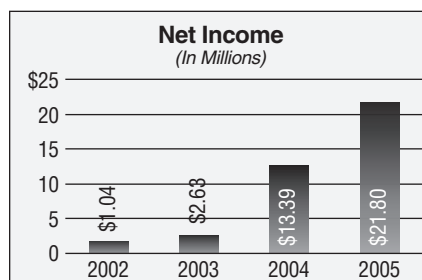
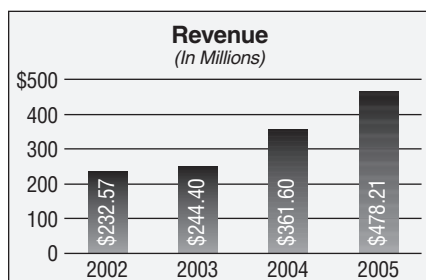
"Over the last 20 years, there has been a continuous consolidation occurring in the U.S. dairy industry," says William D. Gehl, chairman and CEO of Gehl. "Many of our small dairy farmer customers have either retired or sold their operations to larger producers. Consequently, the customer base for our agricultural implement

lines has declined dramatically.

"The decision to discontinue the implement product lines is a response to the ongoing reduction of the company's traditional dairy farmer customer base and the resultant decline in the company's sales and earnings of its implement product lines," Gehl says.

Gehl will continue producing compact skid-steer loaders, compact excavators and other material han-

*Continued on page 2*



Source: Bloomberg LP & Milwaukee Journal Sentinel

## Montana Tractors Aims to Double its Dealer Network in 4 Years

With its goal of becoming one of the top 5 under-100 hp tractor suppliers in the U.S., Montana Tractors, based in Springdale, Ark., is looking to double its dealer distribution network in the next 4 years.

About 275 dealers have taken on Montana's Korean-made tractors, which range in price from \$11,000 to \$30,000. Montana's product line includes 13 tractor models and 29 implements.

Montana has about 3,300 tractors parked on lots around the country, according to reports from the *Arkansas Democrat-Gazette*. Montana-branded oil and gas products are soon to come. The company says 94% of its tractors are sold with at least one implement, such as bale

spears, tillers and post-hole diggers.

The company ended up in the tractor distribution business in 2004 after buying part of the unsold inventory of the now-defunct Agracat Inc., an under-100-hp tractor distributor based in Farmington, Ark. Agracat entered the market in February 2001 and was out of business by December 2004.

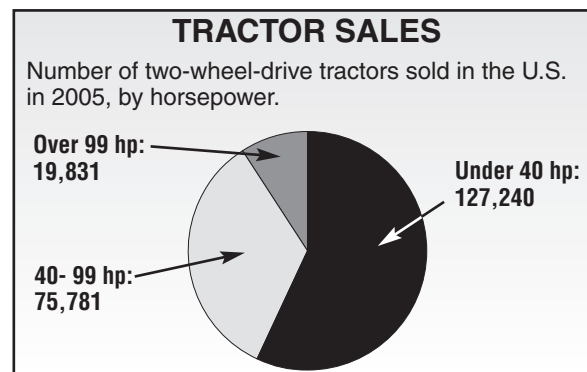
The company is headed by CEO Rodney Miller. Its principal backers include Northwest Arkansas-based trucking magnate J.B. Hunt; Charlie Goforth, owner of Bargo Engineering Co.; and Dan Downing,

owner of accounting firm Downing and Associates.

### Big Market for Small Tractors

From 1992 through 2004, U.S. sales of under-100-hp tractors saw

*Continued on page 3*



Source: Association of Equipment Manufacturers

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*Continued from page 1*

ding equipment for the construction industry at its Yankton and Madison plants in South Dakota.

The decision was made not to spin off the farm implement business to a competitor partly because the company will remain in agriculture through parts, service and sales of its compact construction equipment.

### **Best in the Long Run**

Sales of Gehl's construction and ag equipment in 2005 totaled nearly \$450 million, though only 6.5% of that came from sales of its farm implements. Financial analysts agree that it was the best decision for the firm in the long run.

Baird & Co. analyst Robert McCarthy, who regularly follows Gehl for investors, says, "We view the elimination of the agricultural implements line favorably. The business was suffering losses and most of Gehl's agricultural dealers were already carrying competing lines. The return of working capital alone suggests a quick pay-back on cash restructuring costs.

"I would say this is something that investors had been looking for Gehl to do in order to eliminate what has become a less important and unprofitable product line," McCarthy says.

"It's probably a good thing," says Charles Brady, analyst with Harris Nesbitt Corp in Boston. "I think Gehl has a lot more to gain than to lose" by dropping implements, he says.

While making the plant-closing announcement, Gehl says that it has updated its revenue and earnings out-

look for 2006. Because of the decision, the company now expects net sales from continuing operations to range from \$485 million to \$495 million.

By the end of the day that the company made the plant-closing announcement and raised its revenue and earnings outlook, the value of Gehl's common stock jumped 8.7%.

Gehl says it will continue to sell aftermarket parts for its existing field population of implements.

"The agricultural implements parts business contributed approximately 2% of total 2005 sales and was profitable," according to McCarthy. "Gross margins were well above overall consolidated gross margins. In total, Gehl generated 28% of 2005 total revenue through its agricultural dealer network."

Discontinuing the farm products line will also result in an after-tax charge to 2006 earnings of \$9.5 million. This includes a \$1.4 million cash charge related to severance and other employee costs.

### **Impact on Used Equipment**

Greg Peterson, a used equipment analyst, in an April 6 report said, "I think I'm probably like a lot of farmers and dealers who own and sell Gehl agricultural equipment. I'm wondering if their equipment suddenly just lost value with this announcement. In their press release (on April 3) announcing the discontinuation, Gehl promised support to their dealer network and customers through ongoing parts and service support for the agricultural line of equipment.

"But bottom line, is the 2002 model Gehl 1285 forage chopper in excellent condition with a three-row corn head, 9-foot hayhead, metal stop and kernel processor still worth the \$35,000 a buyer paid back on February 4, 2006 at a farm auction in south-central New York state?," Peterson asks.

"Is it worth less now? If so, how much less? What will it be worth 2, 4, 6 or even 10 years from now? Or what about the 2003 model Gehl 2880 round baler (in good condition) that sold for \$9,000 at a farm auction in northeast Nebraska back in mid-December. Would it sell for that much next week?

"The proof will be in the pudding," says Peterson. "We'll see what Gehl used equipment sells for at auction."

### **Disappearing Markets**

Gehl's decision to eliminate the production of farm implements also serves as a reminder to Wisconsin dairy farmers that the industry there is changing rapidly.

According to the Wisconsin Agricultural Statistics Service, in 1950 there were 143,000 dairy herds in the state. By 2002, the number had shrunk to about 17,800. The industry has continued to consolidate and in 2004 the number of dairy herds in Wisconsin declined to 15,400.

The same trend can be seen nationally. The 1950 census reported 3.6 million dairy farms in the U.S. This shrunk to just 92,000 in 2002. *AWW*

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## **Combine Sales in Brazil Tumble to 30-Year Low**

Brazil's self-propelled combine sales fell during the first 3 months of 2006 to the lowest level for the period since 1976 due to declining demand in the soybean sector of the business, according to Anfavea, a Brazil industry trade association.

Anfavea reports that self-propelled combine sales in the first quarter of

'06 fell by 40% to 395 compared with 658 units in the previous year and 80% less than in the first quarter of 2004.

The association said high costs, particularly for fuel, freight and agrochemicals, and the strong Brazilian real against the dollar, which reduces Brazil's soy business aboard, had an adverse effect on the producer's prof-

it margins. A drought in the southern part of the soy belt during the past two seasons also put small- and medium-sized producers on the verge of ruin.

Anfavea also reports that farm machinery sales were down last month by 4.3%. During the 2006 first quarter, farm equipment turnover fell by 1.1% to 5,816 units. *AWW*

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Continued from page 1

steady gains. The number of units sold went from 34,000 in 1992 to 134,000 in 2004.

Much of the demand for the 100-hp units is coming from hobby farmers. "If you're going to break into this part of the industry, the place to break into is the under 100-hp category," says John Smylie, senior vice president of the Assn. of Equipment Manufacturers (AEM). It is estimated that there are currently 25 or more manufacturers worldwide that sell compact tractors in North America.

AEM statistics show that the sales of tractors in the 40-100 hp range have doubled in the past 20 years. At the same time, units under 40-hp have grown more than 150% since 1985 when sales reached 50,000 tractors. In 2005, 127,000 compact tractors hit the road.

During this same period, the market for the over-100-hp tractors has shrunk dramatically, from 65,000 units in 1985 to 19,800 tractors in 2005.

## Strategies for Growth

In January 2005, Montana Tractors announced the purchase of 80 acres of land in Tarboro, N.C., for \$1.2 million as the next move in its strategic plan for increasing its tractor distribution in the Eastern U.S. The company currently distributes all Montana products from its headquarters in Arkansas.

At the same time, the company also entered into a letter of intent to purchase a minority stake in Beaver Creek Holdings, LLC, which holds 51% of Farmtrac stock. Farmtrac, a Tarboro, N.C.-based tractor distributor was originally incorporated in 1946 as Long Mfg. N.C. Inc. The agreement, pending approval by the Beaver Creek board of directors, furthers Montana Tractors' long-range growth strategy. According to the owners of Montana Tractors, "This fits into our plans to be one of the top 5 tractor suppliers in the U.S. in our horsepower range 20-100

hp by the year 2010."

Buying into Farmtrac could give Montana access to the East Coast company's network of 300 dealers in 32 states. Or, Montana could strike a deal with Escorts Ltd., the Indian tractor manufacturer that owns 75% of the company.

Montana officials said they wouldn't hesitate to sell an Indian-made tractor. "From day one, we have wanted to diversify our portfolio," Miller said. The company already plans to acquire a limited number of Romanian-built tractors.

Montana said this month that it will build a second assembly facility on its North Carolina parcel. Company officials said the Eastern location could help reduce its transportation costs.

Miller foresees some type of acquisition or merger to help it achieve its ambitious growth target. "We're in this thing to stay," he says.

AIW

## STOCK PRICES A SYMBOL OF RISING AG MARKET?

The stock prices for each of the big ag machinery manufacturers rose sharply by early April. Some shareholders on the financial message boards have attributed it to a "rising ag equipment market." Charles Rentschler, Foresight Research, said of the upswing, "People are realizing that these could be very profitable times for farmers in the U.S." He also cited the ethanol picture as a contributor to the optimism, noting that there will be a big increase in corn plantings to meet the ethanol demand. On the other hand, the high PE's (13.23 for Deere, 39.23 for CNH and 61.58 for AGCO as of April 7), are concerns for investors, who are saying that unless good news comes out, the price is likely to fall dramatically.

## Montana Tractors

■ Number of dealerships by state:



SOURCE: Montana Tractors

Arkansas Democrat-Gazette

## FARM MACHINERY TICKER (AS OF 4/12/2006)

Mfr.	Symbol	4/12/06 Price	3/10/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$22.46	\$17.03	\$22.51	\$14.60	64.17	1.54 M	2.03 B
Alamo	ALG	\$21.06	\$22.73	\$24.85	\$18.04	18.47	8,100	205.34 M
Art's Way	ARTW	\$5.90	\$6.08	\$9.78	\$4.50	11.80	4,300	11.61 M
Caterpillar	CAT	\$77.84	\$70.95	\$77.84	\$41.31	19.27	4.46 M	52.22 B
CNH	CNH	\$26.98	\$18.14	\$28.16	\$15.79	14.13	231,800	6.35 B
Deere	DE	\$84.05	\$68.00	\$84.05	\$56.99	11.58	1.95 M	19.72 B
Gehl	GEHL	\$38.74	\$30.00	\$40.73	\$14.83	19.66	140,400	465.27 M
Kubota	KUB	\$55.40	\$47.40	\$57.11	\$24.20	13.66	21,400	14.6 B



## Former Waltherman Implement Customers Accept Case IH Resolution

Case IH, despite extending financial incentives to calm tensions among farmers adversely impacted by the Waltherman Implement bankruptcy in Dike, Iowa, is experiencing what some local dealers are calling a "public relations nightmare."

Waltherman Implement was one of eastern Iowa's larger farm equipment dealerships. Case's lending arm, CNH Capital America, brought involuntary bankruptcy proceedings against the company in October 2005 alleging financial misconduct.

Court documents show that Case IH and CNH Capital claim misappropriation of funds and unpaid debt of \$22 million. It is estimated that hundreds of farmers from Iowa and surrounding states lost thousands of dollars each after the dealership was closed.

According to an April 2 report in the *Waterloo Cedar Falls Courier*, the Case IH offer to former Waltherman customers ranges from a one-time reduced payment on a new combine or large tractor of up to \$10,000 to vouchers for up to \$5,000 in parts, service or new equipment or a combination of those incentives. The majority of farmers, especially those represented by attorney Matt Cronin of Des Moines, accepted the compa-

ny's offer.

"We know the Waltherman situation has caused a lot of pain, and we've worked hard to reach accommodation with the farmers," said Thomas Witom, a Case spokesman. "Case offered incentives, and nearly 100 farmers took advantage of the offer."

"Case made a couple of concessions we felt were important," Cronin said. "We brought those back to the group. They felt it wasn't all that they had hoped for but it was sufficient to put this behind them. None of the farmers were looking to get rich. They just wanted to be treated fairly by a company they had been loyal to."

Despite the incentives, some of the farmers involved are showing their dissatisfaction with how the Waltherman affair was handled by changing equipment colors. Company officials said they are aware of customers switching brands, according to the report.

While Smith International, a Case IH dealer in Waverly, Iowa, didn't lose any customers, general manager Bernard Smith said the fiasco still had an impact. He has noticed used red equipment down the road at Waverly Implement, machines that ordinarily would have wound up on his lot.

"A lot of guys got hurt, and that won't go away. The gate was open, and Deere jumped on the bandwagon," Smith says.

After 48 years of selling farm equipment, Smith said that's just business. He said he probably gained 25 to 30 new customers as well.

Smith plans on keeping his clients. He sells about 160 new or used combines a year, unlike Waltherman, which moved several hundred.

Randy Runge, manager of John Deere dealerships in Grundy Center, Greene and Hampton, said his stores accepted trade-ins of several red combines and tractors after the bankruptcy.

Dean Deike of Deike Implement in Waverly, an AGCO dealer, said he fielded several calls from Waltherman customers but none have pulled the trigger on a new combine yet.

Both dealers said a lot of former Waltherman customers are still deciding what they want to do and are waiting to see how the bankruptcy plays out.

"This is a good-news, bad-news situation. All the area dealers expected (Waltherman's downfall) to happen," Deike said. "We get tarnished a little. I work hard to keep my name good and I don't appreciate it." AWW

### Farm Equipment Industry Notes & Newsmakers

**Bush Hog, LLC**, has named Dennis Webster as its new president & CEO. Webster was with Delphi Automotive since January 2000. He also has 10 years experience at the senior management level in the agriculture and farm implement industry with Case Corp.

**CNH Global N.V.**, Lake Forest, Ill., elected Sergio Marchionne as its new chairman, replacing retiring chairman, Katherine Hudson. It also increased its board by two members to a total of 11 members, effective April 7 at the firm's annual general meeting of shareholders.

**JCB Inc.**, Rotherham, South Yorkshire, Britain, manufacturer of construction, agricultural and materials handling machinery, named Matthew Taylor as new managing director of JCB global sales.

**AGCO**, Duluth, Ga., has announced several personnel moves. Tim Miller is its manager of Dealer Training and Jason Hoult is the new General Marketing Manager for the MT700-MT900 tractor lines.

**McCormick International USA, Inc.**, announced the hiring of Dale Skelton as Logistics Manager for its McCormick and Landini tractor brands in the U.S.A. He will be headquartered in Atlanta, Ga.

**Fiat S.p.A.** announced on March 23 that it will convert its shares in its unit CNH Global N.V. from preferred to common shares will raise its stake in the firm to 90% from 84%.

**Kioti Tractor**, Wendell, N.C., announced it's now offering a 4-year warranty on all of its tractor models.

**Gehl Co.**, West Bend, Wis., announced that it has entered into an asset-backed securitization financing with JPMorgan Chase Bank, N.A. Under the revolving facility, Gehl may sell up to \$300 million of installment sales finance contracts originated through its independent dealers who sell Gehl and Mustang branded equipment. The JPMorgan facility replaces and reinforces a \$150 million program that Gehl put in place in February 2005.

## Growing Exports Push Pottinger Sales Up 22%

Pottinger, the farm implement manufacturer based in Grieskirchen, Austria, achieved its best financial year in the company's history in 2005. With sales of \$187 million, the company exceeded 2004 revenue by 22.3%. Much of the company's growth came from increased exports as international markets now account for 79% of Pottinger's annual sales.

Grassland technology accounted for the highest proportion of sales with nearly 73% of total sales at \$136 million. Tillage and cultivation (15%), spares (9%) and other products (3%) made up the rest of Pottinger sales for the year.

The Pottinger brand is now found in more than 50 markets. Core markets include Germany, France, Switzerland and the Czech Republic. Despite a saturated domestic agricultural equipment market, Pottinger

increased sales in Austria by 1%.

While the trend in ag equipment is moving toward large-scale machinery, the company says that its philosophy dictates continued investment in developing technology for small farms

and Alpine operations.

Pottinger says that it will continue to reinvest 5% of its annual sales in development work, which exceeds the Austrian average of 2.35% and the EU average of 1.9%. *AJW*

### CNH to Consolidate Three Parts Depots into Central Facility

CNH Global N.V., Lake Forest, Ill., announced plans on April 5 to consolidate three of its parts depots into one newer and more strategically located facility.

It will result in the closure of CNH-operated parts distribution operations in St. Paul, Minn., and Kansas City, Kan., and discontinue the use of a third-party-operated facility in Omaha, Neb. Parts distribution operations will be handled through a new, larger and more modern facility in Cameron, Mo.

According to Jim Sharp, president CNH Parts & Service, this action represents continuation of the second phase of a previously announced global plan to improve dealer and customer service, improve efficiency and reduce overall logistics costs of the company's parts distribution network.

"The site being considered is strategically located near the convergence of several interstates, which makes it a logistics and transportation hub," Sharp said.

The plan is expected to take 12 to 15 months to execute. *AJW*

### POTTINGER FINANCIAL DATA 2004-05 (\$ millions)

#### SALES BY MAJOR MARKETS

	2004		2005		Change vs. 2004	
	\$	%	\$	%	\$	%
<b>GERMANY</b>						
Grassland	30.3	71.5	34.1	70.0	3.8	12.6
Tillage	7.1	16.8	8.9	18.1	1.7	23.8
Spare Parts	4.9	11.7	5.8	11.9	0.86	17.5
<b>Total</b>	<b>42.4</b>	<b>100</b>	<b>48.8</b>	<b>100</b>	<b>6.4</b>	<b>15.1</b>
<b>AUSTRIA</b>						
Grassland	25.1	66.3	25.5	64.2	0.37	1.5
Tillage	4.4	11.6	4.3	10.7	-0.12	-2.9
Spare Parts	2.7	7.2	3.0	7.3	0.12	5.9
Misc.	5.7	14.9	7.0	17.7	1.4	24.4
<b>Total</b>	<b>37.9</b>	<b>100</b>	<b>39.6</b>	<b>100</b>	<b>1.7</b>	<b>4.7</b>
<b>FRANCE</b>						
Grassland	12.1	73.4	15.3	72.8	3.2	26.1
Tillage	3.0	17.6	3.8	18.4	1.0	32.7
Spare Parts	1.5	9.0	1.9	8.8	0.37	24.9
<b>Total</b>	<b>16.5</b>	<b>100</b>	<b>21.0</b>	<b>100</b>	<b>4.4</b>	<b>27.2</b>
<b>SWITZERLAND</b>						
Grassland	11.7	87.0	13.9	88.9	2.2	19.0
Tillage	0.86	6.8	0.74	5.0	-0.12	-14.1
Spare Parts	0.86	6.2	0.98	6.1	0.12	13.4
<b>Total</b>	<b>13.5</b>	<b>100</b>	<b>15.7</b>	<b>100</b>	<b>2.2</b>	<b>16.4</b>
<b>CZECH REP/SLOVAKIA</b>						
Grassland	7.1	79.8	14.1	80.9	7.0	98.1
Tillage	0.98	10.8	2.0	11.4	0.98	105.6
Spare Parts	0.86	9.4	1.4	7.7	0.49	60.3
<b>Total</b>	<b>9.0</b>	<b>100</b>	<b>17.5</b>	<b>100</b>	<b>8.6</b>	<b>95.4</b>

#### EXPORT SALES

##### TOTAL EXPORT SALES

Grassland	91.0	76.8	114.4	75.5	23.5	25.8
Tillage	16.5	13.9	24.0	15.8	7.5	45.6
Spare Parts	11.1	9.4	13.2	8.7	2.1	16.4
<b>Total</b>	<b>118.5</b>	<b>100</b>	<b>151.5</b>	<b>100</b>	<b>33.1</b>	<b>27.9</b>
Exports Exc. Germany						
Grassland	60.6	79.7	80.3	78.1	19.7	32.4
Tillage	9.4	12.2	15.1	14.7	5.8	62.3
Spare Parts	6.2	8.1	7.4	7.2	1.2	20.5
<b>Total</b>	<b>76.1</b>	<b>100</b>	<b>102.9</b>	<b>100</b>	<b>26.7</b>	<b>35.1</b>

#### SALES BY EXPORT REGION

	2003-04		2004-05		Change vs. Previous Yr.	
	\$	%	\$	%	\$	%
<b>(technology sales only)</b>						
EU Western Europe	102.5	75.4	118.2	70.4	15.7	15.3
EU Eastern Europe	13.4	9.8	25.1	14.9	11.7	87.2
Western Europe (exc. EU)	13.9	10.2	18.5	11.0	4.6	32.7
Eastern Europe (exc. EU)	0.62	0.4	2.0	1.2	1.4	242.4
Exports Outside Europe	5.5	4.1	4.3	2.6	-1.2	-22.4

## 2005 Net Sales, Revenue Strong for Same Deutz-Fahr

Italy's Same Deutz-Fahr Group reported a strong sales and revenue for 2005. Net sales rose 15% to the equivalent of \$1.15 billion and net income improved by more than 43% to almost \$39 million.

These figures appear to demonstrate progressive strengthening of SDF's financial position in recent years: group sales are moving up again after having leveled off over the past 4 years while net income has climbed at a faster rate from the equivalent of just \$3.18 million in 2001.

In the meantime, SDF has become the largest shareholder in the Deutz engine business with a near 30% stake. The company has signed long-term tractor supply and distribution agreements in north Africa and North America (see *AIW*, December 2005) and acquired a Croatian manufacturer to bolster its performance in the combine harvester market.

"The internationalization objective remains a priority, with group investment of \$182 million over the past 5 years in support of this strategy," says group chairman Vittorio Carozza. "This effort has been sustained essentially from internal funding, given that net borrowing as of the end of 2005 was only \$86 million."

Managing director Massimo Bordi credits the group's 2005 performance in a year when its main geographical market, Western Europe, was generally weak, to a rejuvenation of the group's higher horsepower tractors, which gained market share, maintained sales

volume and secured increased margins.

"Results also benefited from the commercial strategy, which includes a focus on Eastern Europe, the Middle East and Africa that not only involves the supply of finished products but also the transfer of know-how to leading local manufacturers," says Bordi.

Having acquired an influential interest in Deutz and adopted the German diesels across a group tractor range that encompasses a more thorough 'common platform' approach, attention has turned to rejuvenating SDF's poor combine harvester sales: its contribution to group sales fell by almost 65% from 2001 to 2004, when it accounted for barely 1% of revenues.

Having briefly transferred production of its biggest models from Germany to AGCO's Dronningborg facility in Denmark, SDF changed its strategy with the March 2005 acquisition of Duro Dakovic, a Croatian manufacturer building Deutz-Fahr combines under license.

Aldo Carrozza, who heads this unit, says SDF will invest more than \$12 million in the facility as it aims to lift production from the 150 units built last year to 850 a year by 2010 and 1,200 a year by 2015 to claim a 10% share of an estimated 12,000-unit global market.

Western and Eastern Europe, Russia, the Middle East and Africa will again be the focus of SDF's campaign and it seems the company will be content to continue developing straw walkers

rather than rotary separation technology.

"Rotary combines are expensive and I'm not sure that this is the way to achieve higher output," says Carrozza. "Straw walker harvesters are, in our experience, cheaper to operate and maintain."

Product plans for this year include a more powerful version of the current six-walker machine and a new 400-hp seven-walker flagship for the range.

SDF's group objective for 2006, says Massimo Bordi, is to achieve further growth in sales and profitability.

"These are ambitious goals given the adverse conditions caused by European Union policies that penalize lending to agriculture in Europe and the trend in raw materials prices," he says. "But we are able to tackle these adversities thanks to the action taken in recent years, which has made us stronger both in absolute terms and with respect to our competitors." *AIW*

### SAME DEUTZ-FAHR GROUP

Year	Net sales (\$ billion)	Net income (\$ million)
2001	1.01	3.1
2002	0.99	5.9 *
2003	0.99	12.4
2004	1.13	27.0
2005	1.15	38.8

*\*excluding \$30 million gain from sale of AGCO shares; all figures at current exchange rates*

## AGCO Executive Walker Leaves Company; Crain to Fulfill Duties

In an email to AGCO employees and dealers on March 28, Bob Crain, North American senior vice president and general manager, announced that Jim Walker, North American vice president — sales & marketing, was no longer with the firm. Also in that email, Crain announced that he would be assuming Walker's responsibilities.

When *Ag Industry Watch* called AGCO to further explore the matter, a company spokesperson would only verify the language of the email. Other industry insiders shared with *Ag*

*Industry Watch* that the personnel move followed an AGCO dealer meeting in Mexico and that Walker had become a bit of a lightning rod with dealers as of late due to more aggressive measures to win market share from other colors of equipment.

Prior to joining AGCO in 2004, Walker had been a sales and marketing executive at Claas for 16 years, where he had worked alongside current AGCO CEO Martin Richenhagen, who was then a Claas group president. Prior to that, Walker spent 17

years at John Deere.

One industry analyst says that he thought Walker would be missed by AGCO, though he said he has not yet had the opportunity to meet Crain. This analyst surmised that the change could have occurred to "two guys standing on second base," though it was his understanding that Crain was brought in primarily to manage the Challenger "silo." He pointed out that he has heard that Crain was being entrusted with an array of North American operations, not just sales. *AIW*

## March Sales on Pace to Exceed 2006 Forecast

Sales of ag equipment in Canada continued to surge and U.S. levels remained solid through March, according to the latest report from the Assn. of Equipment Manufacturers. With the exception of 100-hp tractor category on a year-to-year basis in the U.S., sales of all other categories of tractors and combines in both countries surpassed levels from a year earlier.

"North American industry retail sales of large farm tractors were strong in March, a seasonably important month as farmers prepare for the spring planting season," says Baird analyst Robert McCarthy.

"Bolstered by the strong March sales, year-to-date agricultural equipment sales appear to be on pace to exceed consensus industry forecasts for 2006."

March is typically the third-most seasonally important month for row-crop tractor sales, contributing an average of 10.6% of annual sales.

North American retail sales of row-crop tractors (2WD, 100-hp and up) increased 13% year-to-year in March but were down 5% in the first quarter of '06.

Combined U.S. and Canadian retail sales of 4WD tractors increased 18% in March following a 56% increase in February. Sales were up nearly 15% in the first 3 months of this year. March is also seasonally important for 4WD tractors, averaging 10.5% of annual sales.

Mid-range (40-100 hp) tractor sales increased 7% in March and were up 6% during the quarter. Demand for mid-range tractors is relatively less dependent on purely agricultural end markets and is typically highest in late spring and early summer.

March combine retail sales increased 35% compared with the same period in '05 and were up 9% during the first quarter. However, the first quarter is by far the seasonally weakest quarter for combine sales.

February U.S. dealer inventories remained below historical levels on a days-sales basis but were above prior-year levels. Inventories of 4WD tractor were down 18% year-to-year, while inventories for other classes of tractors were up 6-38%.

AWW

### MARCH U.S. UNIT RETAIL SALES



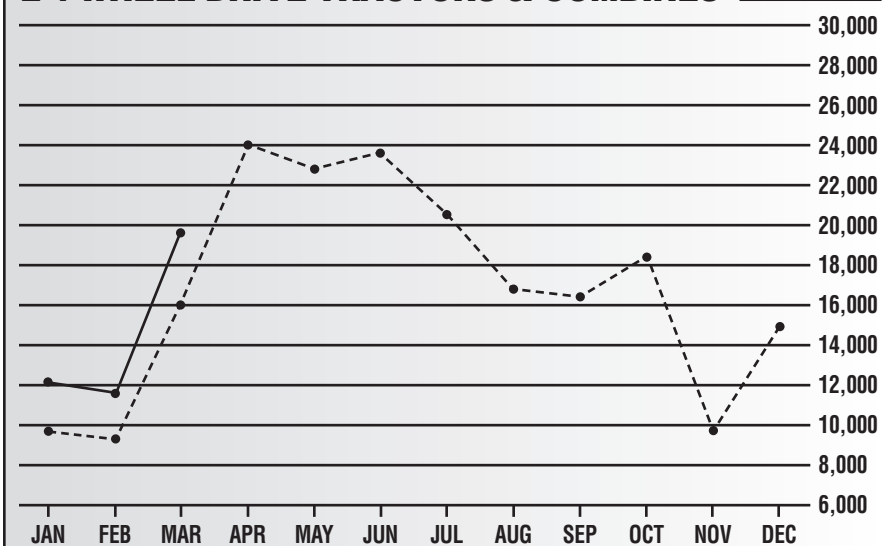
Equipment	March 2006	March 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	February 2006 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	10,575	10,386	1.8	22,106	21,477	2.9	66,538
40-100 HP	6,338	6,063	4.5	14,995	14,358	4.4	32,324
100 HP Plus	2,021	1,873	7.9	4,750	5,183	-8.4	6,246
<b>Total-2WD</b>	<b>18,934</b>	<b>18,322</b>	<b>3.3</b>	<b>41,851</b>	<b>41,018</b>	<b>2.0</b>	<b>105,108</b>
<b>Total-4WD</b>	<b>374</b>	<b>331</b>	<b>13</b>	<b>834</b>	<b>756</b>	<b>10.3</b>	<b>804</b>
<b>Total Tractors</b>	<b>19,308</b>	<b>18,653</b>	<b>3.5</b>	<b>42,685</b>	<b>41,774</b>	<b>2.2</b>	<b>105,912</b>
<b>SP Combines</b>	<b>416</b>	<b>313</b>	<b>32.9</b>	<b>1,006</b>	<b>917</b>	<b>9.7</b>	<b>1,360</b>

### MARCH CANADIAN UNIT RETAIL SALES



Equipment	March 2006	March 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	February 2006 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	458	404	13.4	998	850	17.4	4,542
40-100 HP	528	358	47.5	1,268	954	32.9	2,756
100 HP Plus	380	246	54.5	709	575	23.3	1,530
<b>Total-2WD</b>	<b>1,366</b>	<b>1,008</b>	<b>35.3</b>	<b>2,975</b>	<b>2,379</b>	<b>25.1</b>	<b>8,828</b>
<b>Total-4WD</b>	<b>76</b>	<b>50</b>	<b>52</b>	<b>133</b>	<b>88</b>	<b>51.1</b>	<b>200</b>
<b>Total Tractors</b>	<b>1,442</b>	<b>1,058</b>	<b>36.3</b>	<b>3,108</b>	<b>2,467</b>	<b>26</b>	<b>9,028</b>
<b>SP Combines</b>	<b>86</b>	<b>60</b>	<b>43.3</b>	<b>170</b>	<b>164</b>	<b>3.7</b>	<b>513</b>

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



—Assn. of Equipment Manufacturers



## Alamo's Net Sales Rise, But Earnings Slump 19%

Restructuring charges and weaker agricultural market conditions in both North America and Europe that created a more competitive environment are blamed for a slide in Alamo Group's sales revenues and earnings in 2005.

In reporting the Sequin, Texas-based company's annual results, Ron Robinson, president and CEO, said he expects soft market conditions to extend into 2006, which could limit the group's internal sales growth.

Net sales at the vegetation control specialist were up 5% but earnings slumped 19%. Together with Alamo's acquisition of Spearhead Machinery, which cost about \$6 million a year ago, net sales climbed 8% to \$368 million with net income down 16% at \$11.3 million or \$1.14 per diluted share.

"We are more optimistic about improved margins and earnings potential as the consolidation efforts we are undertaking should start to have a positive impact on our bottom line in the second half of 2006 and more so in 2007," says Robinson.

"Our 2005 results reflect generally weaker market conditions that impacted most of the manufacturing companies in the agricultural sector," he says. "The sales growth we managed to achieve was mainly in our industrial division and from the acquisition of

Spearhead in our European Division.

"The weaker market conditions also affected our margins as a result of more competitive pressure on pricing and terms," Robinson adds. "Also, Alamo was impacted by our decision in the fourth quarter to consolidate some of our manufacturing and engineering functions, which resulted in a charge to our earnings."

This refers to the planned closure of Alamo's Holton, Kan., facility, which produces agricultural equipment, and the transfer of production to the Gibson City, Ill., plant, where a \$3.7 million expansion and machine investment program is underway. The Holton closure, due to be completed in the second quarter of this year, will affect approximately 130 employees while numbers employed in Gibson City will increase by about 100.

Although the move resulted in a \$1.35 million pre-tax charge to earnings in the fourth quarter of 2005, annual savings of \$2.7 to \$3 million beginning in 2007 are projected.

### Division Performance

A drop of nearly 3% in North American agricultural division sales to \$125.9 million in 2005 were offset by a more buoyant performance in the industrial division, where steady improvement in mowing equipment and street sweepers lifted net sales by

10% to \$128.1 million.

The industrial division is set to move further ahead of its agricultural counterpart this year thanks to the acquisition in early February of the Gradall excavator business from JLG Industries. The \$39.4 million purchase adds a complementary product line, a manufacturing facility in New Philadelphia, Ohio, and annual sales revenues, based on last year's figures, of more than \$75 million.

In Europe, Alamo operates manufacturing and distribution companies in Great Britain and France that are focused mainly on agricultural markets. Annual sales there were up 8% to \$104.3 million compared with the same period in the previous year or 18% to \$114.2 million when the Spearhead arm's contribution is added. This was a particularly satisfactory result, says Alamo, given a market weakened by changes in European Union farm support measures that impacted farmer confidence. *AIW*

### ALAMO GROUP

Year	Net sales (\$ million)	Net income (\$ million)
2002	259.44	6.38
2003	279.08	8.04
2004	342.17	13.40
2005	368.10	11.30

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