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# Titan Machinery Adds Four Iowa Stores, Takes Over Another Bankrupt Iowa Dealer

Titan Machinery, Fargo, N.D., already one of the largest Cast IH and New Holland dealer organizations with 18 stores, added 4 more to its network with the acquisition of Vern Anderson Equipment. Anderson operated Case IH dealerships in Le Mars, Kingsley, Anthon and Cherokee, Iowa.

At the same time, Case IH named Titan as the operating agent of their bankrupt dealership, Walterman Implement in Dike, Iowa. Walterman, one of eastern Iowa's larger farm equipment dealers was shut down in late October. Court documents show tha the dealership was forced into Chapter 7 bankruptcy by Case IH and CNH Capital, which claims misappropriation of funds and unpaid debt totaling $22 million.

### 22 Stores and Counting . . .

In an interview in the October-November issue of *Farm Equipment*, David Meyer, chairman and CEO of Titan Machinery, indicated that the firm's "business plan calls for 3 or 4 acquisitions a year." The purchase of the Anderson stores give Titan 5 new stores in 2005, all in Iowa.

Earlier in the year, Titan acquired Smith International in Waverly. They now operate 22 Case IH and New Holland dealerships in North Dakota, South Dakota, Minnesota and Iowa.

The original Anderson dealership was founded in 1948 in Kingsley. Vern Anderson bought the store outright in 1979, then added locations in 1985, '93 and '95. It is expected that all of Anderson's 45 employees will be retained and the stores will remain operating under the Vern Anderson Equipment name in the same four locations.

Some tasks, like management information and marketing, will be conducted from Titan's North Dakota headquarters, but the primary daily duties in operating the Vern Anderson Equipment sites will remain locally set, Meyer explained. Doug Vondrak will continue as general manager of the Anderson stores.

### Could Be 23 Stores . . .

Shortly after Titan announced the Vern Anderson acquisition, CNH named Titan as their operating agent of Walterman Implement in Dike,

*Continued on page 2*

# UBS: Expect Equipment Sales to Slip 5-10% in '06

"For 2006, we now expect farm equipment sales to fall 5%-10%, compared to our prior forecast of flat. Although we expect improving farmer balance sheets and still elevated levels of farm income to mitigate the declines, we believe the combination of currently depressed farm commodity prices, elevated fuel prices and rising interest rates will drive farm machinery sales lower in 2006," says UBS analyst, David Bleustein.

According to the ag industry analyst, checks with farm equipment dealers indicate a negative tone and many cite higher input costs (fuel, fertilizer), lower farm commodity prices and uncertainty over government support programs as negative factors.

Results of the UBS one-question, e-mail survey to 200 ag equipment dealers indicated that most see sales slipping in '06. The dealers were asked "What is your projection for farm machinery sales for the full year 2006, versus the full year 2005?"

Based on 47 responses, 57% of dealers expect a decline in farm machinery sales in 2006 vs. only 15% that expect an increase. The remaining 28% expect a flat 2006 agricultural equipment market.

Looking at the remainder of '05, Bleustein says he continues to expect about a 0%-5% growth in farm machinery sales, driven by strong farmer balance sheets, low interest rates, elevated levels of farm income, strong government support programs and multiple years of weak demand. Year to date, row-crop tractor sales in the U.S. are 1.3% above the same period last year.

### Offsetting Factors?

Despite the apparent negative factors pointing to reduced spending on ag equipment next year, some of these appear to be offsetting as shown in the UBS research.

♦ "***We expect elevated fuel prices to reduce demand for farm machinery in 2006."***

Based on USDA data, the estimated cost of energy in a normal year is roughly 10% of a farmer's direct cost of corn production before including

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*Titan Machinery...Continued from page 1*

Iowa. Case IH and CNH Capital say they terminated their relationship with Walterman Implement because they are owed nearly $22 million.

CNH auditors are combing Walterman's books looking for the money and documents they say Walterman Implement owes. They are also trying to determine if any money was misappropriated. A court-appointed trustee has been assigned to continue Walterman operations during the investigation.

Larry Adams, director of Regional Sales for Case IH, together with Meyer and Peter Christenson of Titan Machinery, announced that Titan will operate the Walterman facility during bankruptcy proceedings.

According to Adams, "CNH acknowledges the difficult times that Walterman Implement has created for the dealership's customers and employees. However, in order to take care of those customers and employees, we have received permission of the bankruptcy court to operate the dealership under supervision of the court-appointed trustee.

"We are pleased to announce Titan Machinery, Inc., as our agent in operating the dealership. The dealership will provide a full range of offerings, including equipment purchasing, financing, parts and repair services.

"Many of the former dealership employees displaced by that dealer's bankruptcy have been contacted for a review of their individual situations. The new management's intent is to retain qualified employees who complement the operation.

"We are pleased to be working with Titan Machinery to provide solutions for our customers. You should know that Titan Machinery, one of Case IH's largest Midwest dealerships, offers a full line of new and used farm equipment. With 22 locations in the Midwest, including one in nearby Waverly, Iowa, Titan Machinery was the largest Case IH volume equipment dealer in 2004."

Meyer explains that Titan has agreed to operate the dealership in Dike throughout the bankruptcy proceedings. Pending the ruling of the bankruptcy court, Titan plans to acquire the dealership at an appropriate time, though Case IH would not confirm if the operating agreement with Titan will become permanent.

CNH Capital assumes all losses or gains of the business while in bankruptcy and will pay $25,000 a month to the bankruptcy estate.

Walterman Implement is owned by Leon Walterman. CNH Capital, the financial arm for Case IH, forced the business into Chapter 7 claiming misappropriation of funds and unpaid debt totaling $22 million. Walterman has denied any wrongdoing.

CNH Capital claims money is missing from the Combine Roll program. Under the arrangement, a farmer buying a new combine turns the machine in at the end of the year for another one the following year. A second producer get the 1-year-old combine, exchanging it later for another 1-year-old machine. The process continues from farmer to farm, each getting similarly aged combines annually.

According to the filings in the bankruptcy case, employees of Walterman Implement sought contracts for the 2006 harvest and collected deposits. The money is supposed to be held in escrow by CNH Capital. But those deposits, which range from $15,000 to $22,000, were never deposited with CNH Capital or any other financial institution.

"The dealership has been spending the money collected from farmers for unknown purposes. The bank accounts, to the best knowledge, information and belief of the undersigned, contain little funds, if any," wrote James Longe, a special asset manager for CNH Capital.

Court documents also show several pieces of equipment were double financed by Walterman Implement.

CNH Capital alleges the dealership sold pieces of equipment to farmers, then submitted paperwork to both CNH Capital and Agricredit Acceptances, in effect receiving payment twice for the same machine. AIW

## Farm Equipment Industry Notes & Newsmakers

**Russ Green**, executive vice president of sales and business development at **CLAAS North America**, Omaha, Neb., has been named general manager of CLAAS Omaha, Inc. and CLAAS of America, Inc. Green will continue to be based out of the company's Omaha office and retain his title of executive vice president of sales and business development. CLAAS also has announced that **Theo Freye**, president of CLAAS North America, has been named a director at CLAAS KGaA, which is responsible for worldwide marketing and strategy. Freye will continue to be based out of the company's Omaha office and retains his current title as president of CLAAS North America.

**McCormick Tractors International, Ltd.**, has appointed **E.W. "Swede" Muehlhausen** as president of McCormick International USA in Pella, Iowa. Muehlhausen officially assumed this role on October 24, 2005, and is responsible for all aspects of McCormick USA business in the United States.

**Leon's Manufacturing**, Yorkton, Saskatchewan, and Minot, N.D., has been awarded the AE50 award by the **American Society of Agricultural Engineers** (ASAE) for its ASL (Accurate Self Leveling) front-end loader.

**Agco Corp.**, Duluth, Ga., has elected **Gerald L. Shaheen**, group president of Caterpillar, Inc., Peoria, Ill., to the Agco Board of Directors. With this additional director, the Agco board consists of 11 external directors. AIW

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UBS...Continued from page 1

the indirect impact on fertilizer prices. Given the sustained higher levels of energy prices, the additional expense could lead to some crowding out of farmer capital spending in 2006.

♦ ***"Farm balance sheets remain healthy, which is supportive of demand."***

Farm balance sheets (as measured by debt-to-asset ratios) have remained at healthy levels since the early 1990s, hovering around the 15% level. The USDA is forecasting continued improvement in the 2005 farm debt-to-asset ratio to 13.4%, from 13.8% in 2004. Improving farmer balance sheets support continued farm machinery purchases.

♦ ***"Farm income down, but still close to record levels."***

The USDA forecasts 2005 net farm income of $71.8 billion, down 13% from 2004 forecast net income of $82.5 billion, but still well above (up 37%) the 1995-2004 average of $52.4 billion and the second highest ever, if realized. For 2005, the USDA forecasts cash receipts from crops of $116.0 billion, 2% lower than estimated for 2004, but 13% above the average from 1995 to 2004.

In addition, Bleustein reports that the USDA forecasts direct government payments to farmers of $21.4 billion in 2005, 61% above 2004 levels of $13.3 billion, and 52% above the average from 1995 to 2004, largely the result of weaker commodity prices.

## Other Forecast Notes . . .

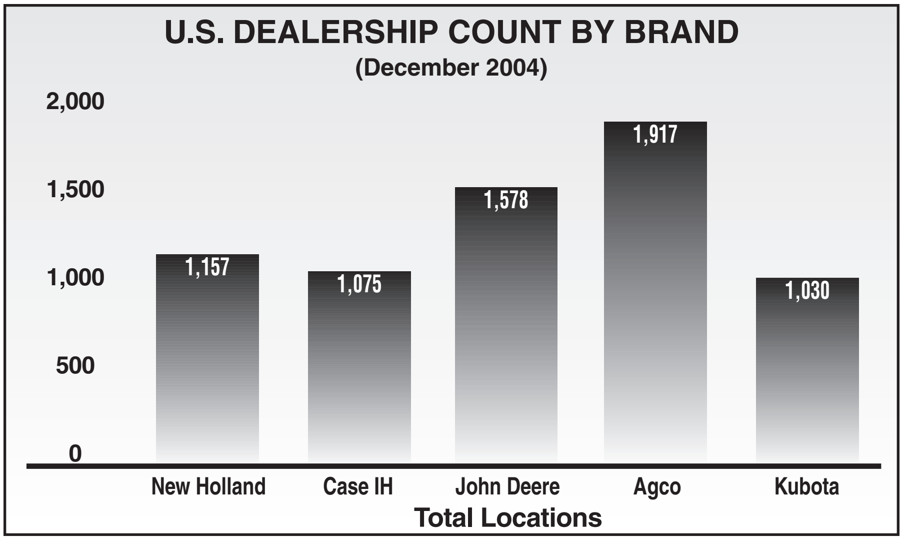
Economist Pat Westhoff, ***Univ. of Missouri Food & Agricultural Policy and Research Institute (FAPRI)***, says that agriculture's outlook is still favorable, suffering only when using 2004 as the baseline figure. In nominal terms, he says, net farm income in 2005 is still on track to be the second-highest total ever.

However, USDA estimates, and Westhoff agrees that farm income is likely to be several billion dollars less than that seen in 2004. Average milk and hog prices are lower this year, while cattle and poultry remain the same. USDA and FAPRI both expect lower 2006 prices for cattle, hogs, poultry and milk, in part because of supply response to recent strong prices and return.

***Standard & Poor's (S&P)*** also anticipates favorable conditions for ag equipment for the next 12 months. According to the U.S. Department of Agriculture, farm income — the primary driver of tractor, harvester and combine sales — will likely remain at a high level in 2005.

S&P attributes this showing to strong crop yields, increased international demand and higher government payments.

Given the leading nature of farm income, and that yearly unit sales of tractors and combines have declined 4.6% on average since 1997, Anthony Fiore, S&P's diversified machinery analyst, anticipates that favorable conditions will continue over the next 12 months for farm equipment manufacturers. AIW




## FARM MACHINERY TICKER (AS OF 11/10/2005)

| Mfr. | Symbol | 11/10/05 Price | 10/11/05 Price | 1-Year High | 1-Year Low | P/E Ratio | Avg. Volume | Market Cap. |
|---|---|---|---|---|---|---|---|---|
| **AGCO** | AG | $15.81 | $17.23 | $22.69 | $14.60 | 10.27 | 1.35M | 1.43 B |
| **Alamo** | ALG | $21.26 | $19.38 | $29.23 | $18.04 | 16.11 | 9,300 | 207.22 M |
| **Art's Way** | ARTW | $4.80 | $5.36 | $11.50 | $4.45 | 7.06 | 3,400 | 9.42 M |
| **Caterpillar*** | CAT | $54.69 | $55.56 | $59.88 | $41.31 | 15.11 | 4.92 M | 37.20 B |
| **CNH** | CNH | $16.75 | $19.16 | $22.38 | $16.50 | 24.28 | 76,600 | 2.24 B |
| **Deere** | DE | $64.29 | $59.57 | $74.73 | $56.99 | 10.19 | 1.92 M | 15.51 B |
| **Gehl*** | GEHL | $24.27 | $26.47 | $34.53 | $13.67 | 15.95 | 157,100 | 291.29 M |
| **Kubota** | KUB | $39.60 | $34.62 | $42.04 | $22.58 | 9.75 | 10,400 | 10.43 B |

**Caterpillar implemented a 2-for-1 stock split on July 13, 2005.*

**Gehl implemented a 3-for-2 stock split effective on August 10, 2005.*

# Agco-Challenger Program Aiming for 20% Market Share

If partners Agco and Caterpillar, through their Challenger program, meet their 3 to 5-year goal of a 20% share of the $13 billion farm U.S. equipment market, this will add nearly 50% to Agco's top-line, which was $5.4 billion in 2004.

To determine the progress of the program, Charlie Rentschler, director of Industrials Research for New York City-based Foresight Research Solutions, spent 6 days in late summer meeting with the farm-machinery principals of 5 Caterpillar dealers whose territories covered 9 contiguous states from Ohio to the Dakotas.

Together, these dealers account for an estimated 50% of Challenger's North America's revenues. His research also included a visit to Agco's Jackson, Minn., factory where they produce track-tractors, to be the flagship product for Challenger.

Following his foray through the Corn Belt, Rentschler says "Agco is rising to the challenge of Challenger."

Challenger is the 3-year old arrangement between Agco and Caterpillar in which Agco provides a full line of private-branded products — tractors, combines, hay tools and other implements — for sale through Cat dealers looking to diversify beyond construction equipment.

Rentschler found the Cat dealers are optimistic about the possibility of capturing a 10-20% market share in their territories during the next few years. Though, he notes, these dealers did express concern about Agco selling Challenger equipment through its Massey-Ferguson channels.

Despite this, Rentschler found that the Cat dealer's confidence is high and attributable to two factors:

✔ The expanded profitability of their service business.

✔ The introduction of new "unique to Challenger" equipment.

## Parts and Service

Rentschler points out that in the past year all of the Cat dealers interviewed have signed on to handle the parts and service for Agco's Ag-Chem sprayers, the top-selling chemical applicator in the U.S.

"The opportunity to handle the after-market for these high-maintenance machines, without a doubt, has greatly improved the profitability of these dealers' parts-and-service operations, which are the essence of farm-machinery distribution that often 'gives away' whole goods to expand the population of machinery in its universe," says Rentschler.

"We would reckon that taking on sprayer maintenance has required the dealers with whom we met to take on 25-50% more mechanics and has been a reason by itself for some of them to move from losses to profits in the past 12-18 months.

"In our mind," Rentschler adds, "'the shot-in-the-arm' sprayer service for these dealerships will help carry them through until Agco is able to provide the full complement of 'unique to Challenger' machines in the next 2-3 years." Rentschler estimates that Agco has roughly 35% of the U.S. sprayer market.

The Foresight analyst also notes that 3 of the 5 dealers have also agreed to take on sales and service of Agco's Spra-Coupe chemical applicator, a smaller, lower-priced version of the Ag-Chem line.

## 'Unique to Challenger' Products

In addition to the increased profit opportunities, Cat dealers tied to the Challenger program also express genuine excitement about the new Agco equipment coming down the pipe. These new products, according to the Foresight analyst, will help differentiate the Challenger line from that offered by other dealers.

"It's understandable because of their heritage," says Rentscher, "Cat dealers want to sell things that can't be bought anywhere else, albeit at a premium price."

✔ Starting this year, the new 500 and 600 model wheel-tractors will feature Sisu diesel engines, made by Agco's Valtra division, and CVTs (continuously variable transmissions), made by Agco's Fendt division. According to Rentschler, these are considered by many industry experts to be "possibly the best engines and transmissions made on the planet for a farm tractor. These are no longer 'Massey-Fergusons painted gold' with Perkins motors and GIMA transmissions," he says.

✔ While the latest Massey-Ferguson equipment also offer the CVT, it offers a shifting transmission, while the Challenger is shift-less, something "unique to Challenger."

✔ Within the next few months, Agco is expected to introduce a large (500 HP) articulated rubber-tired tractor "unique to Challenger" that will give Cat dealers access to about two-thirds of the high horsepower market that is not inclined to buy track-tractors.

## Agco Manufacturing

Foresight's visit to Agco's, Minn., manufacturing facility reinforced its view that the third largest ag equipment maker is pointed in the right direction.

Employing 1,000 people, the plant was originally home to Ag-Chem, the sprayer company that Agco purchased in 1998. It has since moved production of its other chemical applicator companies, as well as the Challenger track-tractor, to the facility.

"We learned that inventory currently is turning 10 times per year, impressive, we think, given the potential for material availability issues," says Rentschler. "Our guess is that Jackson's shipments this year will run in the range of $800-900 million or about 15% of Agco's total expected sales of $6 billion. This easily makes it the company's largest U.S. plant, and probably second biggest in the world behind the Fendt tractor operation in Marktoberdorf, Germany."

The Jackson facility is expected to build 1,100 Challenger track-tractors with Caterpillar engines and transmissions this year. "We were pleased to learn that there is ample capacity in existing facilities as assembly is only running one shift per day and welding is working just 1-1/2 turns per day," says Rentschler.

"There is plenty of land available if Agco decides to indigenize production of 2-WD tractors in the U.S. and locate that activity in Minnesota."

Rentschler also reports that the Cat dealers offer high praise for the responsiveness of Agco's parts operation in Batavia, Ill. "This is clearly a positive for Agco. While the company's annual report noted that parts represented 13% of 2004 sales, we estimate that spares account for half of its operating income," he says.

# Despite Record 3rd Quarter Sales, Gehl Stock Tumbles

On the heels of its record-setting 3rd quarter sales and earning results, the value of Gehl Co.'s stock fell by nearly 25%. While the reasons for the fall off remain unclear, Baird analyst Robert McCarthy calls the pullback "over-done" and has upgraded the stock to "outperform" expectations. McCarthy is also recommending that investors "take advantage of the October 24 significant share price decline."

In the past year, the company's stock has ranged from a high of $34.53 per share to a low of $13.67. As of mid-November, the stock price has risen to the $24 range.

Gehl Co., headquartered in West Bend, Wis., reported record third quarter net sales of $112.3 million, an increase of $24.8 million, or 28%, from 2004 third quarter net sales of $87.5 million. Net income for the quarter was $5.1 million, or $.47 per share, compared to net income of $3.6 million, or $.38 per share, earned in the third quarter of 2004, an increase of 39%.

During the reporting period, Gehl's construction equipment sales rose 39% while agricultural equipment segment sales increased 7%. "We had forecast third quarter segment sales growth of 41% and 22%, respectively," says McCarthy.

The analyst also points to the fact that Gehl "missed" third-quarter net income forecast by only $772,000, or $0.07 per share. "We do not believe the shortfall relative to our estimate warrants a $70 million reduction in market capitalization and would take advantage of the opportunity."

On July 25, 2005, the Company's board of directors approved a three-for-two stock split, in the form of a 50% stock dividend. On August 24, 2005, the Company distributed one share of Gehl common stock for every two shares of common stock held by Gehl shareholders of record as of the close of business on Aug. 10, 2005. Immediately following the stock split, the number of shares outstanding was 10,253,398.

On Sept. 26, 2005, the company completed a public offering of 2,395,000 shares of its common stock at a price to the public of $28.12. The offering included 1,748,125 primary shares sold by Gehl and 646,875 secondary shares sold by one selling shareholder, Neuson Finance GmbH.

They received approximately $46 million in net proceeds from the sale of shares in the offering, after deducting underwriting discounts, commissions and expenses. The net proceeds received from the offering were used to repay debt outstanding under its credit facility. Immediately following the offering, the number of outstanding shares was 12,001,523.

Following the Gulf Coast hurricanes, Gehl experienced modest increases in demand for product, in particular track loaders and compact equipment attachments. At the same time, transportation costs and supply chain disruptions had a mildly adverse impact.

While energy costs have declined from their September peaks, they continue to remain high by historical standards and the company expects that they will continue to impact its future costs. Gehl continues to monitor the impact of the hurricanes on its business, but does not currently expect that they will have a significant impact on 2005 earnings.

For the first 9 months of 2005, Gehl reported net sales of $369.6 million, compared to $267.7 million for the comparable period of 2004, an increase of $101.9 million, or 38%. Net income of $15.6 million in the first 9 months of 2005 compares to net income of $10.5 million for the first 9 months of 2004.

Net income for the first 9 months of 2005 was negatively impacted by a one-time after tax warranty charge taken in the second quarter of $1.5 million associated with purchased components that the company incorporated into one of its product lines. The company anticipates recovering a substantial portion of its costs associated with the warranty charge from its suppliers and expects to record the recoveries in subsequent periods.

The Baird analyst also notes that Gehl has also continued to outperform the industry via new product launches, leveraging its distribution capabilities with product line expansion, and cross-selling compact construction machines through Gehl and Mustang dealers and through its agricultural equipment dealers. AIW

# Russia's Amtel Acquires Dutch Ag Tire Maker

The take-over of tire manufacturer Vredestein by Russian rubber giant Amtel has created a $1 billion global tire business and sparked expansion plans for the Dutch company's agricultural operations that will see it chasing tractor OEM supply contracts for the first time.

Vredestein is already Europe's biggest supplier of cross-ply and radial implement tires to leading farm equipment manufacturers. Including replacement tractor tires, sales are worth approximately $54 million.

"Previously, we've not had the capacity to cope with OEM contracts for tractor tires," says Jan Willem van Eerden, who heads Vredestein's agricultural sales operation. "But now we have the opportunity to move production of some agricultural tire lines to one of the four factories operated by Amtel in Russia and Ukraine."

This would free up capacity at Vredestein's headquarters plant at Enschede for increased output of Traxion standard- and low-profile radial tractor tires. According to van Eerden, Vredestein is in discussions with two major tractor manufacturers in Europe about supplying Traxion tires as factory-installed options.

The Dutch concern's CEO, Robert Oudshoorn, also relishes the prospect of growing retail sales of agricultural tires in Russia, a market that is estimated to use 1.8 to 1.9 million units a year, as well as in neighboring Ukraine.

"We will have access to lower cost manufacturing, an established distribution network and a huge market," he points out. "Some of our agricultural tires are now on sale in Russia as a high-tech alternative to domestic products and I believe the market for such tires will grow as Russian farmers use more western tractors, combines and other machinery." AIW

# CNH Equipment Sales Dip 1% for 3rd Quarter

CNH equipment sales of $2.8 billion were down roughly 1% from the third quarter of 2004, as a 5% decline in agricultural equipment sales was partially offset by a 9% increase in construction equipment sales.

"CNH beat our high on the street forecast," says Merrill Lynch analyst, Andrew Obin. "However, revenue and operating income of the manufacturing operations were below our expectations and the upside vs. our estimate came from lower tax rate as well as higher equity income from finance and equipment operations.

"Still, we note that CNH was able to increase its EBIT from manufacturing operations despite a decline in reported revenues, which is a clear positive. In particular, ag equipment operations reported the first increase in year-over-year operating profit since the second quarter of '04."

At the same time, Foresight Research Solutions analyst Charlie Rentschler continues to take CNH to task for its performance. He says, "Profitability continues to be unacceptable. Although CNH was able to raise its prices to cover cost increases, gross margin through 9 months was just 15.8% vs. 15.6% in the year-earlier period.

"However, their balance sheet remains strong. We remain skeptical about the recently announced reorganization into four 'silos' — Case Ag, Case CE, New Holland Ag and New Holland CE — under four presidents,'two of whom have no experience in their industry and a third who has 3 years in the business.

"We see this as adding cost (the company disagrees) and rolling-back the clock, now that manufacturing is consolidated along products, not brands," says Rentschler. "We continue to believe that the way this story plays out is Fiat buys the 9% minority shares at a small premium."

CNH also raised its outlook for the year to the upper end of its previous forecast of a 10-15% increase in net income, and adjusted its industry outlook for the year. The expectations for North American ag equipment sales are markedly lower while South America and Western Europe are somewhat better.

The company noted that while component shortages have improved from earlier this year, steel costs increased more than forecast. At the same time the company appears to be able to offset higher material costs and other cost increases with better pricing. AIW

# Agco Shares Tumble 12% After It Cuts Profit Outlook

The value of the common stock of Agco Corp., Duluth, Ga., fell by 12.2% after the firm slashed its earnings outlook for all of 2005 and disclosed it would cut production of farm vehicles in North America during the 2005 fourth quarter due to falling demand.

Agco said it will reduce assembly of farm machinery vehicles at its North American manufacturing facilities as dry weather has had an adverse impact on the company.

The quarter was also weak due to further deterioration in its other major markets, including South America and Western Europe, as well as a 20-25% increase in the exchange rate for the Brazilian Real.

The company said that during the 2005 third quarter it earned an adjusted $27.7 million on sales of $1.23 billion. One year earlier the company said its profit was an adjusted $36.5 million on a turnover of $1.21 billion.

Since the year started, the firm has earned an adjusted $109.4 million vs. an adjusted profit of $111.8 million one year ago. Revenue during the third quarter rose to $4.06 billion from $3.73 billion one year ago.

"Though AGCO would not give 'guidance' for 2006, they did suggest that growth in '06 would be about flat," says Charlie Rentschler, analyst for Foresight Research Solutions. "However, we believe earnings improvement will stem from improved margins in each reporting segment, lower interest expense, cost reductions and new product launches."

Rentschler also notes that Agco is still targeting free cash flow of $100 million for the full year 2005, which means the company expects to reduce inventories by over $200 million in the fourth quarter.

He also points to the gains made by the Challenger line of equipment. "Challenger revenues were up 10% in the quarter to about $65 million; management still expects 2005 sales to be 20-25% above last year," he says.

In their analysis, UBS reports that management expects full year North American industry demand of higher horsepower equipment to be above 2004 levels, despite the drought conditions that have impacted demand.

In Western Europe, Agco expects industry demand over the balance of 2005 to be below last year's levels, noting that industry demand has weakened due to dry weather and uncertainty related to European Common Agricultural Policy (CAP) reform.

In South America, Agco expects significantly weaker industry demand over the balance of the year, citing drought conditions and lower farm profits (lower commodity prices and the continued strengthening of the Real.) Agco management commented that presently, it assumes the agricultural equipment market could be flat in 2006.

"We will concentrate on improving our balance sheet and cash position at year-end," said Martin Richenhagen. Agco CEO. "We also expect to complete the year with improved results in all of our regions with the exception of South America. We believe these results will demonstrate that our initiatives to improve productivity and our market position are effective."

Shortly after announcing the third-quarter results, the Agco CEO purchased an undisclosed amount of Agco common shares with $500,000 of his own money. According to published reports, Richenhagen said the purchase was a "bargain." AIW

# Total Tractor Sales Slip Slightly in October

With the benchmark year of 2004 serving as the measuring stick, tractor sales for '05 continue to hold their own. Through the first 10 months of this year, total tractor sales slipped only 1.3% compared with the same period of '04, a year some have called a "generational" year for ag equipment purchases. Compared with October '04, total tractor sales for this October came in only 1.6% shy.

By horsepower, sales of tractors between 40-100 HP jumped 8.3% on a year-to-year basis, while sales of those under 40 HP slipped 6.4%. The sale of tractors in the 100 HP and over class fell only slightly (–1.1%).

Compared to the same period of '04, October '05 sales of tractors in the under 40 HP (+0.9%) and 40-100 HP (+2.1%) held their own. Larger tractors (100 HP and over) took the biggest hit as sales for this category dipped by nearly 15%.

At the same time, sales of both 2-WD and 4-WD tractors for October took a hit when compared with the same month of '04, falling 1.0% and 19.8% respectively. On a year-to-year basis, sales of 2-WD machines slipped by 1.4%, while 4-WD tractors were up by 5.7%.

Meanwhile, combine sales fell off dramtically (nearly 50%) during the month compared to last October.

"September U.S. row-crop tractor and combine inventories appear generally consistent with historical inventory levels on a days-sales basis," says Robert McCarty, analyst for Baird. "U.S. 4-WD inventories appear relatively tighter at 106 days sales, which were down considerably from last September's 138 days and the 129-day average over the last 5 years."

Agco and Deere have already announced cutbacks on fourth quarter production schedules in anticipation of weaker demand, according to the Baird analyst. "CNH announced that it under-produced retail demand by 12% in the third quarter. The proactive inventory management strategies should help keep dealer inventories at manageable levels over the next few months," says McCarty. AIW

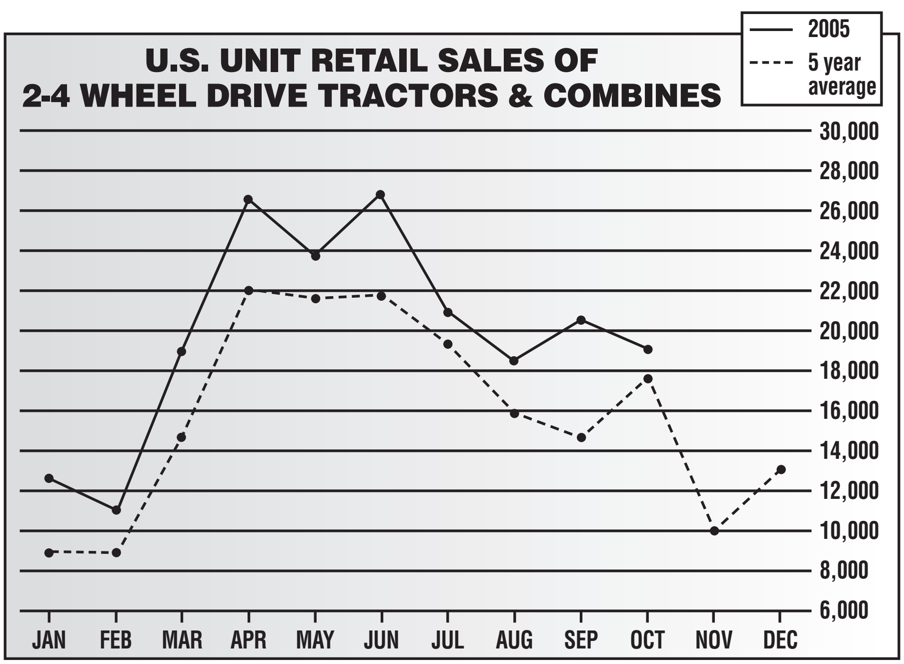
## OCT. U.S. UNIT RETAIL SALES

| Equipment | Oct. 2005 | Oct. 2004 | Percent Change | YTD 2005 | YTD 2004 | Percent Change | Sept. 2005 Field Inventory |
|---|---|---|---|---|---|---|---|
| **Farm Wheel Tractors-2WD** | | | | | | | |
| Under 40 HP | 9,288 | 9,203 | +0.9 | 111,809 | 119,439 | –6.4 | 57,399 |
| 40-100 HP | 6,901 | 6,761 | +2.1 | 65,112 | 60,120 | +8.3 | 31,600 |
| 100 HP Plus | 2,315 | 2,718 | –14.8 | 16,864 | 17,054 | –1.1 | 7,594 |
| **Total-2WD** | 18,504 | 18,682 | –1.0 | 193,785 | 196,613 | –1.4 | 96,593 |
| **Total-4WD** | 544 | 678 | –19.8 | 3,218 | 3,045 | +5.7 | 1,139 |
| **Total Tractors** | 19,048 | 19,360 | –1.6 | 197,003 | 199,658 | –1.3 | 97,732 |
| **SP Combines** | 540 | 1,093 | –49.8 | 5,625 | 5,764 | –2.4 | 1,743 |

## OCT. CANADIAN UNIT RETAIL SALES

| Equipment | Oct. 2005 | Oct. 2004 | Percent Change | YTD 2005 | YTD 2004 | Percent Change | Sept. 2005 Field Inventory |
|---|---|---|---|---|---|---|---|
| **Farm Wheel Tractors-2WD** | | | | | | | |
| Under 40 HP | 953 | 954 | –0.1 | 6,914 | 6,211 | +11.3 | 4,051 |
| 40-100 HP | 1,091 | 1,155 | –5.5 | 5,553 | 5,354 | +3.7 | 3,357 |
| 100 HP Plus | 577 | 592 | –2.5 | 3,140 | 2,951 | +6.4 | 1,765 |
| **Total-2WD** | 2,621 | 2,701 | –3.0 | 15,607 | 14,516 | +7.5 | 9,173 |
| **Total-4WD** | 81 | 101 | –19.8 | 520 | 597 | –12.9 | 255 |
| **Total Tractors** | 2,702 | 2,802 | –3.6 | 16,127 | 15,113 | +6.7 | 9,428 |
| **SP Combines** | 169 | 194 | –12.9 | 1,346 | 1,346 | 0.0 | 481 |

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




*—Assn. of Equipment Manufacturers*

# Agco's Fendt Tractor Line Posts 8% Sales Growth

Agco's prestige tractor line, Fendt, continued its growth trend during the last year with a record output of almost 11,350 tractors, a sales growth of more than 8% from about $846 to $917 million and increased exports that now account for more than 66% of units shipped.

"Some of the company's income comes from sales of harvest machinery and Challenger track tractors in Germany, but 90% is generated by Fendt tractors," according to Hermann Merschroth, Fendt vice president. "We expect another positive result in 2005 with sales worth around $964 million from a slight increase in tractor shipments of 11,400 units."

Agco's German operation has steadily increased sales of its premium-priced tractors over the past 10 years from just 7,800 units in 1995. Its strongest market shares are in higher horsepower categories where the stepless transmission concept introduced with the Vario transmission 10 years ago is now widely accepted. Some 70% of Fendt tractors are now equipped with Vario drive.

Production capacity for these transmissions is due to be increased as part of this year's $39.7 million capital investment program, up from $23 to $24 million over the previous 3 years, as demand for the unit from Agco's Beauvais tractor plant in France continues to grow for installation in selected Massey Ferguson, Challenger and Agco models.

In addition, Fendt continues to pursue OEM sales. Caterpillar, for one, is exploring Vario's potential in construction and industrial vehicles.

"It would seem to make a great transmission for mid-size wheeled loaders doing repeated shuttle work when you want rapid but smooth acceleration," says Gary Collar, senior vice president for Agco's Europe, Africa & Middle East region.

***"Distribution (in America) is the main problem. We're trying to expand the network, but it's proving more difficult than expected..."***

As far as tractor sales are concerned, Fendt's European market remains far and away its biggest outlet, accounting for a third of its output. French farmers buy more than anyone else outside Germany, representing 20% of sales, while Spain and Italy are the next biggest at 7%.

The U.S. now accounts for 3% of total Fendt shipments, as sales last year rose to 300 units from the 200 to 220 level shipped over the past 4 years. Merschroth and Collar admit, however, that progress in North America remains unsatisfactory.

"Distribution is the main problem. We're trying to expand the network, but it's proving more difficult than expected," said Collar. "Some Cat dealers selling our Challenger line have taken on Fendt as their top brand and are making good progress.

"But we're up against some big players in this market and the benefits of a stepless transmission are perhaps not always so obvious in the farming areas where Challenger dealers are most active."

Increasing R&D spending supports Merschroth's claim that Fendt plans to stay at the forefront of tractor technology; investment in this area has grown from $21.6 million in 2002 and 2003 to $26.5 million in 2004 and is scheduled at $31.3 million this year.

Fendt revealed its future product plans at the annual press conference in Munich where it unveiled the Fendt 936 Vario. At 360 HP this is the company's most powerful tractor to date and the first with a top speed of 37 mph, twin circuit disc brakes and independent wishbone front axle suspension. AIW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