

FARM EQUIPMENT'S

Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer

December 15, 2005

McCormick and Landini to Consolidate U.S. Operations in Georgia

Argo SpA of San Martino in Rio, Italy, parent company of tractor makers Landini USA, Inc. and McCormick International, announced on Dec. 7 its plans to consolidate operations and move them to a new facility in the Atlanta, Ga. area effective Jan. 1, 2006.

McCormick International is currently located in Pella, Iowa, and Landini USA, Inc. in Lawrenceville, Ga. Both currently operate as independent branch offices responsible for the distribution and support of their respective tractor brands, farm machinery, and parts through separate, independent dealer networks in the U.S.

This move by Argo effectively ends McCormick's alliance with Vermeer. The two firms currently share the same facility in Iowa. That partnership called for Vermeer to han-

dle parts support and wholesales logistics for McCormick equipment. Vermeer had been instrumental in setting up the McCormick organization. Many of the McCormick employees came out of Vermeer as well.

According to Argo, "This reorganization will allow both brands to more efficiently and effectively continue their rapid U.S. growth by taking advantage of common dealer and customer support functions at a new, shared office with training and parts warehouse facility near Atlanta."

"With both McCormick and Landini owned by the same parent, it only makes sense for us to use the same facilities and eliminate duplication in facilities and administration," says E.W. "Swede" Muehlhausen, who joined McCormick as president this

fall. "The Georgia location is far closer to ports, too. That will bring a cost-savings to dealers, particular those located east of Iowa."

Muehlhausen said other matters surrounding the move (including personnel) won't be known until after the first of the year, but he did tell *Ag Industry Watch* that staff in Pella will be joining the new organization. "We will make the transition as seamless as possible," he says. "Our main asset is our customer service and we will be protecting that."

Argo acquired McCormick in 1999 during the Case IH-New Holland merger. To gain anti-trust approval, CNH sold the McCormick name along with the manufacturing plant in the U.K. that has been producing McCormick tractors for decades.

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AGCO Continues to Push Multi-Brand Strategy in Europe

With Valtra, AGCO's fourth tractor make on the European market, now firmly under the U.S. corporation's wings, questions have arisen over the extent to which AGCO will adopt a more comprehensive "common platform" policy to gain economies of scale.

Addressing the question at the first U.K. product show featuring Massey Ferguson, Challenger, Fendt and Valtra products under one roof, Gary Collar, senior vice-president and general manager of AGCO's Europe, Africa & Middle East region, emphasized the differences between AGCO's approach and that of its competitors.

"The term 'common platform' has become much maligned recently, especially given the challenges faced by our

competitors who use this approach as their central philosophy," he said. "AGCO's approach is a multi-brand strategy that uses common components and even common technology where it's appropriate but not in a way that damages the 'feel' and performance characteristics that our customers expect from their chosen brand."

The chief protagonists of branding with modest differentiation are CNH Global, with its Case IH and New Holland lines, and the SAME Deutz-Fahr group, which now produces tractors of similar appearance and specification with four different names on their flanks — SAME, Lamborghini, Deutz-Fahr and Hurlimann.

The Argo group has a mixed

approach: low-volume specialist tractors at opposite extremes of power output are shared by the Landini and McCormick lines (as well as Valpadana at the lower end of the power scale), but high-volume mid-range models remain unique to each brand.

So far, AGCO has resisted taking this approach, at least as far as Europe is concerned, where product convergence is mainly limited to sharing CVT transmissions. In North America, the Massey Ferguson, AGCO and Challenger wheeled products have more than passing similarities but have subtly different styling and use different makes of engine.

With Valtra having joined the fold, AGCO managers are known to be

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According to a long-time executive of a major U.S. shortline manufacturer, many of the Case IH dealers who got left out of the picture or chose not to continue their relationship with Case following the merger with New Holland, maintained their relationship with McCormick. "The McCormick tractor name and reputation were well established, and a lot of those dealers still had parts in inventory for the tractors," he says. "The guys selling them have done pretty well."

This same executive says that he wouldn't be surprised if at some point the Landini line of compact and utility tractors was folded into the McCormick brand.

Landini is well known in Europe for its orchard and vineyard equip-

ment, but has not yet made strong inroads into the U.S. market, which has intense competition in the small tractor market.

"McCormick doesn't have a small tractor. So, it would seem that with McCormick's heritage and reputation in the States, this would be a logical move," says the shortline executive.

John Sargeant, president, Landini USA, insists that both the McCormick and Landini brands will continue to be marketed separately through their respective independent dealer networks.

"We will not become Landini-McCormick or McCormick-Landini," says Sargeant. "There will continue to be the blue Landini brand and the red McCormick brand with their own dealers. We may have some dealers

who will handle both. But both brands will have their own dealers as well.

"Each brand will maintain its own unique identity, but both will be supported by one common organization."

Argo SpA is a holding company owned by the Morra family, which has been operating in the ag equipment sector for three generations. The Argo Industrial Group has global sales in excess of \$950 million and over 3,200 employees. In addition to the U.S., the Landini and McCormick brands are distributed by common Argo-owned companies in Canada, France, Germany, Italy, South Africa, Spain and the United Kingdom. The Argo family of farm machinery brands includes Fella, Galignani, Landini, Laverda, McCormick, Pegoraro, Sep and Valpadana. **AIW**

Krone Expands German Facilities to Streamline Forage Equipment Production

Forage harvesting machinery specialist Bernard Krone has completed work on an \$11.5 million building project at its headquarters in Spelle, Germany, that will streamline baler and self-propelled harvester production and meet the growing demand for spare parts.

The 6000 square meter "Big Line" production plant has new assembly lines for Krone's BiG Pack square hay balers as well as the BiG X self-propelled forage harvester and BiG M

self-propelled grass mower. Krone plans to produce at least 200 and 150 units respectively of the self-propelled products next year, which marks a significant increase in the company's goal for increasing sales of this specialty machines.

The BiG X range of 605-hp and 780-hp harvesters is being joined by a 490-hp model for Europe and a twin-engined 980-hp version aimed primarily at North American custom operators. A new "bunker" model carries a

60-cubic meter capacity container on its six-wheel drive, axle- and pivot-steering chassis, enabling it to keep working during trailer change-overs or to keep trailers off harvest fields by offloading at the headland.

Another 14,000-square meter extension and new-build project at Spelle provides a 40% increase in spare parts storage capacity. It will enable the firm to stock 40,000 line items and dispatch an anticipated 2,400 parts every day. **AIW**

Valtra Lands Orders for 190 Tractors in China

Valtra, AGCO's Finland-based tractor manufacturer, has secured orders for almost 190 tractors from state farms in northeast and northwest China that will bolster its claimed market leadership in tractors above 120 hp.

Although China has an indigenous tractor industry and growing interest in joint ventures with western manufacturers, its output is limit-

ed largely to tractors from 70-80hp and mainly below 30 hp.

The bulk of the order is for 135-hp 8150 models from the 6-cylinder Mega-50 series, which in western markets has been superseded by the similar T series tractors. The rest of the shipment comprises top-end models from this newer range, including the 175-hp T170 Classic, 180/190-hp T180

and 180/190/210-hp T190.

The latter features Valtra's Sigma Power system, which releases additional power for pto work.

Mahindra, the Indian tractor maker that recently started tractor production in China, estimates the Chinese market at around 70,000 units a year, with units up to 35 hp accounting for just over half that total. **AIW**

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assessing to what extent future tractors from the Finnish plant could share components with their counterparts without damaging their brand DNA.

"A key feature of our success is the care we take to understand what our customers expect from each of our brands," says Collar. "Customers expect

"In North America, Massey Ferguson and Challenger are essentially the same, yet compete in different sectors of a big market..."

different things and a different experience. Our reaction to that is the driving force of our multi-brand strategy."

That is why Massey Ferguson and Fendt stepless drive tractors share transaxles and the Vario transmission but nothing else: cabs, appearance and even the control systems used to operate the transmission are very different.

"In focusing on the question of what components will be shared across brands and whether that will damage the operator experience unique to that brand, people overlook the opportunities of a multi-brand approach that generates a wealth of design, manufacturing, technological and distribution assets that can be used to improve and innovate each brand more so than if they were stand-alone products," adds Collar.

"We can use our global purchas-

ing power to buy 'generic' components and use them across all brands without affecting their individuality and we can also share our own technology to some extent," he says. "This is even desirable in some cases, such as CAN-Bus electronics technology. The skill comes in adding something special that makes a brand what it is and we have many tools in our toolbox to do that."

As examples, Collar cites transmissions, engines, power-to-weight ratios, cab environment, control and monitoring software and, of course, appearance.

Distribution is another avenue. In North America, the Massey Ferguson, AGCO and Challenger wheeled tractors are essentially the same, albeit with different specification levels, yet compete in different sectors of a big market. In Europe, where Massey Ferguson and Challenger brand values would be perceived as being on the same level as each other, the two are kept apart: Massey Ferguson remains the sole brand for the French-built tractors in Western Europe, Challenger in Eastern Europe.

"This can even work within markets: the simple Valtra 'A' Series tractor provided an opportunity to fill a gap in our European MF product range," explains Collar. "The Valtra guys resisted but with careful product positioning and market selection to avoid direct competition where both brands are strong, co-branding produced an additional 750 unit sales, which the Valtra factory was very pleased to have."

Distribution can help differentiate product in other ways, he adds. "In Europe, our aspiration is that a dealer should offer no more than one AGCO brand, which comes as a surprise to AGCO dealers who believe they should have all their brands on their retail lot," says Collar. "But in circumstances where we do allocate a second brand, we encourage dealers to maintain a single-brand relationship with the customer through a specialist salesman and, where feasible, specialized service personnel."

The U.K. and Ireland markets are held up as positive examples of this strategy: through 2005, AGCO's market share has grown by more than 5%

"In Europe, the two are kept apart: Massey Ferguson is the sole brand for French-built tractors in Western Europe, Challenger in Eastern Europe..."

to over 26%, with Massey Ferguson gaining 2% and both Valtra and Fendt making positive progress from modest positions around the 5% and 2-3% level, respectively.

AGCO managers do not admit to having official market share targets but privately admit to personal objectives of achieving an AGCO share of at least 20% in all national markets in Europe with a 30% share being the ultimate goal.

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FARM MACHINERY TICKER (AS OF 1/11/2005)								
Mfr.	Symbol	1/11/05 Price	12/13/04 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$20.24	\$21.63	\$23.13	\$16.11	12.19	1.01 M	1.83 B
Alamo	ALG	\$26.51	\$22.45	\$28.60	\$14.40	20.39	27,500	258.15 M
Art's Way	ARTW	\$7.45	\$5.75	\$8.79	\$3.98	8.10	15,700	14.44 M
Caterpillar	CAT	\$92.30	\$92.35	\$98.72	\$68.50	17.85	2.22 M	31.50 B
CNH	CNH	\$18.55	\$18.10	\$21.90	\$15.83	n/a	78,000	2.46 B
Deere	DE	\$69.69	\$70.75	\$74.93	\$56.72	12.53	2.05 M	17.27 B
Gehl	GEHL	\$23.33	\$24.49	\$27.90	\$13.51	11.78	25,200	152.11 M
Kubota	KUB	\$25.60	\$22.75	\$27.90	\$19.05	60.95	5,400	6.86 B

Observations from European Trade Shows

Ag Industry Watch sent a correspondent to the two-large-scale agricultural shows in Hanover, Germany (Agritechnica), and Bologna, Italy (EIMA) in mid-November. These are two of the largest ag shows anywhere, encompassing more than 3,000 exhibitors between them.

Export Potential for American Manufacturers

- ✘ One livestock equipment manufacturer says that European farmers look after their equipment better. "In the U.S., they feel the machine has to run around the clock; they don't stop to look after maintenance as they should."
- ✘ While the currency exchange with the Euro is not making things easier, it appears to be becoming less of a problem for exporters than a year ago. Several say they've accepted the exchange rate as a cost of doing business and are surviving nevertheless.
- ✘ "U.S. dealers are more afraid to buy and sell imported machinery than in Europe, while dealers in Eastern European countries like Poland will eagerly import U.S. machines," says

one mowing equipment manufacturer. "Small dealers in Europe will sell a great deal more foreign-made equipment than a small U.S. dealer."

- ✘ EIMA, which attracts a lot of Italian orchard and vineyard type equipment that is also relevant to the California and certain other U.S. areas, sees great opportunity for mulching and land-clearing equipment in the coming years, particularly as no-burning laws are enacted. One manufacturer cited that burning by growers could be outright prohibited in the states by 2007, bringing new demand for the Italian-style mulching equipment.
- ✘ Outlooks for manufacturers' exports prospects are all over the board, but several manufacturers indicated high stocks of inventory, particularly in the haying area. Another says that sales in 2006 will be flat at best. "After two high peak years, all the replacement that was to happen has already occurred," says one executive.
- ✘ Conversations with several manufacturers who are not currently exporting to the States unearthed a motif of worry over product liability. Some are doing business in Canada,

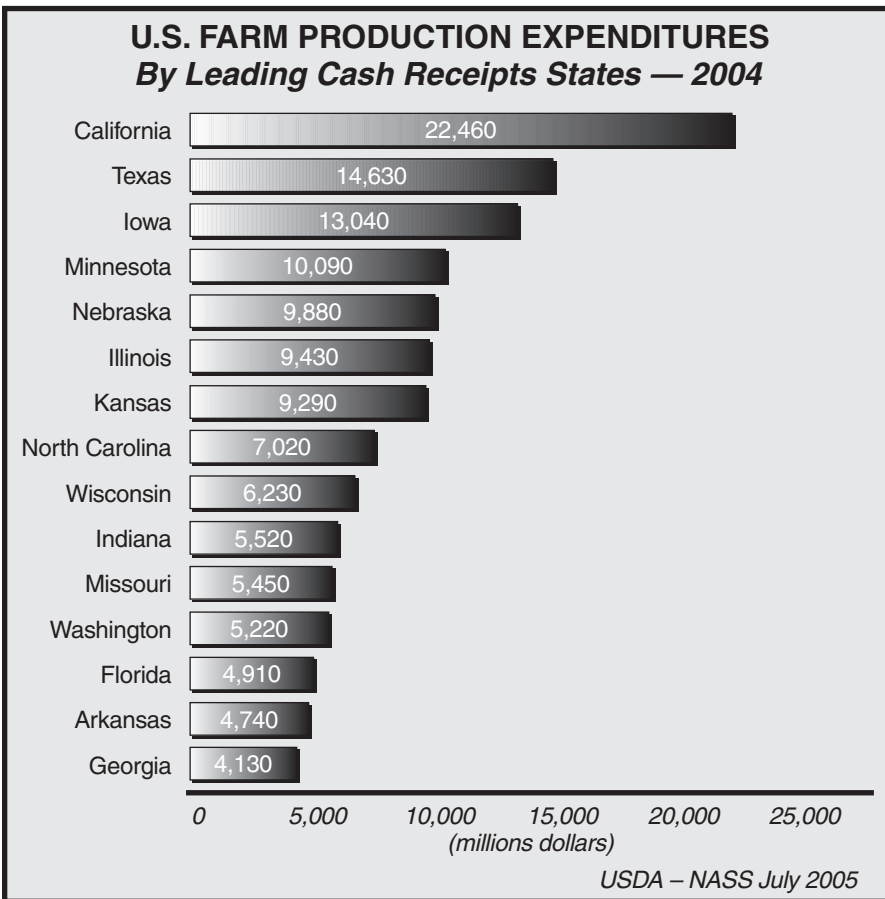
but afraid of the U.S. market due to the widespread "consumer rights." Ironically, it seems that one of the issues of great angst for U.S. manufacturers is also a very effective barrier to entry against foreign manufacturers.

Eastern Europe

- ✘ The big news at Agritechnica and EIMA was Eastern Europe. While Western Europe has been stagnant, the opportunities for Eastern Europe (cited were Poland, Czech Republic, Slovakia, Slovenia, Hungary, Latvia and Russia) are enormous. "We are pushing very hard in Russia," says an export manager at a large hay tool manufacturer. "It's a fast-moving market. Russia is the market of greatest growth for us in the future."
- ✘ Agritechnica estimated Eastern European attendees to be in the tens, if not, twenties, of thousands. "The distribution structure is just beginning, probably a 2 on a scale of 1-10," said one executive. "Financing is a problem and the barter system is still predominant. There are manufacturers who are taking crops for payment on tractors and other equipment."
- ✘ In an interview with Ag Industry Watch, Gerd Wiesendorfer, VDMA (Ag Machinery Association), said that the first manufacturers to have a presence in Eastern Europe enjoyed a great demand. The sale of used equipment has also been a boon for dealers in Germany and other nations. "We are benefiting from the recovery there," says Wiesendorfer.

"There is a need for them to import our ag products, particularly beef and pork. There is lots of potential, as yields are only one-third of what they are in Germany." Wiesendorfer believes the biggest development will be in the Ukraine, Russia and Belarus. AIW

A rumor heard at Agritechnica was that Kuhn (an industry consolidator as of late) is actively pursuing an acquisition of a tillage manufacturer, though few have met its qualifying objectives to date. From the U.S. KuhnKnight dealer convention that *Ag Industry Watch* attended last summer, Thierry Krier, U.S. president, outlined the firm's four criteria for any acquisition: that it bring complementary products, reinforce Kuhn, be profitable and be manageable.



Titan Europe Increases Its Stake in Australian Wheel Market; Inks Turkish Joint Venture

The Titan wheel and tire manufacturing group has strengthened its grip on the agricultural and construction machinery rim market in Australia with its third acquisition in as many years.

Titan Europe, in which Titan International has a near-30% stake, has acquired the entire issued share capital and patent rights of Wheel & Rims Engineering Pty., Ltd. for the equivalent of \$3.1 million at current exchange rates. It follows the 2003 acquisition of Titan Wheels Australia and the buy-out last year of Titan Andys Australia Pty., Ltd., based in Victoria.

Mike Akers, chief executive of Titan Europe, says the new business "blends perfectly with our other investments in the off-road wheel market in Australia." WRE's sales turnover through June 2005 was the equivalent of \$3.36 million.

"Wheel & Rims Engineering, based in Brisbane, is the largest domestic manufacturer and distributor of large wheels, up to 63 inch diameter, for agricultural, earthmoving and construction machinery," he points out. "It has an enviable reputation for quality, design and service."

The move to strengthen Titan's presence in Australia follows a joint-venture agreement in Europe to help

maintain competitiveness and improve supply flexibility to meet demands from OEM customers for shorter order-to-delivery lead times.

The joint venture between Titan Europe's Italian operations and Turkey's JANTSA, the country's largest off-road wheel manufacturer, will produce agricultural rims for the Turkish market while also providing lower cost manufacturing for some of Titan Italia's products.

Akers sees further strategic value in the tie-up, noting it is well positioned to support the growing markets

for ag equipment in Eastern Europe.

"JANTSA is a renowned wheel manufacturer with excellent and long-established relationships in the Turkish and surrounding markets," he says. "The joint venture will give us the ability to manufacture cost-effectively and retain our competitiveness in the European OEM market while increasing the flexibility of our product mix."

Titan Europe is investing around \$5.19 million in the venture, which is scheduled to start production in the second half of 2006 with a capacity of up to 300,000 wheels a year. *AJW*

THE EVOLUTION OF TITAN EUROPE

Titan Europe was established 10 years ago as a wholly-owned subsidiary of Titan International, Inc. to develop the U.S. corporation's interests outside North America. Last year, Titan raised \$62 million by floating a large proportion of Titan Europe stock on London's Alternative Investments Market (AIM).

The funds contributed to the group's financial recovery program, which helped turn 3 years of losses into a net profit of \$11.1 million in 2004, with income from operations increasing by nearly \$50 million from a loss of \$16.2 million in 2003 to \$33.3 million on group sales of \$510.6 million (\$461.1 million excluding Titan Europe).

Titan Europe typically accounts for about 25% of group sales, although this fell to around 10% last year thanks to a surge in North American sales revenues. The group has manufacturing facilities in the U.K. (mainly for construction equipment rims) and in France and Italy where most of its ag tire rims are produced.

First-half 2005 sales were up 34.5% at almost \$122 million but since much of this comparative growth resulted from higher prices to offset increased cost of steel, Titan Europe does not expect to see the same level of growth over the full year.

SAME and Escorts Forge North America Agreements Valued at \$25 Million Annually

One of India's leading tractor manufacturers, the Escorts group, is pursuing growth plans for North America through product procurement and marketing agreements with the SAME Deutz-Fahr (SDF) group of Italy.

Both agreements are between SDF Italia, the manufacturing operations headquartered in Treviglio near Milan, Italy, and the Escorts majority-owned tractor assembly and distribution business, Farmtrac North America, LLC of Tarboro, N.C.

Under an OEM contract, SDF Italia will supply 75-hp to 115-hp, 2-WD and 4-WD tractors, complete and partially assembled semi-knockdown form for final assembly. These will join the current range of Farmtrac models

up to 75-hp produced in India.

The 5-year contract anticipates regular supplies valued at more than \$15 million a year. A further \$10 million a year is likely to be generated by sales of SAME tractors in the U.S. and Canada through a new distribution agreement with Farmtrac.

This venture will focus mainly on SAME's specialty orchard, vineyard and tracklayer tractors, which previously were handled by Norcross, Ga.-based SAME Deutz-Fahr North America, Inc. This operation was set up by SDF a few years ago upon termination of a distribution agreement with AGCO.

SAME Deutz-Fahr chairman, Vittorio Carozza, describes Escorts, Ltd. as "one of India's most highly qualified

tractor manufacturers." He says the Farmtrac deals underline his group's growing interest in international agreements to secure future growth.

Last year, SDF produced 32,000 tractors, 20,000 engines and 26,000 transmissions, generating record sales worth the equivalent of \$1.1 billion. Its new North American partner is part of a \$500 million industrial conglomerate that claims an annual manufacturing capacity of 75,000 tractors based originally on Ford-licensed designs.

Escorts bought into its North American distributor (then called Long Agribusiness), 6 years ago and now owns 75% of the equity. Products are sold in 32 states through some 300 U.S. dealers. *AJW*

It Was a Busy Month for Deere & Co.

It was a busy month for Deere & Co., as the firm revealed its second-best ever fourth quarter results, cut back production on some tractors, announced a stock-repurchase plan valued at \$1 billion, raised its quarterly dividend by nearly 26%, disclosed that it will directly supply 300 TruGreen dealers with compact and utility-type tractors, and sold its health care unit. They've done all of this since the middle of last month.

Production Cut Backs

Deere suspended production of its small row-crop tractors for 3 additional days late in November to try to control unwanted inventories of the vehicles on dealer lots.

The move was aimed at reducing the number of low horsepower, 2-WD farm tractors from its manufacturing schedules during the fourth quarter of this year by 350 units. Deere currently manufactures 87 units of 7200-7500 Series farm tractors and 30 units of 7600-7800 Series farm vehicles each day.

Deere had suspended production of the same vehicles for 2 days in October. In total, it removed 1,170 units of the small tractors from assembly schedules during the final quarter of the year.

Price Increases for CE

While predicting that the industry-wide expansion for construction equipment and forestry-type vehicles would continue in 2006, Deere announced that prices for the equipment will continue to increase. In all likelihood, it's a strong indication that prices for ag equipment will also be on the rise.

The company said that increases established by the firm for such vehicles earlier in 2005 "offset the impact of higher raw material costs" for the year. Deere expects to increase prices of this equipment to help recover sharply higher costs for the acquisition of steel and other materials needed to produce parts and assemble vehicles.

Fourth Quarter Results

Despite announcing that its fourth quarter profits fell by 35%, Deere saw its shares rise sharply. At the

same time, the company issued forecasts calling for slowing sales for '06.

Deere reported earnings fell to \$232.8 million for the quarter from \$356.7 million during the same period the year earlier. For the year, Deere farm machinery sales rose 9%, while construction equipment sales were up 24%. Consumer equipment sales fell 4% as a drought that gripped much of the Midwest held back sales of riding lawn equipment.

But profits were well above the estimate of 79 cents sending Deere shares up \$4.40, or 7%, to close at more than \$67 a share.

Deere said a 10% dip in fourth-quarter farm equipment sales will likely carry into 2006, predicting a 2-4% sales decline because of higher fuel and fertilizer costs, along with the loss of tax incentives that helped fuel U.S. sales in early 2005. But the company said sales will get a boost from new farm products planned for 2006, including a line of more powerful and fuel-efficient tractors.

Overall, Deere expects sales to rise 1-3% in 2006, with a 10-12% jump in consumer equipment sales and a 5-7% sales increase for construction and forestry machines. The company forecasts 2006 earnings of about \$1.5 billion, including \$175 million to \$200 million in the first quarter.

"I have a hard time seeing what the excitement is," Ingalls & Snyder analyst Alexander Blanton said of the price climb. "Just because the quarter was higher than people forecast, there seems to be an assumption that you can imply something about the future by that, but you can't."

Scott Burns, an equity analyst with Morningstar, disagreed. Along with topping Wall Street's expectations, Burns said Deere also trimmed production, invested in research and raised prices during its fourth-quarter "weak patch" — moves he said will pay off for the company in 2006.

Repurchase Stock, Raises Quarterly Dividend

On November 30, Deere announced that its board authorized the repurchase of up to 26 million additional shares of common stock and increased the quarterly dividend by more than 25% to \$0.39 per share.

Robert Lane, chairman and CEO, said, "These actions support our goals for creating superior long-term value for investors. They reflect our confidence in Deere's future direction and its ability to produce strong levels of cash flow over time. In addition, the company remains committed to funding the research and capital programs necessary to meet our future growth objectives."

Sells Managed Care Unit

On December 6, Deere announced that it had signed a definitive agreement to sell its wholly-owned managed care subsidiary, John Deere Health Care, Inc., to UnitedHealthcare, for \$500 million. The company expects the transaction to close by April 1, and to record a gain of \$225 million after-tax at the close of the transaction.

According to David Bleustein, UBS analyst, "We expect investors to view the transaction favorably. We believe most investors viewed Deere's health-care operations as both non-core and adding to the volatility of earnings."

"Deere's health-care operations had revenues of roughly \$1 billion and profitability of roughly \$20 million, although Deere indicated that no profit was recorded on internally generated revenues, which represent the bulk of the operations," says Bleustein.

Mowers to TruGreen

On December 9, Deere disclosed that it will supply a full line of its commercial mowing equipment and compact utility-type vehicles and tractors for an undisclosed value to over 300 U.S. dealerships of TruGreen Companies, LLC. TruGreen is a major lawn and landscape company.

A spokesman for John Deere Worldwide Commercial & Consumer Equipment Division said, "Our broad line of equipment will provide TruGreen with the product quality required in today's highly competitive commercial mowing marketplace as well as provide exceptional cut quality delivered by our 7-Iron II mower decks."

"Our best-in-class dealer network will supply TruGreen operations with the parts delivery, service and support needed to keep them out in the field doing what they do best."

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Farm Equipment Sales Rebound in November

Compared with the first 11 months of '04, total U.S. sales of row-crop tractors through the same period of 2005 are almost identical, slipping less than 1%. Add Canada into the mix and the total North American tractor sales are up for the period.

North American retail sales of row crop tractors — 2-WD, 100 hp and larger — increased 11% on a year-to-year basis in November, representing a rebound from the 13% year-to-year drop in October. This is a bit unusual as November is typically the second-weakest month of the year for row-crop tractor sales, while October is typically the second strongest.

Baird analyst Robert McCarthy contends that results are “Consistent with recent projections from major farm equipment manufacturers CNH Global and AGCO, and boosted by a 10% year-to-year sales increase in November. Industry sales of large farm tractors in the U.S. and Canada appear likely to finish 2005 slightly ahead of 2004.

“More indicative of overall trends,” he says, “is that in the last 3 months, row-crop tractor sales declined 3%. Through 11 months, sales have increased 1% year-to-year.

“Comparisons don’t get any easier before March and Deere is transitioning to new platforms, so monthly comparisons will likely remain constrained for the next 2-3 months,” says McCarthy.

October U.S. farm equipment dealer inventories remain consistently below historical levels (on days-sales basis). “For example,” he says, “4-WD tractor inventories are 24% below average levels since 1997.”

Other results coming from the Assn. of Equipment Manufacturer’s monthly survey include:

✘ November N.A. combine retail sales rose 4% compared with the same period a year ago, after a dramatic 44% falloff in October. Overall, sales were down 12% during the last 3 month period, but down only 2% year-to-date.

✘ Mid-range (40-100 hp) tractor sales rose 3% in November and are up 8% year-to-date.

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NOVEMBER U.S. UNIT RETAIL SALES



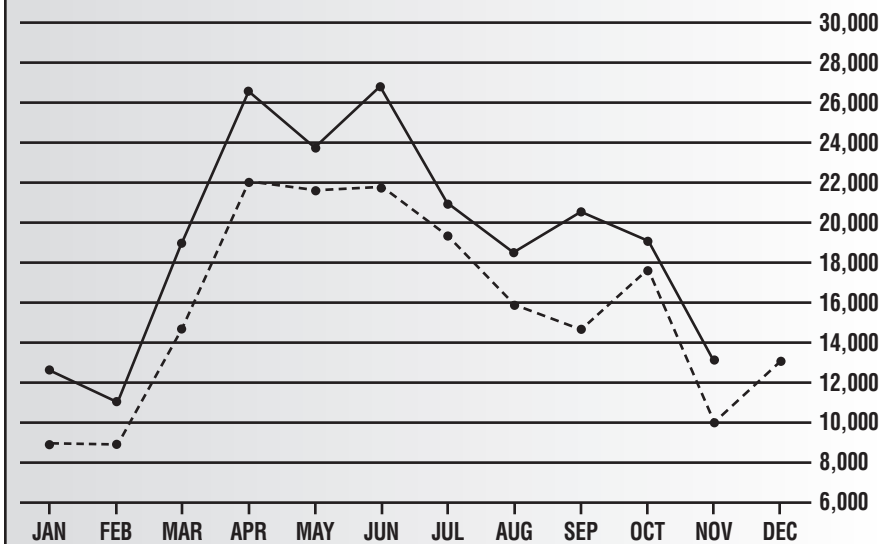
Equipment	November 2005	November 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	October 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	7,161	7,010	2.2	119,419	126,443	- 5.6	56,366
40-100 HP	4,483	4,374	2.5	69,573	64,492	7.9	30,578
100 HP Plus	988	983	0.5	17,840	18,037	-1.1	6,995
Total-2WD	12,632	12,367	2.1	206,832	208,972	- 1.0	93,939
Total-4WD	183	189	- 3.2	3,394	3,234	4.9	906
Total Tractors	12,815	12,556	2.1	210,226	212,206	- 0.9	94,845
SP Combines	286	288	- 0.7	5,904	6,052	- 2.4	1,315

NOVEMBER CANADIAN UNIT RETAIL SALES



Equipment	November 2005	November 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	October 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	538	396	35.9	7,474	6,607	13.1	3,714
40-100 HP	631	572	10.3	6,189	5,926	4.4	2,810
100 HP Plus	337	206	63.6	3,476	3,157	10.1	1,510
Total-2WD	1,506	1,174	28.3	17,139	15,690	9.2	8,034
Total-4WD	50	34	47.1	570	631	- 9.7	232
Total Tractors	1,556	1,208	28.8	17,709	16,321	8.5	8,266
SP Combines	74	57	29.8	1,419	1,402	1.2	345

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



—Assn. of Equipment Manufacturers

Buhler Sees Revenues Slip 2% as U.S. Dollar Weakened in '05

Buhler Industries, Inc. Winnipeg, MB, reported on Dec. 9 that its 2005 revenues declined by 2% to \$202.3 million compared to \$206.1 million in the previous year. The company attributed the drop to the ongoing weakness of the U.S. dollar.

"As 75% of the company's revenue is in U.S. currency, meeting revenue goals became increasingly difficult." The dollar dropped 10 cents throughout the year, according to Buhler.

At the same time, Buhler saw its gross margin improve and surpass expectations. "Our goal of a 16% to 18% annual gross margin was exceeded and we are pleased to report a gross margin of 18.3%."

Sales of the company's short-line products, including grain augers, compact implements and front-end loaders, grew almost 9% in Canada and the U.S. Sales outside North America also increased and now accounts for over 15% of the company's total revenue.

The company also reported that revenue from tractor sales inside North America decreased largely due to the declining U.S. dollar, but also attributed the dropoff in demand as customers anticipated the release of its new, higher horsepower series of

tractors. These products, designed for large farming operations, are available up to 535 hp.

"While steel prices moderated during the year, they continue to show signs of instability," says Buhler. "The U.S. dollar continues to show signs of further decline. As such, we are forecasting flat revenue and a slight

"The strength of the company's product and management will turn around sales south of the border. Buhler's incipient pursuit of international markets to gather momentum into 2006, while sales of short-line products in North America should remain reasonably robust."

improvement in gross margin resulting in slightly improved EPS for 2006."

Raymond James analyst Ben Cherniavsky says that Buhler faces at least two major challenges during the coming year. "Two headwinds continue to confront Buhler's performance. The first is the appreciating Canadian dollar, which cost the company roughly \$13 million (or 6%) of revenue for fiscal 2005.

"The second is some market share slippage south of the border. We don't know what will happen to the former variable in 2006, but for modeling purposes, our assumption continues to be for a Canadian-to-U.S. exchange rate of \$0.85," says Cherniavsky.

"As for the latter headwind, Buhler is making some executive relocations and other changes to reinvigorate tractor exports to the U.S. We believe that the strength of the company's product and management team will affect a turnaround in sales south of the border. However, this improvement will take time; it also must be achieved against North American end-market tractor demand conditions that appear to be decelerating after many months of growth."

Looking ahead, the analyst sees Buhler's prospects for '06 to be on the upswing. "In the meantime, we expect Buhler's incipient pursuit of international markets to gather more momentum into 2006, while sales of shortline products in North America should remain reasonably robust," he says.

"Adding it all up, we estimate 2006 revenues to grow modestly to \$210 million and gross margins to rise further to 19.5%." AIW

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