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FARM EQUIPMENT's Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer July 15, 2006

Is AGCO Streamlining Its Multi-Brand Strategy?

Industry Web site message boards are rife with speculation these days that AGCO, Duluth, Ga., will soon be announcing plans to streamline its ag equipment product lines and settle on 3 cornerstone brands: Massey-Ferguson, AGCO and Challenger.

Some industry observers have taken to calling these the "ROY" brands – red, orange and yellow — and say this is a move in the right direction for AGCO, which now manufactures and markets a plethora of tractors and farm equipment of nearly every make and color.

One dealer writes, "At the dealer interface meeting in Las Vegas, the top leadership announced that for the North American market, they were moving towards 3 "cornerstone" brands — Massey Ferguson, AGCO and Challenger.

"There were many questions about the Hesston and Gleaner brands. We were assured the products would not disappear, but those assurances were not made about the brands themselves. Questions were raised about color schemes of equipment, but those were not answered either. In the middle of August in St. Louis (during the AGCO dealers' meeting) there is going to be a large new product introduction. I presume many of the dealer questions will be answered then."

Another dealer writes, "Expect to see a class VIII combine from both Massey and Gleaner, plus the introduction of an all-new 4-wheel drive tractor, (not the Challenger 900 series). It may even have a CVT transmission in it. We could also see at this time a new addition to the AGCO DT line in the 300-PTO hp range. Not sure if we will see it in August or not, but it is coming. Then in 2007, the tractors get a new cab, with an optional reverse station, like Fendt offers now."

One writer believes this is a bold move on the part of AGCO, but poses several questions about the details of the strategy.

"Yes, after the fashion of big green, Bob Ratlif's (retired AGCO CEO) original plan has run its course. All new equipment will be upgraded — New Idea, Hesston, or whatever — and all models will sport Massey Ferguson red, AGCO orange or Challenger yellow. Now, every owner of a red, yellow or orange powerplant will have a matching name and color hooked

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Gehl Feeling the Effects of Dropping Ag Products

After announcing in April that it was dropping production of its line of ag implements, Gehl Co.'s transition to building and marketing strictly compact construction equipment may not be going quite as smoothly as it hoped.

Baird analyst Robert McCarthy, while indicating that he remains "incrementally positive" on the 2007 prospects for the West Bend, Wis. firm, trimmed his price target on Gehl stocks to $32 from $37 per share.

Among the issues confronting Gehl is its lack of a complete distribution network as well as the high costs of materials and third-party manufacturing.

McCarthy notes that Gehl's "withdrawal from farm machinery equipment product ranges could potentially adversely impact distribution network relationships."

While many of Gehl's ag equipment dealers say they felt the decision to abandon farm products was coming, the timing of the announcement didn't leave them time to order other equipment to meet customer requirements. (See *Ag Industry Watch*, May 2005, "Decision to Drop Implements Leaves Gehl's Ag Dealers in a Quandary.")

Gehl estimates that it has achieved only 60% of its desired dealer network coverage and has not added any new dealers recently because of capacity constraints in the manufacture of its telehandler products.

"Despite significant increases in production volumes, Gehl has not added a new telehandler dealer in at least 18 months," says McCarthy.

Gehl believes the $6.5 million expansion of its Yankton, S.D., facility, which will increase its telehandler capacity by 50%, will ease its capacity constraints. This, according to McCarthy, could facilitate market share gains and support 2007 revenue growth even if industry sales growth were to become more sluggish.

The company also plans to bring some of its out-sourced manufacturing in-house during the next 3-5 years as well as becoming more active in sourcing initiatives.

The company also notes that it may potentially bring other manufacturing in-house that is currently sourced from third parties to further reduce costs. AIW

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behind them, just like Deere.

"The question is what will happen to total sales since now almost 'NO' Deere, CIH, NH and shortline independent dealers will be able to sell the lines of equipment as cross branding goes into history. This is meant to strengthen the AGCO 'ROY' dealers. Another question is will the Deere guy who pulled a rust-bucket-red Hesston or red New Idea mower now pull an AGCO orange or MF red baler, planter or manure spreader?"

Another dealer indicates he's behind the move all the way. "AGCO is strengthening its dealers with the 3 cornerstone brands.

"They want dedicated full-line dealers. We are 100% behind this. There are going to be changes and not everyone likes changes, but we feel it is in the best interest and future growth of AGCO. We'll also be seeing more new products in St Louis in August.

"We are excited about the future possibilities and more innovative products that AGCO will bring to the market. AGCO has created a tremendous amount of customer attention with recent introductions especially the PowerMAXX CVT the only true CVT in the market. I see increased sales and new opportunities and a stronger dealer network." AIW

AGCO TO BUILD NEW EUROPEAN HYBRID COMBINES IN DENMARK

AGCO announced on June 20 that it plans to manufacture a new series of European hybrid combines at an existing site in Randers, Denmark. AGCO says it would begin to deliver the new, self-propelled combines in time for the 2008 harvest.

The company also indicated that its 2006 output of 8 styles of walker combines produced at Randers would be 40% more when compared to what was produced at the plant in 2005.

AGCO disclosed last July plans to outsource low- and medium-duty Fendt branded harvester production to its Italian farm machinery competitor, the Argo group. Production was shifted from AGCO's Randers site in Denmark where it reduced the number of employees by 300 to fewer than 100. AGCO earmarked its Randers site for the assembly of high-end farm equipment.

In addition to Randers, Denmark, AGCO also manufactures combines in North America and South America and Breganze, Italy.

Mahindra's Attempt to Acquire Romanian Tractor Maker Stalls

Indian tractor maker Mahindra & Mahindra (M&M) says it remains interested in acquiring Romanian firm Tractorul Brasov and is open to offers of terms from the government's state assets agency.

However, talks are off for the moment. The agency could not guarantee that the state debt write-offs included in M&M's bid for the Romanian tractor business would not be challenged by either the country's own competitions authority or the European Union.

Selling off Tractorul, which produces tractors under the UTB/Universal names, has proved a tough challenge for the AVAS agency charged with transferring state assets to the private sector.

A prospective takeover by Landini, part of the ARGO Group, reached an advanced stage before questions over debt write-off caused the Italians to withdraw.

M&M was then chosen ahead of a Romanian cooperative as the preferred bidder, but talks over the past 12 months have again proved fruitless.

A condition of M&M's bid was that the Romanian government should writeoff Tractorul's accumulated liabilities, which amount to the equivalent of more than $198 million. But with no guarantees that this state aid would not subsequently be challenged, M&M was unable to agree to terms ahead of the legal deadline for negotiations.

The attraction of the state-owned operation is that it would give Mahindra a low-cost production site in Eastern Europe from which it could launch an initiative into surrounding markets, as well as into Western Europe.

Rival Indian firm Escorts has already established a bridgehead just over a year ago with the outright purchase of its Farmtrac Tractors Europe joint venture, which was acquired through U.S.-based subsidiary, Escorts Agri Machinery, Inc.

At the time, Escorts said it planned to actively seek a larger market share for Farmtrac tractors in European countries, while also targeting African, Asian and Latin American markets. AIW

Site Sale Only for ARGO Group

The ARGO Group, has not sold the McCormick factory; the production resources and all related assets remain in ARGO's ownership. It has sold only the site on which the plant is located — an important distinction.

ARGO has entered into a long-term lease agreement for the site and views this arrangement as a cost-effective means of realizing the value of this asset. The agreement has raised approximately $28 million. Although some of that will be used to pay off a bank loan, a large proportion of the revenue will be invested in developments that will further strengthen the McCormick product line. AIW

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With Bigger Stake in Deutz, SDF Triggers Speculation of a Takeover

Same Deutz-Fahr (SDF) may have increased its stake in Deutz to almost 40%, but it has no intention of launching a takeover bid for the German diesel engine maker, insists CEO, Massimo Bordi.

"We have no wish to buy Deutz outright. Our strategic partnership with the company is very important to us, but the future success of Deutz is dependent on it remaining an independent business," he says. "However, in view of our increasing reliance on Deutz as an engine supplier and the interest being shown by independent equity houses in the Deutz business, we felt it necessary to protect our interests by acquiring a larger shareholding."

Speculation regarding SDF's intentions intensified when the conversion of profit-sharing rights and bonds to Deutz shares lifted the Italian tractor maker's stake by almost 10%. This triggered a mandatory offer to shareholders under German stock market rules.

Construction equipment maker Volvo, which has an engine partnership with Deutz and owns 50% of the intellectual property rights of key engine designs, is the next-biggest individual stockholder with 5.7% of shares. U.S. mutual funds company FMR Corp. (Fidelity Investments) holds 5.1% of Deutz voting rights, having bought a chunk of the 55.4% of shares traded on German stock exchanges.

At its annual shareholders meeting recently, Deutz CEO Gordon Riske reiterated what SDF made clear in its share purchase offer document — that there is no intention of taking control of Deutz.

"We view this statement as an unambiguous commitment to the successful partnership between our companies. The independence of Deutz AG as a listed German company is an indispensable condition for achieving our commercial objectives," he said. "The confidence of our customers in a Deutz that is not under the influence of competitors is of critical importance to the maintenance and development of our strategic supplier relations and thus for our market success."

SDF is already the company's biggest customer in the agricultural sector. Deutz also supplies engines to AGCO for Fendt tractors and combines along with a number of wheeled loader and telescopic handler manufacturers. It is set to become an even more important client as SDF plans to phase out European production of its own engines.

Last year, just over a quarter of the SAME, Lamborghini, Hurlimann and Deutz-Fahr tractors produced by SDF were powered by Deutz. By the end of 2007, that will increase to 100% with respect to tractors produced for "emissions-compliant" markets.

"Engine production at our Treviglio headquarters in Italy will cease, but the current designs will continue to be assembled in our Ranipet plant in India for markets that do not require the same level of emissions compliance," says Bordi. "At present, Ranipet makes around 3,000 engines in the 30- to 50-hp range, mainly for the local market. In the future, the plant will make a wider range of engines and production will increase to 20,000 units annually."

Increased sales to SDF of 4-litre and 7-litre agricultural engines should provide a further boost to the recovering financial performance at Deutz where 2005 results saw a 12% increase in sales revenues to the equivalent of $1.69 billion, a similar increase in the value of orders and a 16.8% increase in operating profit to $79.8 million.

After one-off items, including $85.6 million from the sale of the marine service business, EBIT amounted to $146.5 million, compared with $23.6 million in 2004, and net income rose to $91.2 million.

"In the annual financial statements prepared in accordance with German accounting standards, the company reported net income of $70.7 million for 2005, following a net loss of $11.2 million in 2004," reported CEO Gordon Riske. "The accumulated loss was thus reduced to $27.6 million, taking us a substantial step closer towards the resumption of dividend payments."

Deutz shares put on 41% through 2005 and market capitalization was up 47% to $502 million by the end of the year. The share price, which moved from a 52-week low of $4.49 to a high of $10.86, has settled around the $8.05 mark. AIW

FARM MACHINERY TICKER (AS OF 7/11/2006)

Mfr.	Symbol	7/11/06 Price	6/12/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$26.93	$21.43	$28.69	$14.60	86.87	2.06 M	2.44 B
Alamo	ALG	$23.90	$21.00	$24.85	$18.04	22.13	27,700	233.05 M
Art's Way	ARTW	$6.66	$6.20	$9.19	$4.50	14.17	14,200	13.14 M
Caterpillar	CAT	$73.40	$66.32	$82.03	$48.25	16.57	5.05 M	48.88 B
CNH	CNH	$22.73	$21.20	$30.50	$15.79	27.72	167,900	5.35 B
Deere	DE	$82.26	$77.30	$91.98	$56.99	14.38	2.31 M	19.35 B
Gehl	GEHL	$27.31	$22.24	$40.73	$20.58	13.59	182,800	328.87 M
Kubota	KUB	$46.60	$42.50	$60.60	$27.75	11.48	42,700	12.11 B

Titan Acquires Italy's ITM Group, Expanding Its Reach into Europe and Australia

Titan Europe, the U.K.-headquartered manufacturer of off-highway wheel rims, has diversified its product line with the acquisition of the Italian ITM Group, which makes components for undercarriages of tracked agricultural and construction vehicles.

Chief executive Mike Akers says the deal has created a global specialist manufacturer of both track components and wheel rims, serving a customer base that includes leading off-highway vehicle producers such as AGCO, Caterpillar, CNH Global, Deere, Komatsu, Landini, Liebherr, Renault Agriculture, Same Deutz-Fahr and Volvo Construction.

"The integration of ITM is proceeding well and we've had positive reactions to the acquisition from customers, suppliers and our staff," he comments. "We remain confident that the benefits and synergies identified during the acquisition process can be realized."

ITM Group, now operating under the Titan Europe name and comprising NewCo SpA and Italtractor ITM SpA based near Bologna, is being fully integrated with existing operations. Ivano Passini, who took over management of the ITM Group in 1992 and became its sole shareholder, has joined Titan Europe as a Director.

Two-thirds of the acquired operation's 1,500-person workforce is employed in Italy; the rest in Germany, Spain, Brazil, China and the U.S. Prior to the acquisition, Titan Europe had 1,300 employees, half of which are employed in Italy and half in the U.K., France, Australia and Germany.

The enlarged group produces rims and supplies complete rim and tire assemblies, off-highway vehicle brakes and the newly acquired range of track assemblies and components. They are used for agricultural vehicles, which represent about 20% of group sales revenues, and mining and construction machines (70%).

"Trading during the first quarter of 2006 was in line with our expectations, with sales to the mining and construction sectors showing a strong start to the year," reports Akers. "Sales to the agricultural sector began the year more slowly with lower initial volumes than expected, but have since showed signs of recovery." AIW

Territory Assignment Ruling Could Have Implications for Ag Dealers

A recent ruling by the Wisconsin State Supreme Court may cause equipment makers to think twice before arbitrarily reassigning the territories of their dealers.

In a case that pitted Harley-Davidson Motor Co. against its Racine, Wis., dealership, the court ruled that territory assignments are an essential part of motor vehicle dealer agreements.

In a unanimous ruling, the court reversed a 2nd District Court of Appeals decision that said Harley did nothing wrong when it moved a ZIP code out of Racine Harley-Davidson, Inc.'s territory and assigned it to neighboring Uke's Harley-Davidson of Kenosha, in southeast Wisconsin. The Racine dealership filed a complaint with the state Division of Hearings and Appeals contending that the territory change was a modification of its dealer agreement and would decrease its market potential.

The division ruled that altering a territory did not represent a change to the dealer agreement. This was reversed by a Racine County circuit judge, who said territory definitions were part of the agreement.

Harley changed the territories after Uke's moved its dealership along I-94. The company figured that Uke's was closer to Burlington, another nearby town, than was the Racine dealership. The Burlington area produced the second-highest sales in the Racine dealership's territory in 2001.

The Supreme Court's reversal of the District Court's ruling gives the Wisconsin Division of Hearings and Appeals a new basis to reconsider its decision.

Territory assignments are an "absolute cornerstone" of franchise agreements, says Gary Williams, president of the Wisconsin Automobile and Truck Assn., who has been watching the case closely.

"The whole financial model of dealerships is based on territories," says Williams. AIW

Farm Equipment Industry Notes & Newsmakers

FAE USA, manufacturer of vegetation control, rock crushing and soil stabilization attachments, broke ground for its new headquarters, production and distribution center in Oakwood, Ga. on July 10.

AGCO Corp., Duluth, Ga. appointed Andre Carioba as senior vice president and general manager for South America. Carioba is responsible for managing all operational functions as well as development and implementation of specific brand marketing strategies for AGCO Allis, Challenger, Massey Ferguson, Valtra and AGCO application equipment. He will be an officer of AGCO, headquartered in Sao Paulo, Brazil. Carioba came to AGCO from BMW Brazil, Ltd.

Deere & Co. Moline, Ill., announced on June 19 that it has acquired Roberts Irrigation Products, Inc., a maker of micro and drip irrigation products. Roberts Irrigation will continue to be headquartered in San Marcos, Calif., and John Roberts will remain as president of the firm.

Degelman Industries, Regina, Saskatchewan, has entered into a joint-venture marketing agreement to become the worldwide distributors for product lines that are manufactured by **Bridgeview Manufacturing, Inc. of Canada**, a firm based in Gerald, Saskatchewan. The line includes Bale King bale processors and Bale King high-capacity wheel rakes. AIW

Trends in Spraying Equipment Merits Attention

In addition to the growing concerns about Asian soybean rust and the need for timely application, trends in the sales and use of spraying equipment are shifting toward individual growers and away from custom applicators. This and other economic and operational issues are beginning to reshape sprayer use for agricultural applications.

During the Equipment Technologies dealer meeting in June, one Nebraska dealer noted that in 1996, 85% of sprayer sales went to custom applicators. Today, he reports, this has flip-flopped and 85% of sales now go directly to farmers.

The reason for the shift, he says, is due to the ease of application of Roundup and the change in custom application costs from only $3 to as much as $6 per acre. Plus, for timing purposes, more farmers want to do their own spraying. More farmers are also realizing that fungicides on soybeans will pay even without rust.

When a crop needs to be sprayed for insects or diseases, growers recognize that it needs to be sprayed quickly for the best economic return with any pest, and the needed chemical prescription can change by tomorrow. Farmers don't want to put it off by having to wait for a custom applicator.

According to the staff at Equipment Technologies, when a grower considers doing his own spraying vs. hiring a custom applicator, there will typically be a $3 per acre savings with an owned sprayer compared to paying $5.25 to $6 per acre for custom application.

The company also points out that when a farmer calculates the costs for doing his own spraying, the grower should be using the following figures:

- Operator labor at $15 per hour.
- Fuel cost of $2.90 per gallon.

Another significant trend that the dealers see developing is the use of direct-gear drive units vs. hydrostattic drives for both fuel savings and ease of maintenance.

Equipment Technologies has found that with direct-gear drive sprayers, users can experience between 30-40% fuel savings when compared with hydrostatic drives. Over a 5-year period, this can result in as much as $26,000 in fuel costs for a typical custom applicator.

Most self-propelled sprayers on the market are hydrostat units, but the Raptor line that Miller purchased recently (see box below) is also a mechanical drive. A couple of other small manufacturers make mechanical drive sprayers, but there appears to be some interest among other sprayer manufacturers in possibly offering such an option due to the ease of maintenance with farmers.

Dave Odenweller of Waitt Companies, Ottawa, Ohio, says hydrostat units can be time consuming and expensive to repair, which can result in downtime at a critical time in the growing season. A hydrostatic unit, with all of its electrical and hydraulic lines needed to operate the drive system must be worked on by a dealer technician rather than the farmer being able to do it himself in his shop. Yet, the mechanical drives on equipment like the Apache sprayers is much like the tractor that the farmer is used to working on in his shop.

Hydrostatic sprayers don't hold their value as well as those with mechanical drives. The staff at Equipment Technologies has calculated that the loss in value on the purchase of a new, self-propelled sprayer is 12% during the first year and equals 3 to 4% for each of the following years. So a self-propelled sprayer, after 5 years of use ,would likely have lost 24% to 28 % of its value.

They point out that the first sprayer that Apache built 9 years ago had an original list price of $60,000. Nine years and several owners later, it sold for $45,000 earlier this year.

Richard Payne of Agri-Mart, Owensboro, Ky., says that there is a growing demand for used self-propelled Apache sprayers. "We can't get enough used Apache sprayers to meet the demand," he says. "A used Apache sprayer seldom stays on our lot for more than 2 weeks. But remember that a used sprayer is only as good as the dealer that stands behind it."

AIW

MILLER ACQUIRES RAPTOR SPRAYER LINE

Miller-St. Nazianz, Inc., St. Nazianz, Wis., announced on June 13 that it acquired the Raptor self-propelled sprayer line from Weddle Equipment, Martinsville, Ind., and will add the brand to its application equipment manufacturing business. Ken Weddle, the developer of the Raptor will join Miller's application products team.

Prior to the acquisition, Miller Application Technologies (MAT), which is Miller's application operation, included NITRO high-clearance sprayers, the Miller Mertz CenterRide chassis and Silver Wheels floater trucks. In late 2004, Miller also acquired Ag-Bag, a major manufacturer of silage bagging equipment.

"Adding the Raptor line to an already extensive product mix provides Miller dealers and customers greater choice of products as it complements Miller's front boom, hydraulic 4wd, 72-inch clearance NITRO line," says Rich Basarich, Miller's vice president of marketing and sales. "Raptor fits markets where there's a preference for a rear mounted boom, 48" clearance and a 2-wheel mechanical drive self-propelled row crop machine," Basarich said.

Miller's application products also include crop trailer sprayers, 3-point hitch sprayers, and pickup truck sprayers. The company has been an agricultural supplier since 1899 when the present owner's great grandfather first opened his hardware business in St. Nazianz, Wis. One hundred and seven years later, Miller-St. Nazianz, Inc. continues to grow from its original location in the fertile farmland area of east central Wisconsin.

Kverneland Group Losses Down in '05

Ag equipment maker, Kverneland Group produced a net loss of $9.84 million at current exchange rates in 2005, down from a loss of $11.24 million in the year prior, on equipment sales at about the same level as 2004. Operating revenues were $634.29 million, down from $642.3 million.

The company says that ongoing re-organization at Kverneland's production facilities will yield savings that should help improve group profitability this year. Closure of the company's hay and silage implement factory in Germany is expected to save $12.8 million annually in the next year.

AIW

Danish Equipment Maker, Kongskilde, Back on Sound Footing

Managers at the Danish farm and industrial equipment group, Kongskilde Industries, have become shareholders as part of a $4.3 million rights issue intended to support and intensify the development of the business. At the same time, the subordinated loan capital was increased by the equivalent of $8.4 million to $12.9 million.

The moves have increased the total subordinated capital of Kongskilde from $17 million at the end of last year to $29 million.

"Since the group's financial reconstruction in September 2003, Kongskilde management has intensified efforts to optimize the group and secure a profitable operation," says Asbjorn Borsting, chairman of the board of directors.

Kongskilde operates two divisions. The Soil division produces cultivators, seed drills, fertilizer spreaders and sugar beet harvesters. The Systems division covers grain drying and handling equipment, industrial conveying systems and space heaters.

Although the activities of the Soil division remain dominant, accounting for 67% of sales (down from 71% in 2001), Kongskilde wants to see a more balanced portfolio with less reliance on volatile markets for field equipment.

Europe remains the group's main market with 77% of sales, but Kongskilde has a strong presence in North America, where it makes grain handling systems, accounting for 16% of sales revenues, but 25% of group operating profit.

Restructuring to reduce costs and return the group to profitability are the main objectives at present, according to Anette Ilsoe, CEO. Kongskilde's production site in Poland is now functioning well, she reports, and is today considered one of the most modern production plants for agricultural machinery in Europe.

In Sweden, the Overum plow factory has successfully been reorganized to improve production efficiency. Sales of agricultural implements in Germany have been put in the hands of an independent distributor after Kongskilde closed its losing sales company.

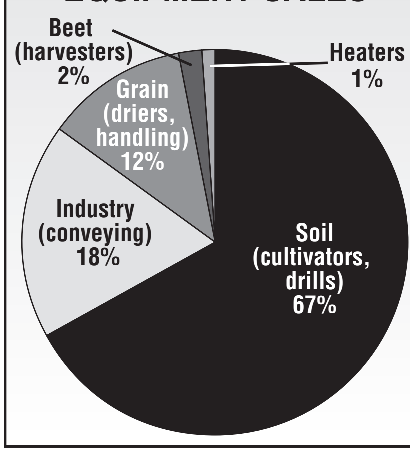
Fixed costs have been reduced by more than $13 million and the operating result improved from minus $14 million in 2003 to a positive $8.4 million last year.

"In the first 5 months of this year, the development in Kongskilde has been sound, especially within the grain and industry divisions," adds Borsting. "The group has improved its order intake by 20% and is expected to achieve an operating profit again this year."

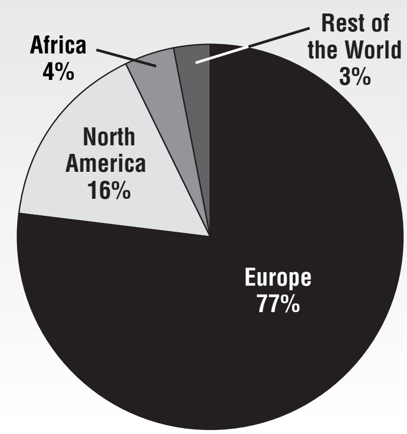
KONGSKILDE INDUSTRIES – KEY FIGURES
($ millions at current exchange rates)

	2003	2004	2005
Net sales	125	125	109
Profit before depreciation	(8.5)	5.48	8.37
Net profit	(25.7)	(3.38)	(3.88)
Operating profit	(14)	1.54	8.4

EQUIPMENT SALES



KONGSKILDE MARKETS



Straub Int'l Acquires Caldwell Equipment

Straub International, Inc. announced on June 15 that it had acquired the dealership assets of Caldwell Equipment Company, Inc. of Wichita, Kan.

This acquisition will make Wichita the sixth market in Kansas in which Straub International is located. The others are Great Bend, Salina, Hutchinson, Marion and Larned.

The combined complex of stores will have over 110 employees that cover a territory that comprises 25% of the counties in Kansas and 2 counties in Oklahoma. The company is one of the largest Case IH dealerships in the Midwest. It also handles New Holland, Great Plains and Polaris brands. Additionally, Straub will supply the large Case IH SPX series of self-propelled sprayers, as its complex is only one of 4 Case IH dealers in Kansas authorized as a grower-sprayer center.

Kverneland Replaces Norcan

The Kverneland Group, Drummondville, Québec, announced on June 14 that it has assumed the responsibilities for distributing and servicing all KG-branded products for both farmers and dealers in the northeastern U.S. from Norcan.

Norcan, headquartered in East Syracuse, N.Y., had been an importer of Kverneland Group products for over 42 years.

Kverneland manufactures and markets agricultural equipment for grass, soil preparation, fertilizing, seeding, spraying and vineyard mechanization.

Kverneland Group North America will continue to work from its headquarters in Canada and will support its Canadian dealer network from this location. The U.S sales office will be in Syracuse, N.Y., and will support its Taarup and Kverneland/Accord dealer network primarily in the Northeast U.S area.

Row-Crop Tractor Sales Fell 25% in June

U.S. sales of row-crop tractors (100 hp and over) fell by 25% in June compared with June 2005, according to figures released by the Assn. of Equipment Manufacturers. Total tractor sales during the month — 23,895 units — also dropped by 10.7% through the first 6 months of the year compared with the same period in '05 when 26,755 units were sold.

According to the AEM, June 2006 U.S. agricultural machinery sales, by class, were as follows:

- **Utility tractors** — Sales declined 1.1% in June, following a 3.8% increase in June of the prior year.
- **Row crop tractors** — Sales declined 25% in June, following a 10.7% decline in June of the prior year. Based upon UBS Investment Research calculations, the 1,187 row-crop tractors sold in June translate to a seasonally adjusted annual rate of roughly 16,310 units, based on monthly sales trends from the 1985-2002 period. In the prior 12 months, row-crop tractor sales were roughly 18,500 units.
- **Four-wheel drive tractors** — Sales declined 19.4% in June, following a 3.8% decline in June of the prior year.
- **Combines** — Sales declined 0.8% in June, following a 4.7% increase in June 2005.

According to David Bleustein, analyst for UBS, the June results increase the odds of lower farm equipment company earnings. "For 2006, supported by the recent softness in domestic farm machinery sales, we expect flat-to-slightly-lower sales of agricultural equipment in the U.S., although we also see some evidence of a somewhat stronger than expected European market with AGCO being a major beneficiary.

"Although we believe the forecasts for farm equipment demand are relatively conservative, we also believe a continuation of the weakness evident in the June row-crop tractor sales could cause weaker than expected results in 2006, notably for CNH and Deere," says Bleustein. AIW

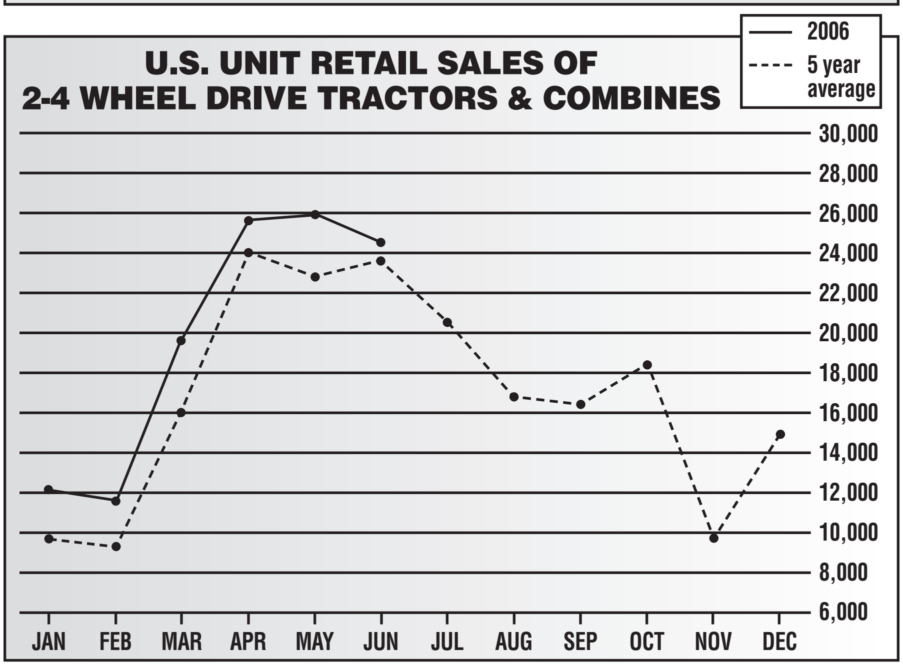
JUNE U.S. UNIT RETAIL SALES

Equipment	June 2006	June 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	May 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	14,058	16,372	–14.0	67,800	68,483	–1.0	69,078
40-100 HP	8,425	8,522	–1.1	39,228	38,047	+3.1	34,994
100 HP Plus	1,187	1,582	–25.0	9,512	10,951	–13.1	5,719
Total-2WD	23,670	26,476	–10.6	116,540	117,481	–0.8	109,791
Total-4WD	225	279	–19.4	1,648	1,961	–16.0	863
Total Tractors	23,895	26,755	–10.7	118,188	119,442	–1.0	110,654
SP Combines	635	640	–0.8	2,477	2,417	+2.5	1,707

JUNE CANADIAN UNIT RETAIL SALES

Equipment	June 2006	June 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	May 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,388	1,244	+11.6	4,983	4,147	+20.2	5,567
40-100 HP	732	729	+0.4	3,376	3,161	+6.8	3,146
100 HP Plus	342	394	–13.2	1,968	1,877	+4.8	1,569
Total-2WD	2,462	2,367	+4.0	10,327	9,185	+12.4	10,354
Total-4WD	59	29	+82.8	386	375	+2.9	193
Total Tractors	2,515	2,396	+5.0	10,713	9,560	+12.1	10,547
SP Combines	156	157	–0.6	514	508	+1.2	662

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



—Assn. of Equipment Manufacturers

Price of Iron Castings for Ag Equipment Expected to Increase Significantly

The price of iron castings used in farm equipment is projected to increase as much as $40 a ton during '06 despite a developing "oversupply" situation, according to Stratecasts, Inc., a marketing and consulting firm based in Ft. Myers, Fla.

The price of ductile iron parts used in ag machinery is forecast to jump from an average of $1,880 a ton in 2005 to $1,920 per ton during '06. Increases for cast gray iron parts are projected to rise more slowly from $1,190 per ton last year to $1,210 in 2006.

The difference in the price increase is due to the pressure on single-customer gray iron metalcasting facilities to lower casting costs, as well as the fact that the price of ballast weights tends to remain static, according to Stratecasts.

In the longer term, cast ductile iron parts for farm equipment are expected to rise by more than $250 a ton, or nearly 14%, between 2006 and 2015. Over the same period, gray iron castings for agricultural applications are forecast to increase by some 13%.

According to the Stratecasts report, "Demand and Supply Forecast for Metal Castings in the United States," casting shipments are expected to decline despite the rising price of castings produced for the farm machinery market. The downswing in the volume of casting shipments to ag markets is running counter to many other casting markets.

On the whole, shipments of iron castings are expected to rise during the next 2 years. However, the volume of cast parts for the ag industry is expected to trend downward during this period.

While shipments of ductile iron components for farm machinery are forecast to remain on a steady growth pattern, gray iron shipments are expected to decline by nearly 15% during the next decade. Because of its improved mechanical and physical properties, ductile iron parts command a significantly higher value in the market than does gray iron. Much of the increase in pricing of iron components for ag equipment markets will be the result of growing use of ductile, which is expected to grow by nearly 11% in volume by 2015.

SPRAYER COSTS RISING

One major manufacturer of agricultural sprayers is reporting that it will be increasing the price of its sprayers for 2007 from between 3.5% for its 700-gallon units to 7% for its 1,200-gallon equipment.

The company attributes the increases to higher costs, especially for steel and rubber tires, as well as higher engine costs, which includes a new cooling package and a step up in engine horsepower for their line of sprayers.

The weak U.S. dollar is also contributing to the higher sprayer costs as well, because the firm imports its transmissions from England.

FORECAST OF PRICE PER TON FOR IRON CASTINGS FOR AGRICULTURAL APPLICATIONS — 2006-15

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gray Iron Castings	$1,190	$1,210	$1,230	$41,260	$1,280	$1,300	$1,320	$1,340	$1,350	$1,370
Ductile Iron Castings	$1,880	$1,920	$1,950	$2,000	$2,030	$2,070	$2,100	$2,130	$2,150	$2,180

WSJ Article Retraces Deere's Path to Profitability

Like all cyclical industries, farm equipment makers have struggled over the years to smooth out the hills and valleys of the U.S. economy. Despite its reputation as ag's 800-pound gorilla, John Deere, too, has been challenged to maintain long-term profitability.

A July 10 article in the *Wall Street Journal* looks at how Deere is changing its operations and strategic view to survive in the worldwide economy.

"We were stuck in the Joseph syndrome of about 7 years of good times followed by 7 years of bad," says CEO Robert Lane, a 24-year Deere veteran. "We always weathered the cycles and said we're doing well enough, but this isn't good enough to survive in a global environment."

Over the past 40 years, he says, there were only spurts where Deere earned its cost of capital. As soon as he took over 6 years ago, Lane began reconstructing the company's manufacturing and sales to reduce their vulnerability to economic cycles.

First, Deere, like its competitors, had the habit of running its manufacturing at a steady rate, producing equipment for which it didn't have orders. This led to deep discounts simply to move the machinery.

Six years ago Deere dealers in North America might have had as many as 1,600 unsold combines on their lots. Today, they have about 200.

Today, Deere's East Moline Harvester plant is 30% smaller. By reorganizing its manufacturing operations, parts and finished product inventory have been reduced. When the plant is busiest in the summer as farmers order equipment, production ramps up and then closes in September and October. It then starts up again slowly, building fewer combines in the winter. Managers work closely with Deere operations worldwide to ensure that the more than 17,000 parts that go into each combine are delivered only as needed.

These and other efforts are paying off for Deere. In 2005, the company had net income of $1.4 billion, more than double what it earned in 2003, on 41% gain in sales. Return on equity reached almost 23%. Worker productivity has risen 19% since '03 and their wage incentives have grown 17%.