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While Making Strides, Claas Still Seeks NA Brand Identity

Claas, the Harsewinkel, Germany-based manufacturer of farm equipment and Europe's largest manufacturer of harvesting equipment, is gaining momentum in its attempts to establish a significant presence in the U.S. ag industry. With the construction of its $25 million assembly plant in Omaha, Neb. in 2001, and a distribution and service facility in Columbus, Ind., Claas is starting to make waves in North America.

In 2005, Claas set a record for its worldwide sales of farm equipment as it neared the $2.5 billion mark for the first time. At the same time, as reported in *Ag Industry Watch* (Jan. 2006), Claas reported a "substantial improvement" in North American sales in 2005 as well. Gains in the U.S. market largely came from sales of its Caterpillar-branded Lexion combines. And this is where the Claas brand becomes hazy.

In the U.S., 95% of Lexion combines are sold through Cat Challenger dealers. But many Cat dealers also handle Challenger combines and other farm equipment through Cat's partnership with AGCO, diluting Claas' efforts to firmly establish the Lexion brand and creating a level of confusion for potential customers.

When Challenger rolled out its new 680B model combine and MT900 tractor line earlier this year, it was clearly challenging the Lexion VIII combines and the "Caterpillar" situation became even cloudier. "Yes, it has confused the market a bit," says Russ Green, executive vice president and general manager, Claas-Lexion Div. "But we need them (Cat dealers) to have stellar products at their disposal to meet the needs of the customer. The tractors do that, but the combine has caused some confusion."

Despite this, Claas continues to improve its U.S. market position as it experienced a 37.6% increase in '05 sales revenues from its Omaha-based company.

Green also says that the Claas-Jaguar line of forage equipment is making significant gains in the U.S. markets. Jaguar claims 50% market share worldwide and 40% in North America after 7 years. The company is

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Decision to Drop Implements Leaves Gehl's Ag Dealers in a Quandary

In the wake of its decision to drop production of farm implements, Gehl Co.'s ag dealers are finding themselves in a quandary trying to fill customer needs and fill gaping holes in their product lines.

Gehl is best known for forage harvesters, mixer-feeder mills, disc mowers, manure spreaders, windrow mergers and other related equipment.

In a report in *Country Today* of Eau Claire, Wis., Jim Massey interviewed several Gehl dealers and found them to be generally disgruntled with the way the company handled the decision to exit the farm implement business.

Scott Vanderloop of Vanderloop Equipment in Marathon, Wis., says "We get probably 10 calls a day from farmers. Some people are looking to upgrade their current Gehl stuff to the new Gehl equipment that we have on hand. Unfortunately, a lot of stuff that was on order or on the lot is selling fast."

Vanderloop is one of many implement dealers dealing with Gehl's decision to shut down its agricultural equipment line. The move likely will affect

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DROPPING AG IMPLEMENTS DROPS GEHL'S FIRST-QUARTER PROFITS

Gehl Co., West Bend, Wis., reports that it lost $2.7 million during the first quarter despite a 12.2% increase in sales to a new record high as the firm assumed a $8.9 million after-tax charge to exit the agricultural implement business.

Sales in the 2006 first quarter soared to $122.1 million. A year ago, it earned $4.9 million from narrower sales of $108.9 million.

Nonetheless, the company remains optimistic for 2006 full-year performance. Gehl projects that it will earn $485-$495 million from continuing operations for all of this year.

The company also announced that it is planning a $6.5 million expansion of its Yankton, S.D., facility for producing telehandlers. The expansion is in response to the continuing strength of telehandler markets and Gehl's strong performance in those markets.

The project includes a $2.2 million, 30,000-square foot expansion of the facility as well as $4.3 million in further technological production enhancements to include increased laser cutting, robotics and an entirely new paint system. When completed in January of 2007, telehandler production capacity will be 50% greater than today.

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also making a push with its Cougar brand of mowers, offering the largest unit available with a 45-foot width that fold down to 10 feet for transport.

Tractors on the Horizon?

On another front, Claas may also have designs of getting into the tractor end of the North American ag equipment business. With its acquisition of a controlling interest in Renault Agriculture 3 years ago, Claas has become the market leader in France for farm machinery. The company's tractor sales in Germany grew 35% last year in only its second year of marketing the Claas-branded line.

Green indicates that Claas has no firm plans to introduce a tractor to the North American market — yet. "We think the tractor market here is cluttered but we haven't crossed it off yet; it isn't off the radar as of yet," he says. One stumbling block is the Deere engine, which it would replace upon entering with a tractor stateside.

State-of-the-Art Facility

If there was any doubt about the Claas commitment to move into the U.S. market for forage harvesting equipment, the firm's investment in its state-of-the-art facility built 5 years ago in Omaha should blunt the skepticism. *Ag Industry Watch* editors toured the facility in April.

The 160,000 square-foot plant and assembly complex includes a 40,000 square foot office, showroom and theatre area. Built on a 180-acre site on the outskirts of the city, there is enough room to easily double the size of the current facility.

Following European and Japanese models of establishing a U.S. presence, the facility is for assembly operations only with little or no manufacturing capability. Combine sub-assemblies are shipped from the Harsewinkel complex for final assembly in Nebraska with unspecified North American content. About 90% of the assembly is completed in Germany, with finishing operations completed in Omaha. According to Claas, parts can be shipped from Germany anywhere in the world in 24 hours. AIW

CLAAS: A 93-YEAR HISTORY

The CLAAS group (Claas KGaA) was founded in 1913 by August Claas, the company is still primarily owned today by his son, Dr. Helmut Claas. They are the only two chief executives in its 93-year history of the firm.

Currently Claas employs 8,000 people worldwide, an increase of 2,000 employees during the last 2 years since its Renault tractor acquisition. Claas does business in 180 nations with 15 operations worldwide, including a new facility in Russia patterned after the Omaha plant.

The company claims to be the worldwide market leader in the manufacture and sales of self-propelled forage harvesters, stating that every 1 of 2 forage harvesters is a Claas product.

New Holland Switches Some Combine Production from U.S. to Belgium

European farmers buying a New Holland CR combine for the 2006 harvest will, for the first time, get a machine built in Belgium rather than the U.S.

Adding the two-model high output rotary combine line-up to the product portfolio at CNH Global's Zedelgem factory will ease a capacity squeeze at the Grand Island, Neb. plant, where the CR combines will continue to be made for North American and other markets, while shortening the supply line to European customers.

"It also makes sense to build this combine in Europe because of the clear growth in demand for this size of machine," says Xavier Autonell, New Holland marketing. "Sales of high-capacity rotary combines across Europe have grown from around 11% through the late-1990s to 23% in 2004, with even higher demand in Germany and Great Britain."

British grain farmers are the largest users of big combines; big rotaries now account for more than 40% of the market. Major restructuring in the farming sector has seen growers take on more acres, either by purchasing land or farming neighboring land on contract, and driving down labor and other operating costs by swapping out two or even three harvesters for one higher capacity machine.

According to Paul Freeman, CNH rotary combine specialist, the CR models represent 40% of New Holland combine sales in Britain with the top-performance CR980 model being its best-seller. Typically, this machine will tackle 2,500-3.000 acres of grain yielding 8-10 ton/acre during a 6-7 week harvest season.

Freeman says he welcomes CR production start-up at Zedelgem: "It takes 8 weeks for a combine to reach the U.K. from Grand Island and that puts a lot of pressure on dealers to complete pre-delivery inspections and install combines on-farm as harvesting season approached," he explains.

"A shorter supply line should ease that pressure," Freeman adds. "But it will also be easier to accommodate late changes to specification, channel customer feedback direct to the engineering group; and to take more potential customers to see the Zedelgem factory."

Production is scheduled to rise to 1,300 units this year, says plant manager Zbigniew Pokorski, along with increased volumes of components to CNH's Grand Island, Zedelgem and Curitiba, Brazil combine plants. AIW

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the bottom line of many dealers.

"It's going to affect us big time," says Dave Schellinger, sales manager of Farmers', Inc. in Allenton, Wis. "The red paint — the agricultural part of what they've discontinued — was a very, very important part of our business. We're trying to align ourselves with some other manufacturers to fill some of that product line, but we're not going to be able to fill it all."

Timing Hurts Dealers

Schellinger says he wasn't totally surprised by the Gehl announcement but didn't think it would happen when it did.

"I could see it coming," he says. "They were in a declining market. If they were going to make the decision, I wish they would have made it 4-5 months ago so we would have had time to react for this upcoming season, instead of at the midnight hour, so to speak."

"Gehl has always been known as some of the heavier-built equipment, so it is really going to hurt us (to not be able to sell it)," says Aschliman. "We are hoping that somebody we do business with will buy out that line of equipment."

"With the exit of Gehl, John Deere and New Holland are going to be a little bit happier," Vanderloop says. He admits that he was surprised Gehl did not "spin off" its agricultural equipment line to another company, rather than simply discontinuing the implements altogether.

"All of their agricultural stuff was pretty highly developed equipment on the upper edge of the market," according to Vanderloop. "But I know the population of those machines was declining year after year. It was a business decision (to stop manufacturing the equipment)."

Schellinger said Farmers' Inc. also sells Case IH haying equipment, and that brand will more than likely see an increase in sales this year. But Case IH and other equipment companies won't be able to totally fill Gehl's void.

"With lead times, having to purchase components and steel, and the production schedule, it would be impossible for anyone to gear up and make another 100 choppers for us," he said. "They just can't do it. And in another month or less we're going to start needing them."

Not a Surprise for Some

Chuck Endres, salesman for Mid-State Power & Equipment in Columbus, Wis., says Mid-State owners could "smell this coming," and began phasing out the Gehl equipment line.

"We knew it was coming, so we held back," says Endres. The discontinuation of Gehl equipment likely will affect dealers who have used equipment on their lots. "The resale of that used equipment dropped 20-30% (since the announcement)," he says. "The good Gehl dealers who were really selling a lot of product are going to be devastated." AIW

Vietnam Considers Equipment Purchase Program Program

The Industry Ministry in Vietnam will submit an installment payment program to support the purchase of farm equipment by the country's farmers. At a meeting in Hanoi on April 17, the ministry said that 27 provinces support purchase of farm machines by providing farmers with soft loans. However, the policy isn't meeting needs to purchase equipment to increase ag production. The new policy aims to promote mechanization and increase productivity in rural areas. The ministry proposed the policy on support for farm machine purchases be combined with its poverty reduction program. AIW

Feterl Grain Handling Unit Announces Layoffs

Feterl Manufacturing, Salem, S.D., initiated temporary layoffs on April 27. In the statement, the company reported that its grain-handling unit is under performing; although its other two units (Feterl Crane Service Bodies and Feterl/PUG Utility Vehicles) remained on track. The company said that it made the decision to conserve cash flow by curtailing the manufacture of excess grain handling equipment inventory. The firm attributed the situation to reduced floor plan terms, current dealer inventory levels and a perception of a soft farm market, which it says stems from high costs for fuel, fertilizer and chemicals and dramatic increase in steel prices. AIW

FARM MACHINERY TICKER (AS OF 5/11/2006)

Mfr.	Symbol	5/11/06 Price	4/12/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$27.06	$22.46	$28.69	$14.60	90.20	1.82 M	2.45 B
Alamo	ALG	$21.60	$21.06	$24.85	$18.04	18.95	10,200	210.60 M
Art's Way	ARTW	$8.45	$5.90	$9.19	$4.50	17.98	24,700	16.67 M
Caterpillar	CAT	$79.62	$77.84	$82.03	$44.27	17.97	4.91 M	53.03 B
CNH	CNH	$29.49	$26.98	$30.50	$15.79	35.96	193,300	6.94 B
Deere	DE	$88.62	$84.05	$91.98	$56.99	14.89	2.00 M	20.79 B
Gehl	GEHL	$33.30	$38.74	$40.73	$18.10	16.60	180,800	400.65 M
Kubota	KUB	$57.63	$55.40	$60.60	$25.57	14.19	18,500	1498 B

Despite Profit Slide, AGCO's First Quarter Tops Analyst Expectations

As Duluth, Ga.-based AGCO, announced a 19.5% drop in profits during its first quarter on May 1, its stocks soared because the results beat Wall Street's forecast.

The company earned $17.3 million, or 19 cents a share, in the quarter, compared with $21.5 million, or 23 cents a share, a year ago. Adjusted earnings, which exclude restructuring charges and other items, also totaled 19 cents a share. Analysts polled by Thomson First Call were expecting earnings of 11 cents a share.

First-quarter revenue fell 6.9% to $1.17 billion, hurt by lower seasonal increases in dealer inventories in North America, weaker market conditions in South America and the Asia/Pacific region, and unfavorable currency movements. Still, the top line beat analysts' estimate of $1.14 billion. Excluding the impact of foreign exchange rates, net sales fell 4%, as significant weakness in the Americas was partly offset by improved demand in Europe.

The company expects its 2006 net sales to be slightly below 2005 levels, based on lower industry demand, planned dealer inventory reductions and currency translation. AGCO said actions to reduce seasonal increases in dealer and company inventories will continue to result in lower year-over-year sales and earnings for the first half of 2006.

Analysts are expecting revenue of $5.4 billion for 2006. The company's shares rose $3.32, or 14%, to $26.99 after the announcement on May 1. As of May 11, AGCO shares stood at $27.06.

"Our first quarter results were impacted by our actions to reduce seasonal working capital requirements, particularly in North America," says Martin Richenhagen, president and CEO. "As evidenced by our cash flow results, we reduced our seasonal build of working capital by over $130 million in 2006 compared to the first quarter of 2005.

"Production levels in the first quarter decreased 18% from the first quarter of last year. The balance sheet focus put pressure on net sales and margins, especially in North America," adds Richenhagen.

AGCO said its cash on hand at the end of March was reduced sharply to $52.3 million from $220.6 million last December 31, while its inventory valuation rose to $1.26 billion versus $1.06 billion. Its long-term debt was increased to $889.8 million compared with $841.8 million during the same periods.

Overall Sales Down 7%

Much of AGCO's nearly 20% profit drop resulted from a 7% decrease in worldwide equipment sales during the period compared with a year earlier.

However, its farm tractor sales during the first quarter rose by nearly 5%, with the largest increase in the utility-type tractor segment. The company also reports that industry-wide sales in North America of combines during the first 3 months of 2006 expanded by 13% vs. 1 year ago.

The South American market, where AGCO is particularly strong, was a different matter. The company says industry-wide sales in South America of farm tractors and combines during the 2006 first quarter decreased by 12% and 36%, respectively. Sales in Brazil for the first quarter fell 1% for farm tractors and 40% for combines.

Optimistic Outlook for '06

While reporting the profit falloff during the first quarter, AGCO predicted 2006 earnings would rise 10% on slightly lower sales, compared with a $31.6 million profit a year earlier. The firm plans to improve its working capital utilization this year with higher operating margins and reduced interest expense.

The company sees lower earnings and revenue during the first-half of '06 due to actions to reduce seasonal increases inventories.

AGCO still sees worldwide industry demand for farm machinery during 2006 "modestly" below '05 levels, as demand in North America is expected to remain strong during the same period.

Farm Equipment Industry Notes & Newsmakers

The **J.C. Watts Companies** announced the purchase of Mustang Equipment, an independent equipment dealership with stores in San Antonio and Marble Falls, Texas. The purchase establishes the J.C. Watts Companies as the first African American owned John Deere dealerships in the U.S. Watts is a former U.S. Congressmen from the state of Oklahoma.

DuraTech Industries, Jamestown, N.D., announced the following promotions: Jay Grotrian to president of the company; Bob Strahm to vice president of Sales; Aaron Johnson to vice president of Engineering. DuraTech Industries is now in its 40th year of business, and manufactures the Haybuster agricultural product line.

ECHO, Inc., Lake Zurich, Ill., acquired TerraMarc Industries, the manufacturer of Bear Cat chippers and chipper/shredders, Lockwood potato planting and harvesting implements, and Crary agricultural equipment. Located in West Fargo N.D., the company will operate as a subsidiary of ECHO, Inc. under the name Crary Industries, Inc. The company's 2005 sales were in excess of $35 million.

AGCO SALES BY REGION

	1Q 2005	1Q 2006
Total Revenue *(millions of dollars)*		
– North America	$393	$321
– South America	152	141
– EAME	666	675
– Asia Pacific	46	33
Operating Profit *(millions of dollars)*		
– North America	$3	$(5)
– South America	13	11
– EAME	45	51
– Asia Pacific	8	4
Operating Margin		
– North America	0.7%	–1.7%
– South America	8.2%	7.9%
– EAME	6.8%	7.6%
– Asia Pacific	16.5%	11.3%

EAME — Europe, Africa, Middle East
Source: Foresight Research Solutions

However, reduced North American farm income projections may impact demand for the 2006-full year, the company adds.

Farm machinery demand in Europe during 2006 is seen dropping below 2005 levels due to continuing impact of last year's drought in Southern Europe and changes in subsidy programs.

AGCO says demand in South America also is expected to decline as a result of the strong Brazilian Real on exports of commodities and high farm debt levels. AIW

IS ETHANOL PUBLICITY HELPING OR HURTING AGCO?

The push that ethanol is getting from the mainstream media lately not only makes for a good story, but the hype is also pushing up shares of the "Big 3" ag equipment makers.

According to Stephen Simpson, financial analyst for MSNBC and better known as the "Motley Fool," the recent run-up in stocks of Deere, AGCO and CNH Global have been impressive — 45%, 52% and 70% respectively.

"Unfortunately," he says, "reality doesn't always move at the pace of buy orders. Take the case of AGCO. For the recently completed quarter, the farm machinery company announced that sales were down 7% (about 4% without currency impacts) and adjusted net income per share was down about 21%, while income from continuing operations dropped 17%.

"What's wrong? Are the farmers of the U.S. in cahoots with those evil hedge funds and trying to short ethanol into oblivion?"

"No," says Simpson. "What is happening is called reality (as opposed to hype, promise and potential). Farmers are seeing higher interest rates, higher fuel and fertilizer prices, and uncertainty in farm subsidies. What's more, for all the talk about ethanol as the great American hope, the spot price of corn is up all of 3% from the beginning of this year (and down about 12% from the start of 1998)."

Farmer are stubborn and conservative, Simpson asserts. "Your average farmer is going to be far more concerned with the reality of those interest payments today on a new tractor than the potential that ethanol might increase crop demand and prices at some point.

"I'm not trying to crush the spirits of the ethanol crowd. Rather, I just think those folks expecting instant gratification need a reality check."

In AGCO's case, nearly 60% of its sales come from Europe and dealer inventories are high. The process of working those down is possibly going to keep a lid on financial performance for this year, according to the analyst.

"On the other hand," Simpson points out, "this might be as bad as it gets. Adjusting the dealer inventory situation will be painful, but shouldn't be permanent, likewise for the concerns about demand in Brazil. And if ethanol really does get moving in the U.S., this will ultimately lead to higher prices, more planted acres and more demand for equipment."

Cancelled Tractor Orders Drops Buhler's Earning by 7.6%

The cancellation of a large tractor order to the export market and the relentless strength of the Canadian dollar are cited as the major causes for a precipitous drop in earnings by Buhler Industries, the makers of the Versatile-branded farm tractors.

In announcing financial results for the fiscal second quarter period on April 26, the Winnipeg, Manitoba-based firm reported its earnings ending last March 31 plunged by more than one-half to $1.9 million (Canadian) on a 7.6% drop in revenue. The rising value of the Canadian dollar continued to adversely affect its revenue stream.

Buhler warned there is no "quick fix" to a halt in the erosion of its profit margin. "We will work to implement changes and improve our results in due course," it added.

In addition to the adverse impact of the currency exchange, "We also experienced the cancellation of a significant number of tractor orders from export markets. As stated in our first quarter report, the company began the second quarter with an unprecedented high order book for many of its products, including tractors," it added.

"During the second quarter, we were advised, with little notice, that tractor orders were going to be significantly delayed. In essence 'cancelled.' As this inventory was already built, this not only caused our sales to fall below expectations, but also resulted in continuing high inventory levels. As such, our export markets have proven to be more unpredictable than anticipated. We will take a more cautious approach as we move forward in growing our business in these very important markets."

Buhler said sales in the period fell to $59.1 million (Canadian). A year ago, it earned a wider $4.1 million from higher turnover of $64 million. During the first half of fiscal 2006, Buhler's profit fell to $3.6 million from narrower sales of $98.5 million. This compares to a year-ago gain of $5.7 million from higher revenue of $109.8 million.

Ben Cherniavsky, analyst for Raymond James Equity Research – Canada, says, "Despite the disappointing results, we are not quite ready to turn outright bearish on Buhler as we remain confident in management's ability to navigate through the company's various challenges. We also note that Buhler's U.S. tractor business is showing encouraging signs of improvement, which was validated in part by dealer channel checks we recently made. Shortline product sales also remain healthy and the international market still represents a legitimate and sizable growth."

In the wake of its falling profits, Buhler said it would place restrictions on its research and development spending to conserve cash for the rest of fiscal 2006 ending on September 30 .

"Projects will be prioritized to prevent a negative impact on our business," it added. The firm noted it already has spent $2 million on R&D projects. The company also said that it is scrutinizing its sales and administration costs to conserve more cash for the balance of fiscal '06.

Despite its falling profits, the company intends to increase payment of the annual dividend for fiscal 2006. Buhler paid a fiscal 2005 dividend of $0.15 (Canadian) per common share to its stockholders.

The company is predicting its gross profit margin for all of fiscal 2006 would come in at 18-20% vs. 18.3% in fiscal 2005. During the first half of fiscal 2006, gross margins rose to 19.9%. AIW

CNH First Quarter Profits Rise on 5.3% Sales Gain

On May 2, CNH Global, N.V., reported its earnings during the first quarter of this year rose on a 5.3% gain in sales as major markets for its vehicles continued to expand, strong customer response to the company's new brand focus and higher margins.

The Lake Forest, Ill.-based equipment maker reports that it earned $43 million during the first 3 months of the year on higher sales of $3.16 billion. A year ago, it netted a narrower $15 million from a turnover of $3 billion.

"Our results show that CNH's renewed focus on customers and dealers, through its new global brand structure implemented last year, is gaining traction," says Harold Boyanovsky, CNH president and chief executive officer. "Our global brands organization — Case IH and New Holland in agricultural equipment and Case and New Holland Construction in construction equipment — is making an impact in the marketplace. We now expect our net sales of equipment for the full year will rise by about 5-10%.

"We are particularly pleased by the 2 percentage point improvement in our equipment operations' gross margin," Boyanovsky said. "We are on track for another year of improved results."

CNH Global says the value of its finished goods inventories (fully-assembled vehicles, etc.) rose to $1.87 billion at the end of the 2006 first quarter vs. $1.78 billion at the end of last year. Overall debt generated by its equipment operations was slashed in half to $621 million at the end of last March from $1.55 billion one year ago.

CNH Global said gross margins generated by its equipment operations increased during 2006's first quarter to 16.5%, a 2% increase from last year. Its farm machinery production rose by 23% over retail during the first quarter of 2006 from a year ago and output of construction machinery also increased 13% over retail during the period.

Ag Equipment Sales Up 2%

The company reports that agricultural equipment net sales were $2 billion for the first quarter, essentially at the same level as the prior year, but up 2% excluding currency variations.

Excluding currency variations, sales in North America are up 7% and sales in rest-of-world markets were up 14%, while sales in Western Europe declined by 4%. Sales in Latin America declined by 18% as the market for combines continued to decline more than anticipated.

Total retail unit sales of CNH's agricultural tractors and combines increased by 11% compared to the first quarter last year. First quarter 2006 production of agricultural tractors and combines was higher than retail, following the company's normal seasonal pattern to increase company and dealer inventories in anticipation of the spring selling season.

Equipment operations' gross margin for agricultural and construction equipment was $488 million in the first quarter of 2006, compared to $409 million in the first quarter of last year. As a percent of net sales, gross margin was 16.5% for the first quarter of 2006, up 2% from the first quarter of 2005.

Ag equipment gross margin increased in both dollars and as a percent of net sales compared to the prior year's first quarter. The improvement was more than accounted for by positive net pricing which was higher than currency and economics cost changes.

Tractors Up, Combines Down

CNH is projecting worldwide industry unit retail sales of agricultural tractors for the full year 2006 will be slightly higher than in 2005. Industry unit retail sales of under-40 hp tractors in North America are expected to be down 5-10% from the high levels of 2005.

Sales of over-40 hp tractors in North America are expected to remain about the same level as in 2005. Ag tractor markets in Western Europe and Latin America could be down as much as 5%, but tractor industry unit retail sales in rest-of-world markets are now expected to be up 10-15%.

Worldwide industry unit retail sales of combine may be down about 10%, with North America down about 5% and Western Europe and rest-of-world Markets down 5-10%. Industry sales in Latin America could be down 30-35%, continuing the decline which started in the fourth quarter of 2004. AIW

CNH OPERATIONS 2005 VS. 2006

	2005		2006	
	1Q-A	Total-A	1Q-A	Total-E
Revenue *(million of dollars)*				
– Ag Equipment	$1,931	$7,843	$1,935	$7,985
– Const. Equipment	892	3,963	1,015	4,540
Total	2,823	11,806	2,950	12,525
Operating Profit *(million of dollars)*				
– Ag Equipment	$73	$340	$79	$364
– Const. Equipment	26	265	75	362
Total	99	605	154	726
Operating Margin				
– Ag Equipment	3.8%	4.3%	4.1%	4.6%
– Const. Equipment	2.9%	6.7%	7.4%	8.0%
Total	3.5%	5.1%	5.2%	5.8%

A = actual; E = estimated • Source: Foresight Research Solutions

FIRM PROJECTS RISING TRACTOR SALES

In an April 19 research report, Zacks Equity Research reported that the sharp rise in farm income — resulting from higher agricultural prices — should lead to accelerated purchases of farm tractors.

The statement was made in a recommendation on CNH Global stocks, in which the firm upgraded CNH from sell to hold. It reported that the recent stock price advance has factored in the improving NA agricultural equipment market.

"Regrettably, Latin America and Europe continue to struggle with sluggish demand conditions. Even though we expect a gradual EPS recovery in late 2006, the stock remains expensive relative to peers. We recommend investors hold shares of CNH."

April Sales Dip Ends 2-Month Expansion

U.S. sales of farm tractors and self-propelled combines ended a 2-month expansion after declining by 4.8% in April, according to data from the Assn. of Equipment Manufacturers. Sales of farm tractors and self-propelled combines in Canada also fell in April for the first time this year, slipping by 7.7%.

Baird analyst Robert McCarthy, highlighted the importance of sales during April in his summary of monthly results:

♦ North American sales of 100-hp and larger row crop tractors declined on a year-to-date basis in April, leaving sales 7% below 2005 levels. April is the seasonally most important month for row-crop tractor sales, contributing an average of 14% of annual sales.

♦ North American sales of 4-WD tractors dropped 41% in April following a 15% increase in March, and are down 13% for '06 so far. April is the seasonally most important month for 4-WD tractors sales, averaging 18% of annual sales.

♦ April retail sales of combines fell 12% compared to the same period a year ago, but remain up 2% for the year. However, the January-April period is a typically seasonally weak period for combine sales, accounting for only 20% of average annual sales.

♦ Mid-range (40-100 hp) tractor sales were flat in April and up 4% for the year. Demand for mid-range tractors is relatively less dependent on agricultural end markets.

♦ March U.S. farm equipment dealer inventories increased sequentially on a days-sales basis. Mid-range tractor inventories remained 10% above prior-year levels, while row-crop and 4-WD tractor inventories were 1% and 24%, respectively, below prior-year levels.

McCarthy concludes that, "In contrast to strong March sales, industry retail sales of large farm tractors declined significantly in April — the seasonally most important month — bringing year-to-date equipment sales back in line with consensus industry forecasts for '06, which generally called for 5-10% declines." AIW

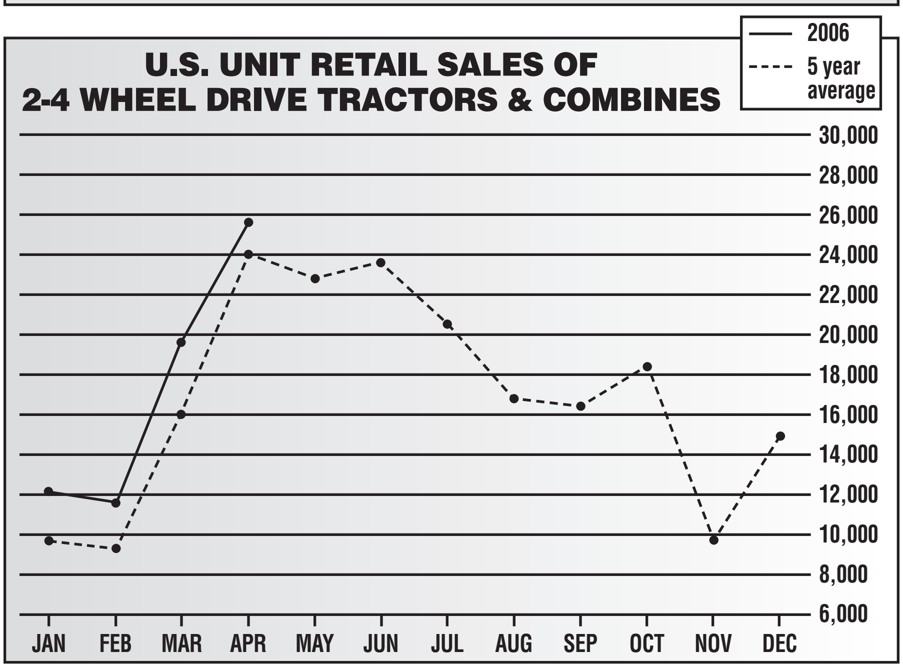
APRIL U.S. UNIT RETAIL SALES

Equipment	April 2006	April 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	March 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	14,684	15,246	–3.7	37,107	36,722	1.0	75,155
40-100 HP	7,947	7,820	1.6	22,987	22,177	3.7	35,165
100 HP Plus	2,249	2,764	–18.6	6,991	7,947	–12.0	6,341
Total-2WD	24,880	25,830	–3.7	67,085	66,846	0.4	116,661
Total-4WD	352	657	–46.4	1,185	1,413	–16.1	921
Total Tractors	25,232	26,487	–4.7	68,270	68,259	0.0	117,582
SP Combines	414	461	–10.2	1,420	1,378	3.0	1,336

APRIL CANADIAN UNIT RETAIL SALES

Equipment	April 2006	April 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	March 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	943	909	3.7	1,970	1,759	12.0	5,386
40-100 HP	650	791	–17.8	1,924	1,745	10.3	3,106
100 HP Plus	493	524	–5.9	1,201	1,099	9.3	1,692
Total-2WD	2,086	2,224	–6.2	5,095	4,603	10.7	10,184
Total-4WD	141	176	–19.9	274	264	3.8	281
Total Tractors	2,227	2,400	–7.2	5,369	4,867	10.3	10,465
SP Combines	95	117	–18.8	265	281	–5.7	460

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



—Assn. of Equipment Manufacturers

Kverneland to Close German Plant to Reduce Vineyard Operations

Plans to close a manufacturing plant in Germany, downsize vineyard equipment operations in France and raise new credit and investment funds are Kverneland's latest moves in restructuring its global business.

The world's biggest farm implement manufacturer is striving to reduce costs and stop a slide in profitability that saw a loss equivalent to $14 million in 2004 following a modest $5.2 million profit on group revenues worth $600 million the year before. The latest changes affect its grass equipment and vineyard equipment divisions.

In Germany, Kverneland will close the Gottmadingen facility, which manufactures hay tools sold under the Vicon name and by SDF Group under the Deutz-Fahr brand. About 225 employees will be affected.

Commercial and product management, as well as R&D activities, will remain but manufacture and assembly will be transferred to group factories in Geldrop near Amsterdam, Netherlands, and Kerteminde in Denmark, home of the Taarup range of grass harvesting machinery.

In the vineyard equipment division (which Kverneland says has been hit by a 35% drop in world demand for grape harvesters over the past 5 years) the Gregoire harvester business in southwest France acquired in 2000 will be further downsized and the company's 50% interest in the Bobard straddle tractor operation in France will be sold to the partner shareholder.

Kverneland says these changes will cost nearly $25 million, approximately $20 million of which was charged off in 2005. A similar sum for restructuring was charged to the 2004 accounts. Starting in '06, the moves are expected to yield annual savings of around $11.5 million.

> ***"These changes will cost nearly $25 million . . . A similar sum for restructuring was charged in 2004."***

Financial restructuring of the Norway-based group centers on a renegotiated 5-year multi-currency revolving credit facility worth the equivalent of $142 million, a $47.5 million overdraft facility and a 3 million share rights issue, underwritten by the institutional investors that are the group's 5 biggest shareholders. The shares, which are due to join Kverneland's current listing on the Oslo stock exchange, are expected to raise almost $30 million in new capital.

Kverneland hopes to make inroads into new markets by establishing a representative office in Beijing and a sales and marketing operation in Moscow. It has also signed a distribution agreement in Turkey with Uzel Group, the country's biggest farm tractor and equipment manufacturer, which claims $550 million sales from its domestic and export sales. AIW

KVERNELAND PLANS NEW PLANT IN RUSSIA TO BUILD CONSERVATION-TILL EQUIPMENT

The Kverneland Group announced on April 24 plans to start up an assembly plant in Russia to manufacture conservation-tillage products. Production will initially be high-capacity air seeders for markets in Russia and the CIS. Test production is planned to begin in the fourth quarter of 2006.

The plant will be located in Lipetsk, approximately 450 km south east of Moscow. The Lipetsk region has significant steelmaking capabilities and other manufacturing capacity. The region is also located inside the fertile black soil belt, which offers strong potential for the sale of farm.